

HOMEBOY INDUSTRIES

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

HOMEBOY INDUSTRIES

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

**AUDIT
AND
ASSURANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Homeboy Industries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Homeboy Industries, Homeboy Recycling, Homeboy Services, Homeboy Ventures and Jobs Fund, and Homeboy Art Academy (collectively, Homeboy Industries), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 those standards applicable to financial audits contained in *Government Auditing 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Homeboy Industries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Homeboy Industries as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Homeboy Industries' 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 25, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2021, on our consideration of Homeboy Industries' 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 solely 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 the effectiveness of Homeboy Industries' 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 Homeboy Industries' internal control over financial reporting and compliance.

Green Hasson & Janks LLP

July 12, 2021
Los Angeles, California

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2020

With Summarized Totals at December 31, 2019

ASSETS	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 6,812,224	\$ 836,836	\$ 7,649,060	\$ 718,708
Accounts Receivables (Net)	1,358,662	-	1,358,662	797,453
Inventory	239,187	-	239,187	180,321
Pledges Receivable	-	1,582,835	1,582,835	2,283,000
Prepaid Expenses and Other Current Assets	213,576	-	213,576	206,190
TOTAL CURRENT ASSETS	8,623,649	2,419,671	11,043,320	4,185,672
PROPERTY AND EQUIPMENT (Net)	8,747,315	-	8,747,315	7,805,362
OTHER ASSETS:				
Designated Cash	3,000,000	-	3,000,000	-
Restricted Cash	-	650,996	650,996	250,000
Pledges Receivable (Net)	-	242,572	242,572	147,000
Deposits and Other Assets	26,328	-	26,328	26,724
Goodwill	137,494	-	137,494	137,494
TOTAL OTHER ASSETS	3,163,822	893,568	4,057,390	561,218
TOTAL ASSETS	\$ 20,534,786	\$ 3,313,239	\$ 23,848,025	\$ 12,552,252
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable	\$ 415,548	\$ -	\$ 415,548	\$ 195,169
Accrued Liabilities	1,205,817	-	1,205,817	1,450,735
Deferred Revenues - Current	1,099,267	-	1,099,267	-
Note Payable	-	-	-	50,000
Forgivable Promissory Note Payable	800,000	-	800,000	800,000
Security Interests	-	-	-	55,000
TOTAL CURRENT LIABILITIES	3,520,632	-	3,520,632	2,550,904
OTHER LIABILITIES:				
Deferred Revenues	550,000	-	550,000	-
Paycheck Protection Program Loans	1,890,098	-	1,890,098	-
Bank Promissory Note Payable	585,000	-	585,000	-
TOTAL OTHER LIABILITIES	3,025,098	-	3,025,098	-
TOTAL LIABILITIES	6,545,730	-	6,545,730	2,550,904
NET ASSETS:				
Without Donor Restrictions	14,493,744	-	14,493,744	6,796,852
With Donor Restrictions	-	3,313,239	3,313,239	3,651,333
Non-Controlling Interest	(504,688)	-	(504,688)	(446,837)
TOTAL NET ASSETS	13,989,056	3,313,239	17,302,295	10,001,348
TOTAL LIABILITIES AND NET ASSETS	\$ 20,534,786	\$ 3,313,239	\$ 23,848,025	\$ 12,552,252

