THE ILLUMINATION FOUNDATION

CERTIFIED PUBLIC ACCOUNTANT'S
CONSOLIDATED AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2020

THE ILLUMINATION FOUNDATION

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Stephens, Reidinger & Beller LLP
Certified Public Accountants

1301 Dove St., Suite 890
Newport Beach, CA 92660
Telephone 949 752 7400
Facsimile 949 752 1883
www.srbcpa.com

Independent Auditor's Report

To the Board of Directors
The Illumination Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Illumination Foundation, (a nonprofit organization) and its wholly-owned limited liability company, Home4Health Broadway LLC, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Illumination Foundation and Home4Health Broadway LLC as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021 on our consideration of The Illumination Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Illumination Foundation's internal control over financial reporting and compliance.

Stephens, Reidinger + Beller LLP

Newport Beach, California
January 29, 2021

THE ILLUMINATION FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS

Current Assets		
Cash and cash equivalents		$ 3,074,078
Accounts receivable		2,406,891
Prepaid expenses		205,150
Total current assets		5,686,119
Property and Equipment		
Buildings, furniture, equipment, improvements & land, net of accumulated depreciation of	$ 1,196,175	5,273,703
Deposits		551,265
Total assets		$ 11,511,087

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	$ 2,486,744
Accrued liabilities	1,038,148
Current maturities of notes payable	753,819
Current portion of service obligation	52,577
Deferred revenue	98,775
Total current liabilities	4,430,063
Long Term Liabilities	
Notes payable - net of current maturities	2,501,598
Service obligation - net of current portion	309,654
Line of credit	500,000
Total liabilities	7,741,315
Net assets	
Without donor restrictions	2,778,390
With donor restrictions	991,382
Total net assets	3,769,772
Total liabilities and net assets	$ 11,511,087

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

THE ILLUMINATION FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Program service fees	$ 15,160,410	$ -	$ 15,160,410
Federal awards	8,427,085	-	8,427,085
Contributions	1,558,940	1,625,500	3,184,440
Special events, net of direct expenses of $379,359	800,813	382,800	1,183,613
In-kind contributions	1,303,853	-	1,303,853
Other income	347,407	-	347,407
Net assets released from restrictions	1,446,655	(1,446,655)	-
Total revenue and other support	29,045,163	561,645	29,606,808
Expenses			
Program services	25,352,907	-	25,352,907
Management & general	2,350,150	-	2,350,150
Fundraising	794,877	-	794,877
Total expenses	28,497,934	-	28,497,934
Increase in net assets	547,229	561,645	1,108,874
Net assets at beginning of year	2,231,161	429,737	2,660,898
Net assets at end of year	$ 2,778,390	$ 991,382	$ 3,769,772

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

THE ILLUMINATION FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	Program Services	Management & General	Fundraising	Total
Advertising	$ -	$ 600	$ 6,459	$ 7,059
Conference, convention & meetings	1,682	5,477	475	7,634
Depreciation	279,228	21,993	10,288	311,509
Direct client care	6,342,699	-	-	6,342,699
Donated services, materials and facilities	568,673	-	23,027	591,700
Dues, fees & subscriptions	923	52,687	1,259	54,869
Employee benefits	1,174,381	127,711	55,455	1,357,547
Equipment rental and maintenance	293,061	57,695	1,591	352,347
Insurance	447,724	36,752	11,423	495,899
Interest expense	84,931	66,306	-	151,237
License, permits and taxes	72,289	12,491	-	84,780
Miscellaneous	19,151	27,009	1,659	47,819
Office expense	13,803	13,942	6,147	33,892
Payroll taxes	694,339	77,586	34,239	806,164
Professional services	2,083,607	485,565	140,362	2,709,534
Salaries	8,813,485	1,029,950	474,284	10,317,719
Rent, parking and other occupancy	881,903	72,386	2,381	956,670
Repairs and maintenance	287,509	24,726	-	312,235
Staff development and recruiting	34,161	108,448	291	142,900
Supplies	507,341	29,737	2,726	539,804
Telephone	138,493	18,896	630	158,019
Temporary help	2,266,648	558	19,880	2,287,086
Travel	119,579	67,650	2,301	189,530
Utilities	227,297	11,985	-	239,282
Total Expenses	$ 25,352,907	$ 2,350,150	$ 794,877	$ 28,497,934