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2020

With Summarized Totals for the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Non-Controlling Interest	2020 Total	2019 Total
REVENUE AND SUPPORT:					
Grants and Contributions	\$ 15,286,798	\$ 4,175,284	\$ -	\$ 19,462,082	\$10,263,800
Sales	6,113,995	-	-	6,113,995	6,683,608
Government Contracts	2,829,673	-	-	2,829,673	925,501
Special Events (Net of Direct Donor Benefit)	1,131,720	-	-	1,131,720	2,099,209
In-Kind Contributions	488,576	-	-	488,576	714,119
Other Revenue	445,645	-	-	445,645	1,103,009
TOTAL REVENUE AND SUPPORT	26,296,407	4,175,284	-	30,471,691	21,789,246
EXPENSES:					
Program Services	19,061,104	-	-	19,061,104	18,049,071
Management and General	2,515,718	-	-	2,515,718	2,351,232
Fundraising and Marketing	1,593,922	-	-	1,593,922	2,084,841
TOTAL EXPENSES	23,170,744	-	-	23,170,744	22,485,144
Net Assets Released from Purpose and Time Restrictions	4,513,378	(4,513,378)	-	-	-
CHANGE IN NET ASSETS BEFORE NON-CONTROLLING INTEREST	7,639,041	(338,094)	-	7,300,947	(695,898)
Net Income (Loss) Attributable to Non-Controlling Interest	57,851	-	(57,851)	-	-
CHANGE IN NET ASSETS	7,696,892	(338,094)	(57,851)	7,300,947	(695,898)
Net Assets - Beginning of Year	6,796,852	3,651,333	(446,837)	10,001,348	10,697,246
NET ASSETS - END OF YEAR	<u>\$ 14,493,744</u>	<u>\$ 3,313,239</u>	<u>\$ (504,688)</u>	<u>\$ 17,302,295</u>	<u>\$ 10,001,348</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES Year Ended December 31, 2020 With Summarized Totals for the Year Ended December 31, 2019

	Program Services					Supporting Services			2020 Total	2019 Total
	Social Enterprises	Job Training	Workforce Development & Support Services	Other Programs	Total	Management and General	Fundraising and Marketing	Total		
Senior Staff Payroll Expense	\$ 1,717,056	\$ 1,232,321	\$ 1,937,605	\$ 93,845	\$ 4,980,827	\$ 757,108	\$ 895,753	\$ 1,652,861	\$ 6,633,688	\$ 5,627,741
Training Staff Payroll Expense	1,816,731	3,770,330	198,212	23,401	5,808,674	300,352	10,875	311,227	6,119,901	6,110,629
Payroll Taxes and Employee Benefits	477,230	174,476	238,683	10,970	901,359	139,634	109,059	248,693	1,150,052	1,051,047
TOTAL PERSONNEL COSTS	4,011,017	5,177,127	2,374,500	128,216	11,690,860	1,197,094	1,015,687	2,212,781	13,903,641	12,789,417
Advertising	31,931	-	158	-	32,089	16,524	6,621	23,145	55,234	51,121
Bad Debt Expense	56,708	-	-	-	56,708	200,000	5,916	205,916	262,624	66,369
Bank Fees and Interest	90,742	77	-	-	90,819	63,619	79,730	143,349	234,168	285,315
Cost of Goods Sold	2,672,592	-	-	-	2,672,592	-	-	-	2,672,592	3,049,737
Conference, Transportation, Membership Expense	147,469	563	91,000	2,925	241,957	44,511	62,932	107,443	349,400	568,929
Facility, Equipment, and Depreciation Expense	444,778	209,590	299,029	209,590	1,162,987	232,020	51,951	283,971	1,446,958	1,536,321
Information Technology and Communication Expense	40,376	-	2,012	9,468	51,856	218,968	10,272	229,240	281,096	144,489
Insurance and Miscellaneous Expenses	145,611	34,681	29,996	25,708	235,996	110,218	12,924	123,142	359,138	295,232
Printing, Publications, Delivery Expense	113,158	-	453	44	113,655	37,549	42,733	80,282	193,937	171,133
Professional Fees	49,940	281,260	130,010	114,705	575,915	170,978	303,339	474,317	1,050,232	1,337,194
Program Activities	373,321	185,439	207,986	31,658	798,404	69,613	1,578	71,191	869,595	705,439
Supplies	180,694	44	16,064	1,311	198,113	67,660	239	67,899	266,012	268,064
Transition Support	2,236	718,130	850	16,325	737,541	-	-	-	737,541	502,264
SUB-TOTAL	8,360,573	6,606,911	3,152,058	539,950	18,659,492	2,428,754	1,593,922	4,022,676	22,682,168	21,771,024
In-kind Professional Services	-	40,000	361,612	-	401,612	86,964	-	86,964	488,576	714,119
TOTAL FUNCTIONAL EXPENSES	\$ 8,360,573	\$ 6,646,911	\$ 3,513,670	\$ 539,950	\$ 19,061,104	\$ 2,515,718	\$ 1,593,922	\$ 4,109,640	\$ 23,170,744	\$ 22,485,143
	36%	29%	15%	2%	82%	11%	7%	18%	100%	100%

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF CASH FLOWS Year Ended December 31, 2020

With Summarized Totals for the Year Ended December 31, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 7,300,947	\$ (695,898)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation & Amortization	537,357	606,473
Completion of Contractual Obligation - Security Interests	(55,000)	(110,000)
Decrease in Present Value Discount of Pledges Receivable	1,950	(28,500)
Bad Debt Expense Accounts Receivable	62,624	47,599
Bad Debt Expense Pledges Receivable	200,000	-
(Increase) Decrease in:		
Accounts Receivable	(623,833)	(412,714)
Inventory	(58,866)	(24,892)
Pledges Receivable	402,643	(26,000)
Prepaid Expenses and Other Current Assets	(7,386)	65,148
Deposits and Other Assets	396	(1,974)
Increase (Decrease) in:		
Accounts Payable	220,379	26,277
Accrued Liabilities	(244,918)	182,163
Deferred Revenues	1,649,267	-
	9,385,560	(372,318)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	9,385,560	(372,318)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(1,479,310)	(80,402)
	(1,479,310)	(80,402)
NET CASH USED IN INVESTING ACTIVITIES		
	(1,479,310)	(80,402)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Notes Payable	(50,000)	-
Proceeds from Forgivable Promissory Note Payable	-	800,000
Proceeds from Paycheck Protection Program Loans	1,890,098	-
Proceeds from Bank Promissory Note Payable	585,000	-
	2,425,098	800,000
NET CASH PROVIDED BY FINANCING ACTIVITIES		
	2,425,098	800,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,331,348	347,280
Cash and Cash Equivalents - Beginning of Year	968,708	621,428
	\$ 11,300,056	\$ 968,708
CASH AND CASH EQUIVALENTS - END OF YEAR		
	\$ 11,300,056	\$ 968,708
CASH AND CASH EQUIVALENTS INCLUDES:		
Cash and Cash Equivalents	\$ 7,649,060	\$ 718,708
Designated Cash	3,000,000	-
Restricted Cash	650,996	250,000
	\$ 11,300,056	\$ 968,708
TOTAL CASH AND CASH EQUIVALENTS		
	\$ 11,300,056	\$ 968,708
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid in Cash (net of amounts capitalized)	\$ 46,992	\$ 50,544

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 1 - ORGANIZATION

Homeboy Industries' mission is to provide hope, training, and support to formerly gang-involved and previously incarcerated individuals, allowing them to redirect their lives and become contributing members of the community. Most clients who seek Homeboy Industries' services have experienced complex trauma and are desperate to break a cycle of violence and incarceration. Homeboy Industries meets their needs via a paid, 18-month Job Training program (which includes training in social enterprises, intensive case management, and wrap-around support services focused on healing) and free services that are open to all community members: education, tattoo removal, mental health care, legal assistance, and workforce development. Homeboy Industries serves youth and adults from throughout Los Angeles County. Major programs are as follows:

Programs

- Case Management & Navigation: Each trainee in the 18-month Job Training program is assigned to a Homeboy Industries case manager and peer navigator who works with the individual to identify goals and create an Individual Service Plan. Case managers closely monitor each trainee and his or her progress. Navigators provide peer mentorship and cohort supervision.
- Education: Homeboy Industries offers approximately 40 classes in the areas of academics, life skills, work readiness, and wellness. The curriculum includes GED preparation, college preparation, and classes such as anger management and parenting, which clients may attend as a result of court orders. Homeboy Industries' charter high school is a partnership with Learning Works and serves students who have been expelled from traditional schools.
- Workforce Development: Homeboy Industries' model begins with life skills assessments and links clients with wrap-around services. Workforce Development Specialists help clients set goals consistent with their interests and aptitudes. Individualized Employment Development Plans include hands-on training in our social enterprises and vocational classroom training with educational partners. They receive coaching on job searching and interview techniques, assemble portfolios, are eventually placed in internships, apprenticeships, and/or jobs with Homeboy Industries' partner companies.
- Legal Services: Provides personal consultation from an on-site attorney to clients on a wide variety of issues. The program provides on-site guidance, support, and referrals for criminal and civil issues, helps clients clear warrants, expunge records, and works to resolve child custody issues. All of these are often obstacles for young people seeking employment.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 1 - ORGANIZATION (continued)

Programs (continued)

- **Mental Health:** Homeboy Industries' staff therapists and licensed volunteers provide one-on-one psychotherapy on and off site. Homeboy Industries also hosts a variety of support groups, a domestic violence program for batterers, and substance abuse services. By providing these services in a safe and supportive environment, Homeboy Industries is reducing the stigma often attached to mental health support in this community while also making the service more accessible.
- **Tattoo Removal:** Visible tattoos are a safety hazard for those leaving gang life as well as a barrier to employment. A team of volunteer doctors and physician's assistants provide laser tattoo removal free of charge for trainees and community members.
- **Housing First:** Provides a housing assistance effort that prioritizes providing permanent housing to people experiencing homelessness, thus ending their homelessness and serving as a platform from which they can pursue personal goals and improve their quality of life. This approach is guided by the belief that people need basic necessities like food and a place to live before attending to anything less critical, such as getting a job, budgeting properly, or attending to substance use issues. Housing First is based on the theory that client choice is valuable in housing selection and supportive service participation, and that exercising that choice is likely to make a client more successful in remaining housed and improving their life.
- **Youth Re-Entry Center:** Is LA County's first youth re-entry center in Boyle Heights geared specifically for juvenile re-entry, focused on preventing high-risk gang affiliated youth from entering the adult prison system. Homeboy's Youth Re-entry Center serves approximately 100 formerly incarcerated or gang-involved youth, ages 14-24, each year. The Center provides therapeutic, wraparound services, such as mental health, academic, college prep, and career readiness services. Homeboy has served youth populations since our founding and has been working toward creating a targeted program that better meets the needs of youth in a developmentally appropriate and safe space.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 1 - ORGANIZATION (continued)

Businesses

- Homeboy Bakery provides employment opportunities and business experience for formerly gang-involved and previously incarcerated men and women. Training includes bakery maintenance, inventory management, baking techniques, and food handling certification.
- Homegirl Cafe & Catering provides employment opportunities and business experience to formerly gang-involved and previously incarcerated men and women. Training includes restaurant maintenance, customer service, food preparation techniques, food handling food service, restaurant management and catering.
- Homeboy Diner at City Hall provides employment opportunities and business experience for formerly gang involved and previously incarcerated men and women. Training includes customer service in a cafe setting, restaurant maintenance, inventory management, money management, food handling certification, catering and barista training.
- Homeboy/Homegirl Merchandise provides employment opportunities and business experience to formerly gang-involved and previously incarcerated men and women. Training includes customer service, business and inventory management. Merchandise items emblazoned with Homeboy Industries' name and mission are sold in Homeboy Industries' retail store, at events, by mail, and on-line to promote the Homeboy Industries cause.
- Homeboy Silkscreen, formerly a for-profit corporation, was donated to Homeboy Industries in September 2001. Silkscreen and embroidery techniques are used to create custom clothing and accessories. It provides jobs and an opportunity to learn a trade and the fundamentals of work ethic.
- Homeboy's Farmers Markets business venture began in August 2011 and serves multiple farmers markets per week in Southern California, offering baked goods from the Homeboy Bakery, as well as several products from the Homegirl Cafe. This program is another Homeboy Industries' business which employs homeboys and homegirls. Homeboy Industries' businesses serve the dual functions of creating job training opportunities and revenue to help support Homeboy Industries' free services.
- Homeboy Chips & Salsas provides employment opportunities and business experience to formerly gang-involved youths. Training includes customer services, sales, promotions, and marketing at different grocery stores nationally.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 1 - ORGANIZATION (continued)