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

THE ILLUMINATION FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2020

Cash flows from operating activities	
Increase in net assets	$ 1,108,874
Adjustments to reconcile change in net assets	
Depreciation	311,509
Amortization of service contract	(64,260)
Gain on disposal of asset	(193,031)
(Increase) decrease in operating assets	
Accounts receivable	150,560
Prepaid expenses	(90,444)
Deposits	(463,615)
Increase (decrease) in operating liabilities	
Accounts payable	1,514,651
Accrued liabilities	410,863
Deferred revenue	(61,120)
Net cash provided from operating activities	2,623,987
Cash flows from investing activities	
Proceeds from the disposal of fixed assets	3,233,708
Acquisition of property and equipment	(2,925,840)
Net cash used in investing activities	307,868
Cash flows from financing activities	
Repayment of notes payable	(3,889,351)
Proceeds from notes payable	2,839,200
Net cash used in financing activities	(1,050,151)
Net increase in cash and cash equivalents	1,881,704
Cash and cash equivalents at beginning of year	1,192,374
Cash and cash equivalents at end of year	$ 3,074,078
Supplemental disclosures	
Cash paid during the year for interest	$ 151,700
Noncash investing and financing activities	
Financed vehicle purchase	$ 37,981

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

NOTE 1: NATURE OF ORGANIZATION

The Illumination Foundation ("IF") is a non-profit organization established to provide housing and social services to homeless individuals and families. The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701 of the California Revenue and Taxation Code.

IF combines housing and social services with healthcare and behavioral mental health services to reduce the impacts of homelessness and people's vulnerability to future homelessness.

On April 25, 2019, The Illumination Foundation formed Home4Health Broadway LLC ("Home4Health"), a wholly-owned California limited liability company. Home4Health is organized and operated exclusively for charitable purposes and is engaged in the acquisition, construction, rehabilitation, operations, and/or disposition of real and personal property for the provision of health care services, recuperative care, and affordable housing for low income individuals and families. During the year ended June 30, 2020, the property held by Home4Health was sold to an affiliated entity in which the Organization has an investment interest as described in Note 4. Subsequently, Home4Health was dissolved on August 31, 2020.

The accompanying consolidated financial statements present the consolidated accounts of The Illumination Foundation and Home4Health. All intercompany accounts and transactions have been eliminated. The Illumination Foundation and Home4Health are referred collectively as the "Organization."

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

New Pronouncement

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2018-08, *Not-for-Profit Entities – Revenue Recognition (Subtopic 958-605).* ASU 2018-08 provides guidance for entities to distinguish revenue sources between contributions and exchange transactions and determining whether a contribution is conditional, including indicators that help an entity assess whether an agreement contains a barrier to entitlement. ASU 2018-08 became effective for fiscal periods beginning after December 15, 2018 and management has elected to adopt ASU 2018-08 as of and for the year ending June 30, 2020.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This update was issued to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised 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. The standard will be effective for the Organization for its year ending June 30, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. The Organization will be required to adopt ASU 2016-02 effective for the fiscal year ending June 30, 2023. Early adoption is permitted. The Organization is currently evaluating the impact that ASU 2016-02 will have on the Organization's financial statements and related disclosures.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or nonexistence of restrictions on use that are placed by its donors. The two classes of net assets are as follows:

> Net Assets Without Donor Restrictions – Net assets without donor restrictions are resources available to support the Organization's operations. The only limits on the use of these net assets, if any, are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
>
> Support that is restricted by a donor is reported as an increase in net assets without donor restrictions if the restriction expires in the period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.
>
> Net Assets With Donor Restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a specified purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature and the Organization must continue to use these resources in accordance with donor's restrictions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets *(continued)*

The Organization's unspent contributions are included in this class if the donor has limited their use. When a donor's restriction is satisfied, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Classification of Transactions

All revenues are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resource for a specified purpose or for a future period. All expenses are reported as decreases in net assets without donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash and other highly liquid investments with maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Organization places its cash deposits with high-credit quality financial institutions. At times, balances in the organization's cash accounts may exceed the Federal Deposit Insurance Corporation's (FDIC) insurance limit. The Organization has not incurred losses related to carrying cash balances in excess of the FDIC insurance limit.

Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Accounts Receivable

Accounts receivable include balances due from various federal, state and local agencies in connection to the recuperative care program, third-party contracts and grants. Recuperative care receivables are due within 30 days. Contract and grant receivables are due upon receipt, in connection to expense reimbursement agreements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable (continued)

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts and other circumstances, which may affect the collectability of the various accounts receivables. In the opinion of management, all receivables for the year ended June 30, 2020 are collectable. Therefore, no allowance for doubtful accounts has been provided.

Property and Equipment

Property and equipment purchased by the Organization are carried at cost. Major renewals and betterments are capitalized. The Organization's capitalization threshold is $1,000. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses are credited or charged to income.

Contributed property and equipment are reported as support and carried at fair value at the time of donation. Assets donated with restrictions regarding their use and contributions of cash that must be used for property or equipment are reported as restricted support. Absent donor stipulations regarding how long their donated assets must be maintained, the Organization reports expirations of restrictions when the donated or acquired assets are placed into service.

Depreciation is recorded on the straight-line basis over the estimated useful lives of the related assets as follows: computer and equipment for 3 to 5 years; furniture and fixtures for 5 years; vehicles for 3 to 5 years; leasehold improvements for 2 years; and building and improvements for 7 to 25 years.

Investments

Investments in limited liability companies in which the Organization does not have control but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting. The equity method investments are recorded in the statement of financial position and the Organization's share of earnings or losses from these investments are recorded in the accompanying statement of financial activity.

Income Taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code (IRC) Section 501(c)(3) and Section 23701 of the California Revenue and Taxation Code. Therefore, no provision for income taxes has been included in the accompanying financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Vacation benefits are allowed to accumulate and upon an employee's termination or retirement are paid out at the individual's regular payroll rate. The balance of accumulated vacation benefits at June 30, 2020 was $343,609 and is included in accrued liabilities in the statement of financial position.

Deferred Revenue

Funds received in advance of program services or activities to be performed or delivered in future periods are recorded as deferred revenue in the accompanying statement of financial position. Revenues relating to such advance payments are recognized as the required services or activities are performed and the related exchange transaction is completed. Deferred revenue as of June 30, 2020 totaled $98,775.

Donated Materials, Services, and Facilities

Donated noncash assets are recorded at estimated fair values at the date received. Donated property and equipment capitalized during the year ended June 30, 2020 totaled $635,000. Other donated materials and noncash assets received during the year ended June 30, 2020 totaled $130,993. Donated services are recognized when a nonfinancial asset is created or specialized skills are required and the Organization would otherwise need to purchase the services. Donated services for the housing, recuperative care, children's and healthcare outreach programs totaling $290,021 were received and recognized during the year ended June 30, 2020. The Organization received $81,539 in contributed services that were not recognized in the statement of activities during the year ended June 30, 2020. Donated facilities are reported as support income and rental expense. The total of donated facilities was $247,839 during the year ended June 30, 2020.

Contributions

In accordance with ASU 2018-08, the Organization is first required to determine whether a contribution is conditional or unconditional. An unconditional contribution is recognized immediately and classified as either net assets without donor restrictions or net assets with donor restrictions. Conditional promises to give are not recognized until all conditions are substantially met and all barriers to entitlement are overcome, at which point the contribution is recognized as unconditional.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or service are charged directly to the program or service. Costs common to multiple functions have been allocated among various functions benefited using a reasonable allocation method that is consistently applied. The expenses that are allocated are as follows:

- The time and effort method is used to allocate salaries and benefits, professional services, temporary help and travel costs.
- Staffing, or the number of employees per department or program, is the method used to allocate costs for depreciation, rent, repair and maintenance, insurance, office expense, supplies, telephone and utilities.

Management and general expenses include costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising expenses are expensed as incurred and are charged to the respective fundraising cost center. When the Organization incurs shared costs that are both fundraising and management and general, the costs are allocated based on the methods described above.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs for the year ended June 30, 2020 was $7,059.