Businesses (continued)

- Homeboy Cafe and Bakery at LAX opened in February 2013. The restaurant is located in the American Airlines terminal at Los Angeles International Airport. The facility is operated by license partner Areas USA LAX, LLC. The airport restaurant offers sandwiches, beverages and baked goods to travelers at the airport. Homeboy Industries receives a monthly license fee based on the sales at the restaurant.
- Homeboy Recycling is a California Social Purpose Corporation that is 75% owned by Homeboy Industries. It provides R2 (Responsible Recycling) certified E-Waste Recycling and Data Destruction Services while also providing jobs and training for Angelenos who face barriers to employment.
- Feed Hope was created in April 2020 to respond to the Covid-19 pandemic which expanded the need for packaged meals for senior citizens and the underserved communities. Through several funding partners Feed Hope was able to provide as many as 15,000 to 25,000 meals weekly.
- Homeboy Services Inc. was created in January 2018 as a California Nonprofit Public Benefit Corporation. The purpose of the entity is to award grants to Homeboy Trainees for their services and education. Homeboy Industries is the sole corporate member of Homeboy Services, Inc.
- ReGen LA, LLC is a social purpose enterprise formed in 2017 for the purpose of trash processing of municipal water from households while also providing jobs and training for Angelenos. There was no activity during the year, and the enterprise was terminated as of December 31, 2020.

Homeboy Industries' funding is provided primarily by public and corporate donations, foundation grants, government contracts, and its business revenues.

Homeboy Industries' primary internal metric for financial management is operating income, which excludes both interest and depreciation expense. A reconciliation of the change in net assets to operating income is as follows for the year ended December 31, 2020:

Change in Net Assets	\$ 7,300,947
Adjust for:	
Interest Expense	46,992
Depreciation Expense	<u>537,357</u>
OPERATING INCOME	<u>\$ 7,885,296</u>

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Homeboy Industries, Homeboy Recycling, Homeboy Services, Inc., Homeboy Ventures and Jobs Fund, and Homeboy Art Academy. All significant inter-company transactions and balances have been eliminated on consolidation.

(b) BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

(c) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets without Donor Restrictions.** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- **Net Assets with Donor Restrictions.** Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

(d) CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at December 31, 2020, approximates its fair value.

Homeboy Industries maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. Homeboy Industries has not incurred losses related to these investments and believes it is not exposed to any significant credit risk on cash and cash equivalents.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) CASH, CASH EQUIVALENTS, AND RESTRICTED CASH (continue)

At December 31, 2020, Homeboy Industries had restricted cash totaling \$650,996 held in a reserve account for restricted contributions.

Management has designated \$3,000,000 of its available cash at December 31, 2020 for the purpose of using such funds for future strategic or operational needs.

(e) ACCOUNTS RECEIVABLE

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. At December 31, 2020, accounts receivable consist of trade accounts receivable from business sales. Homeboy Industries has established an allowance for doubtful accounts receivable based on an evaluation of collectability by management which totals \$58,357 at December 31, 2020.

(f) INVENTORY

Inventory consists of bakery ingredients and clothing and other items printed with the Homeboy Industries logo held for sale by the Merchandise store and Silkscreen. Inventory is valued at the lower of cost or market on an average cost basis.