Subsequent Events

Management has evaluated subsequent events through January 29, 2021, the date when the financial statements were available for issue.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2020 is comprised of the following:

Buildings & leasehold improvements	$ 2,290,296
Furniture & fixtures	387,118
Computers & equipment	476,329
Vehicles	239,768
Construction in progress	2,251,367
Accumulated depreciation	(1,196,175)
Subtotal	4,448,703
Land	825,000
Total	$ 5,273,703

Depreciation expense for the year ended June 30, 2020 was $311,509.

NOTE 4: INVESTMENTS IN LLC's

Illumination Housing LLC

During January 2020, the Organization became a member of Illumination Housing LLC ("IHLLC"), a real estate investment entity. IHLLC was created to acquire and own properties through separate limited liability companies for the purpose of serving homeless individuals and families throughout Southern California. IHLLC has common and preferred member units. The Organization is the sole managing member owning 100% of common units with a $100 investment in IHLLC. Capital contributions of $1,000,000 each were made by five preferred members, two of which are affiliated with the Organization. As manager of IHLLC, the Organization is entitled to receive an annual management fee of 1.5% of total capital contributions plus total outstanding principal amount of all debts. For the year ended June 30, 2020, the Organization earned $34,127 in related management fees.

During the year ended June 30, 2020, IHLLC acquired 9942 Broadway LLC, 8112 Holt LLC and 1927 Chateau LLC rental properties. In accordance with the property management agreement, dated January 1, 2020, the Organization, acting as an agent, is entitled to a property management fee of 6% of each LLC's effective gross income. For the year ended June 30, 2020, the Organization earned $12,166 in property management fees. In addition, the Organization paid rents totaling $196,845 for the rental of the three properties under IHLLC.

The Organization has elected to account for the investment in IHLLC using the equity method of accounting and has recorded the investment in the statement of financial position. The Organization also recorded its share of IHLLC's current year operations as an adjustment to the investment.

NOTE 4: INVESTMENTS IN LLC's (continued)

Illumination Housing LLC *(continued)*

Summary results of the consolidated operations and financial position of IHLLC and its affiliated LLC's are as follows:

Condensed income statement information as of and for the year ended June 30, 2020

Rental income	$	203,465
Total expenses		185,774
Net income	$	17,691

Condensed balance sheet information at June 30, 2020

Cash	$	651,992
Current assets		24,686
Property and equipment, net of accumulated depreciation of $42,770		4,371,005
Total assets	$	5,047,683
Current liabilities	$	29,892
Capital contributions		5,000,100
Member's equity		17,691
Total liabilities and equity	$	5,047,683

LIFT Housing LLC

During the year ended June 30, 2020, the Organization entered into a joint venture agreement with LifeArk Community, Inc., a California non-public benefit corporation, to create LIFT Housing LLC ("LIFT Housing"), a non-profit limited liability company. LIFT Housing was created for the charitable purpose of marketing and developing modular homes to accelerate available housing for the homeless and other vulnerable populations. The Organization and LifeArk Community, Inc. both have 50% interest in LIFT Housing. The investment will be recorded using the equity method of accounting.

NOTE 4: INVESTMENTS IN LLC's (continued)

LIFT Housing LLC (continued)

Summary results of the financial position of LIFT Housing as of June 30, 2020 are as follows:

Condensed balance sheet information at June 30, 2020

Cash	$	49,935
Receivables - LifeArk		200,000
Total assets	$	249,935
Current liabilities	$	278
Loan - OCCF		250,000
Member's equity - deficit		(343)
Total liabilities and equity	$	249,935

LifeArk El Monte LLC

On May 19, 2019, the Organization became a member of LifeArk El Monte LLC ("LAEM"), a company formed to carry out the members' charitable purposes, including the acquisition, development, and operation of affordable housing for low-income residents. On October 1, 2019, a second amendment and restated operating agreement was executed which ultimately assigned the Organization a 33% interest in LAEM. As of June 30, 2020, LAEM has not begun operations and is in the formation stages of building the affordable housing developments. The investment will be recorded using the equity method of accounting.