(g) GRANTS, CONTRIBUTIONS, AND PLEDGES RECEIVABLE

Homeboy Industries recognizes grants and contributions when cash, other assets, or an unconditional promise to give are received. Homeboy Industries reports unconditional promises as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) GRANTS, CONTRIBUTIONS, AND PLEDGES RECEIVABLE (continued)

Contributions and pledges receivable are discounted to their present value when payments are expected in future periods exceeding one year. These discounts are recorded as reductions to contribution revenue and contributions and pledges receivable and are adjusted annually.

Homeboy Industries has established an allowance for doubtful contributions and pledges receivable based on an evaluation of collectability by management.

Revenue from government contracts and grants may be conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Such grants are generally considered nonreciprocal transactions restricted by the awarding agencies for certain purposes.

Amounts received are recognized as revenue when Homeboy Industries has satisfied the specific performance requirements, if any, or incurred expenditures in compliance with specific contract or grant provisions, if applicable. Homeboy Industries has elected to adopt a policy whereby donor-restricted contributions, whose restrictions are met in the same reporting period, are recognized as revenue without donor restrictions. Amounts received prior to incurring qualifying expenditures or fulfilling the specific performance obligations are reported as deferred revenues in the consolidated statement of financial position. Homeboy Industries had conditional grants of \$4,200,000 at December 31, 2020.

Contracts and grants receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Property and equipment are capitalized if the cost of an asset or group of assets is greater than or equal to \$1,000, and the useful life is greater than one year.

The estimated useful lives are as follows:

Buildings	15 - 30 Years
Machinery and Equipment	5 - 15 Years
Furniture and Equipment	3 - 7 Years
Vehicles	3 - 6 Years
Leasehold Improvements	5 - 15 Years
Computers and Software	3 - 5 Years

Expenditures for repairs and maintenance are charged to expense as incurred while renewals and betterments are capitalized.

(i) GOODWILL

The excess of the purchase price over the fair value of identifiable assets acquired, net of liabilities assumed, is recorded as goodwill.

Testing goodwill for impairment involves a two-step process. The first step involves comparing the acquired practice's estimated fair value with its carrying value, including goodwill. If the estimated fair value of the acquired practice exceeds its carrying value, goodwill is not considered to be impaired and no additional steps are necessary.

If the acquired practice's carrying value exceeds its estimated fair value, the clinic performs the second step to measure the amount of the impairment loss. The second step compares the carrying amount of goodwill with the implied fair value of the goodwill, which is determined based on the allocation of the fair value of the acquired practice to its tangible and intangible assets (other than goodwill) and liabilities as if the acquired practice had been acquired in a business combination. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess. No impairment losses were recognized during the year ended December 31, 2020.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) LONG-LIVED ASSETS

Homeboy Industries reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2020.

(k) PAYCHECK PROTECTION PROGRAM (PPP) LOANS

Management has elected to account for the forgivable loans received under the Paycheck Protection Program (PPP) provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act as debt instruments and to accrue interest on the outstanding loan balances. Additional interest at a market rate (due to the stated interest rate of the PPP loans being below market) is not imputed, as transactions where interest rates are prescribed by governmental agencies are excluded from the scope of the accounting guidance on imputing interest. The proceeds from the loans will remain recorded as a liability until either (1) the loans are, in part or wholly, forgiven or Homeboy Industries has been legally released or (2) Homeboy Industries repays the loans to the lender.

(l) REVENUE RECOGNITION AND DEFERRED REVENUE

Homeboy Industries' revenues are derived from its various businesses more fully described in Note 1. Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. Homeboy Industries recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Deferred revenues represent contributions and grants received but not recognizable until the related restrictions are satisfied. As of December 31, 2020 there was \$1,649,267 recorded as deferred revenues, of which \$550,000 was non-current.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in the cost of revenues.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, were provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions of \$488,576 were received during the year ended December 31, 2020, which satisfied the criteria for recognition.

A substantial number of volunteers have donated significant amounts of their time to Homeboy Industries. Some of the services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

(n) INCOME TAXES

Homeboy Industries, Homeboy Services, Inc., and Homeboy Art Academy are exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Homeboy Recycling is a California social purpose corporation classified as a C corporation for taxation purposes. Homeboy Venture and Jobs Fund is a single member limited liability company with its single member being Homeboy Industries.

In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic No. 740, *Uncertainty in Income Taxes*, Homeboy Industries recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended December 31, 2020, Homeboy Industries performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the consolidated financial statements or which might have an effect on its tax-exempt status.

(o) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Homeboy Industries' programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Homeboy Industries uses a percentage of total expenses to allocate indirect costs.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Accordingly, actual results could differ from those estimates.

(q) RECLASSIFICATIONS

For comparability, certain December 31, 2019 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at December 31, 2020.

(r) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the consolidated statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help consolidated financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the consolidated financial statements. For Homeboy Industries, the ASU will be effective for the year ending December 31, 2022.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU is intended to improve transparency in the reporting of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. For Homeboy Industries, the ASU will be effective for the year ending December 31, 2022.

(s) SUBSEQUENT EVENTS

Homeboy Industries has evaluated events and transactions occurring subsequent to the consolidated statement of financial position date of December 31, 2020, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through July 12, 2021, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as described in Notes 8, 9 and 18.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2020, are due to be received as follows:

Due within One Year	\$ 1,582,835
Due in Two to Five Years	<u>247,522</u>
GROSS PLEDGES RECEIVABLE	1,830,357
Less: Present Value Discount	<u>(4,950)</u>
PLEDGES RECEIVABLE (NET)	<u><u>\$ 1,825,407</u></u>

NOTE 4 - PROPERTY AND EQUIPMENT

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

Buildings	\$ 8,556,816
Machinery and Equipment	2,517,279
Land	2,487,588
Furniture and Equipment	893,402
Vehicles	583,471
Leasehold Improvements	1,292,625
Computers and Software	492,559
Construction in Progress	<u>108,430</u>
TOTAL	16,932,170
Less: Accumulated Depreciation	<u>(8,184,855)</u>
PROPERTY AND EQUIPMENT (NET)	<u><u>\$ 8,747,315</u></u>

Depreciation expense for the year ended December 31, 2020, was \$537,357.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2020, consist of the following:

Accrued Vacation	\$ 653,160
Accrued Payroll	137,326
Other Accrued Liabilities	<u>415,331</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 1,205,817</u>

NOTE 6 - NOTE PAYABLE

Homeboy Industries had a note payable with one of its board members, original proceeds of \$50,000, accruing interest at 4% annually, amended on December 21, 2019, with a maturity date of December 31, 2020. The note was paid off as of December 31, 2020.

NOTE 7 - LINE OF CREDIT

Homeboy Industries has a revolving line of credit (the Line) with a bank. The maturity date of the Line is July 15, 2022 and bears interest at the bank's reference rate plus an applicable margin. At December 31, 2020, the bank's reference rate and applicable margins were 4.75% and 1.00%, respectively. The Line is collateralized with a deed of trust on Homeboy Industries' Bruno Street property. At December 31, 2020, there was no balance outstanding on the Line and the total amount of \$2,000,000 was available.

NOTE 8 - FORGIVEABLE PROMISSORY NOTE PAYABLE

In September 2019, Homeboy Industries entered into a non-interest bearing promissory note payable with the New World Foundation for \$5,000,000. The term of the note is for nine years ending 2028, and the total amount of the loan is split into six tranche amounts which are drawn down by Homeboy Industries. Each tranche will be forgiven when Homeboy Industries satisfies the loan forgiveness achievement metrics noted at each tranche level. At the year ended December 31, 2020, Homeboy Industries has not satisfied the first tranche loan forgiveness achievement metrics, and \$800,000 remains as a promissory note payable. The loan was forgiven in March 2021.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 9 - PAYCHECK PROTECTION PROGRAM LOANS

In April 2020, Homeboy Industries received two PPP loans in the amounts of \$1,667,900 and \$222,198, respectively. The PPP loans, administered by the Small Business Administration (SBA), bear interest at a fixed rate of 1.0% per annum, have the terms of two and five years, respectively, and are unsecured and guaranteed by the SBA. Interest accrues on the loans beginning with the initial disbursement; however, payments of principal and interest are deferred until the lender's determination of the amount of forgiveness applied for by the borrower is approved by the SBA. To the extent that all or part of the PPP loans is not forgiven, Homeboy Industries will be required to pay interest on the PPP loans at a rate of 1.0% per annum. The terms of the PPP loans provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events.