Summary results of the operations and financial position of LifeArk El Monte LLC as of June 30, 2020 are as follows:

Condensed income statement information as of and for the year ended June 30, 2020

Other income	$	667
Total expenses		147,113
Net loss	$	(146,446)

NOTE 4: INVESTMENTS IN LLC's (continued)

LIFT Housing LLC (continued)

Condensed balance sheet information at June 30, 2020

Cash	$	4,640
Property and equipment		783,172
Total assets	$	787,812
Current liabilities	$	141,818
Long-term liabilities		792,440
Member's equity - deficit		(146,446)
Total liabilities and equity	$	787,812

NOTE 5: RETIREMENT PLAN

The Organization established a voluntary defined contribution 401(k) retirement plan for its employees under which it matches participant salary deferrals up to 3.5% of the employee's salary. During the year ended June 30, 2020, the Organization contributed $165,958 to the plan and had a related accrual of $31,317, which is included in current liabilities in the statement of financial position.

NOTE 6: LIQUIDITY AND AVAILABILITY

Financial assets without donor restrictions limiting their use within one year of June 30, 2020, which are available for general expenditures are as follows:

Financial assets:		
Cash and cash equivalents	$	3,074,078
Accounts receivable		2,406,891
Total financial assets		5,480,969
Less financial assets held to meet donor-imposed restrictions:		
Donor-restricted net assets		(991,382)
Amount available for general expenditures within one year	$	4,489,587

NOTE 6: LIQUIDITY AND AVAILABILITY (continued)

Based on the table above, the Organization has $4,489,587 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures. The Organization's financial assets have been reduced by $991,382, which was not available for general use because of donor imposed restrictions as of June 30, 2020; however, the restrictions are expected to be released within one year of the balance sheet date.

In addition to cash-on-hand, the Organization is able to meet its liquidity needs through effective management of accounts receivables. For the fiscal year ended June 30, 2020, the Organization's accounts receivable turnover ratio was relatively high at 10.84, which indicates that accounts receivables are collected quickly to positively impact liquidity and cash flows.

NOTE 7: LINE OF CREDIT

During December 2017, the Organization entered into a line of credit agreement with a board member's private foundation providing for borrowings of up to $500,000 through December 1, 2027. The outstanding balance of the line of credit accrues annual interest at 5% with principal and interest becoming due on December 1, 2027. As of June 30, 2020, the outstanding balance on the line of credit was $500,000.

NOTE 8: NOTES PAYABLE

During December 2017, the Organization refinanced an existing line of credit of $450,000 with the proceeds of a term note payable in the amount of $450,000 from a board member's private foundation. The note will be amortized over a ten-year period with payments of principal and interest at 5% due monthly and a final maturity of November 30, 2027. The outstanding balance of the note as of June 30, 2020 was $367,366, of which $39,811 is included in current liabilities.

During March 2019, the Organization financed the purchase of a vehicle over a 6-year period with monthly payment of $387 including interest at 7.09% per annum. In May of 2020, a second vehicle was financed over a 6-year period with monthly payments of $658 including interest at 7.44% per annum. The outstanding balance of these loans as of June 30, 2020 was $55,768, of which $8,751 is included in current maturities.

On December 18, 2019, the Organization obtained a note payable in the amount of $750,000 from First Republic Bank. The note is payable in monthly installments of principle and interest of $3,584 with a fixed interest rate of 3.95% per annum. The notes has a maturity date of December 18, 2029 and is secured by all of the Organization's assets including a deed of trust for the property located at 10881 Mac Street in the city of Anaheim, California. The Organization is required to maintain certain financial ratio covenants under the agreement. The Organization was in compliance with all covenants as of June 30, 2020. The outstanding balance of the note as of June 30, 2020 was $743,083, of which $13,493 is included in current liabilities.

NOTE 8: NOTES PAYABLE (continued)

Maturities of notes payables are as follows:

Year ended June 30,		
2021	$	753,774
2022		1,111,993
2023		420,210
2024		72,723
2025		74,997
Thereafter		821,720
Total	$	3,255,417

NOTE 9: PAYCHECK PROTECTION PROGRAM LOAN

On April 30, 2020, the Organization was granted a loan from First Republic Bank for $2,089,200, pursuant to the Paycheck Protection Program ("PPP") under Division A, Title I of the CARES Act, which was enacted on March 27, 2020 in response to the coronavirus pandemic (see Note 15). Under the CARES Act, the PPP loan is intended to allow businesses to cover eligible expenses, including payroll, benefits, rents and utilities. The loan and accrued interest could become forgiven provided the Organization uses the loan proceeds on eligible expenses within the time period required under the program.

The unforgiven portion of the PPP loan matures on May 6, 2022 and bears interest of 1% per annum. The outstanding balance of the PPP loan as of June 30, 2020 is $2,089,200, of which $691,764 is included in current maturities in the statement of financial position. The Organization is currently going through the loan forgiveness application.

NOTE 10: LONG-TERM SERVICE OBLIGATION

During December of 2016, the Organization completed the construction of a shelter located in Stanton, California with the proceeds of a $544,000 advance for future services from Children and Families Commission of Orange County ("CFCOC") and in-kind contributions of $616,163. Under the agreement with CFCOC, the Organization is obligated to provide emergency shelter and other support services valued at $544,000 to meet basic needs of homeless families with children ages 0-5 through December 31, 2031.

NOTE 10: LONG-TERM SERVICE OBLIGATION (continued)

This service obligation, which is collateralized by a deed of trust on the property, is being amortized as services are provided with an imputed interest rate of 3.25%. During the year, the Organization provided $64,260 in services related to this obligation, resulting in an unamortized service obligation of $362,231 as of June 30, 2020, of which $52,577 is included in current liabilities in the statement of financial position.

NOTE 11: LEASES

The Organization leases various facilities for its programs with terms ranging from monthly to fifteen years. On July 1, 2018, the Organization relocated its main office to Orange, CA and signed a five-year lease with payments due monthly in the amount of $8,930 and adjusted periodically for the cost of living. The lease expires on June 30, 2023.

During the year ended June 30, 2017, the Organization entered into four lease agreements for housing facilities in Los Angeles County, CA. The facilities are utilized for homeless patients being discharged from hospitals under the recuperative care program. One of the facilities was occupied in November 2016 and the lease was subsequently renewed on May 1, 2018, with payments due monthly in the amount of $19,041, adjusted annually for CPI, with an expiration date of April 30, 2021. The second facility was occupied in January 2017 with monthly payments in the amount of

$12,000 and an expiration date of December 31, 2020. The third facility was occupied in April 2017 with payments due monthly in the amount of $10,000 and with an expiration date of March 31, 2020. This lease was amended to extend the lease through March 31, 2021 and increase the payments to $15,000 per month. The fourth facility was occupied in November 2016 and provides for current monthly payments of $14,525 through November 2019. The Organization exercised the first and second option to extend the lease through November 2021.

On February 27, 2020, the Organization entered into an agreement to lease a facility in Fullerton, California for a fifteen-year term. Upon completion of leasehold improvements, the facility will be used as a recuperative care and navigation center for the recuperative care program. The lease monthly payments are $30,625 with annual increases of 1.5% and will mature on February 28, 2026. The total security deposit is $1,125,000, of which $450,000 was paid upon execution of the agreement. The remaining $675,000 will be paid over a five-year period with monthly installments of $11,250 included with the monthly rent. As of June 30, 2020, leasehold improvements of $2,251,367 were recorded as construction in progress on the statement of financial position. The facility was put into service in October 2020.

The Organization has two lease agreements with the affiliated LLC’s described in Note 4. The first lease is for a facility located in Anaheim, California, which began on January 21, 2020 for a three-year term with monthly payments of $34,245. This lease offers the Organization two options to renew the lease for two years each. The second lease began on April 20, 2020 for a property located in Anaheim, California with monthly rent payments of $4,651 and a three-year term.

NOTE 11: LEASES (continued)

Lease and rental facilities expense for the year ended June 30, 2020 was $942,722.

Minimum future lease obligations for all facilities and equipment are as follows:

Year Ending June 30,	Amount
2021	$ 1,448,930
2022	963,161
2023	774,468
2024	394,488
2025	392,001
Thereafter	4,117,260
Total	$ 8,090,308

NOTE 12: FUNDING SOURCES

The Organization is funded through government, corporate, foundation and individual grants and contributions and fees for services from hospitals discharging homeless patients. Program service fees included in the accompanying financial statements for the year ended June 30, 2020 consist of the following:

Recuperative Care Program	
DHS - Greater Los Angeles Area	$ 4,262,070
County of Orange - Whole Person Care Program	4,183,790
Inland Empire HP	2,067,640
Various Southern California hospitals	397,516
Total Recuperative Care Program	10,911,016
County of Orange	
California Work Opportunity & Responsibility to Kids	1,769,968
Total County of Orange	1,769,968
City of Anaheim Emergency Shelter	1,957,786
Children & Families Commission of Orange County	125,000
Integrated Community Healthcare Services	46,160
Other Sources	350,480
Total Program Service Fees	$ 15,160,410

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2020 consists of the following and were restricted for the following purposes:

Program	Amount
Children and Family's Programming	$ 107,569
Children's Recuperative Care	116,220
Children's Resource Center	37,500
Covid-19 Support	249,795
Gilbert House	382,800
LA Homelessness Challenge	49,350
Samaritan	48,148
	$ 991,382

NOTE 14: RELATED PARTY TRANSACTIONS

During the year ended June 30, 2020, the Organization paid rents and security deposits totaling $654,523 to various entities and individuals affiliated with the Organization and board members. In the opinion of management, these rent payments, which are included in rental and security deposit expense accounts, are at or below prevailing market rates.

The Organization obtained a line of credit and a note payable from a board member's private foundation and are described in Note 7 and Note 8. During March 2020, the aforementioned private foundation donated property valued at $635,000 to the Organization and was subsequently sold to IHLLC.

During the year, a board member extended a short-term loan for $150,000 to the Organization. The loan was paid in full on April 21, 2020 and the accrued interest of $3,896 was forgiven and recorded as a contribution to the Organization. The CFO also extended short-term loans to the Organization during the year totaling $236,030 and all loans have been paid in full as of June 30, 2020.

During the year ended June 30, 2020, the Organization provided services to a related non-profit community clinic, Integrated Community Healthcare Services ("ICHS"), and recognized program service fees of $46,160. The Organization's COO is also a program administrator at ICHS.

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

Various related parties provided the following services to the Organization:

Related Party	Service Provided	Amount
Corporation owned by board member	Recuperative in-home care services	$ 71,308
Board member	Consulting services	15,000
IHLLC's Director	Consulting services	90,000
Total		$ 176,308

On May 1, 2020, the Organization entered into a management service agreement with Clark Lew Medical Corp dba Illumination Foundation Medical Group ("IFMG") to provide administrative services and allow IFMG to use the Organization's facilities and equipment for a monthly fee of $10,000. The Organization's controller is also the controller for IFMG. There were no IFMG related party transactions recorded in the Organization's accounts as of June 30, 2020.

NOTE 15: LITIGATION

The Organization is involved in litigation in the normal course of its operations which management believes are adequately covered by insurance.

NOTE 16: RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and worldwide. The coronavirus outbreak resulted in federal, state and local governments and private entities mandating various restrictions, including travel, in public gatherings, stay at home orders and quarantining of people who may have been exposed to the virus. In response to the pandemic and the various restrictions, the Organization has adjusted its operations to protect its employees and program participants from the virus while effectively providing services via virtual platforms when permitted. The Organization has received significant support from various federal and local agencies to assist with COVID-19 relief efforts and assistance for homeless individuals that have been affected by the pandemic. As management continues to evaluate the impact that this global pandemic will have on future operations, management believes that the Organization can continue its operations, as the funding from federal and state programs has not been affected by the coronavirus pandemic.

Stephens, Reidinger & Beller LLP
Certified Public Accountants

1301 Dove St., Suite 890
Newport Beach, CA 92660
Telephone 949 752 7400
Facsimile 949 752 1883
www.srbcpa.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
The Illumination Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Illumination Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Illumination Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Illumination Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Illumination Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Illumination Foundation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephens, Reidinger + Beller LLP

Newport Beach, California
January 29, 2021