At December 31, 2020, the total outstanding balance of the PPP loans was \$1,890,098.

Subsequent to year-end, in April 2021, Homeboy Industries submitted its applications for forgiveness for the full amount of the PPP loans. Homeboy Industries was forgiven for the full amount of the loans and accrued interest on April 18, 2021, and April 30, 2021, respectively. Accordingly, Homeboy Industries will recognize income totaling \$1,890,098 during the year ended December 31, 2021.

In addition, subsequent to year-end Homeboy Industries received a second draw forgivable PPP loan in the amount of \$222,197. The second draw PPP loan, administered by the SBA, bears interest at a fixed rate of 1.0% per annum, has a term of five years, is unsecured and guaranteed by the SBA and has the same other general loan terms as the first draw PPP loans.

NOTE 10 - BANK PROMISSORY NOTE PAYABLE

In June 2020, Homeboy Industries obtained a promissory note with a bank to acquire a building in Los Angeles in the amount of \$585,000 with a maturity date of June 15, 2022. The promissory note bears interest rate at the bank's reference rate plus an applicable margin. At December 31, 2020, the bank's reference rate and applicable margin were 3.25% and 1.00%, respectively. As of December 31, 2020, the outstanding balance of \$585,000. The loan is secured by real estate and all outstanding principal is due on maturity.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 11 - RETIREMENT PLAN

Homeboy Industries sponsors a 401(k) defined contribution pension plan. The plan covers all eligible employees as defined in the plan document. Homeboy Industries accrued \$50,000 to be contributed to the plan for the year ended December 31, 2020 which is recorded under other accrued liabilities.

NOTE 12 - REVENUES FROM CONTRACTS WITH CUSTOMERS

(a) DISAGGREGATION OF REVENUE

As noted in Note 1 above, revenues derived from Homeboy Industries' sales through its various businesses are recorded at a point in time, and the products or services sold are similar, so no disaggregation of revenues is needed.

(b) CONTRACT BALANCES

Homeboy Industries has no contract assets or contract liabilities as of December 31, 2020. All contracts due to Homeboy Industries are recorded in accounts receivable at December 31, 2020.

(c) PERFORMANCE OBLIGATIONS

For performance obligations related to the sale of goods through the businesses noted in Note 1 of the financial statements, control transfers to the customer at a point in time. Homeboy Industries' principal terms of sale are "Free on Board" destination point, and Homeboy Industries transfers control and records revenue for product sales upon delivery to the customer or at the time the customer takes possession of the goods.

The payment terms and conditions in customer contracts vary from 0-90 days from the transfer of control. Homeboy Industries does not have any significant financing components as payment is received at, or shortly after the point of sale.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 12 - REVENUES FROM CONTRACTS WITH CUSTOMERS (continued)

(d) PRACTICAL EXPEDIENTS AND EXEMPTIONS

Homeboy Industries utilized certain practical expedients and exemptions as follows:

- Homeboy Industries does not adjust the contract price for the effects of a significant financing component if Homeboy Industries expects, at contract inception, that the period between when Homeboy Industries transfers a service to a customer and when the customer pays for that service will be one year or less. With this election, Homeboy Industries is not required to disclose the remaining performance obligations (if any).
- As a practical expedient, Homeboy Industries recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period is one year or less.
- Homeboy Industries has elected not to apply quantitative disaggregation disclosures.
- Homeboy Industries has elected not to evaluate whether shipping and handling activities are promised services to customers and therefore is not a separate performance obligation. Homeboy Industries expenses shipping and handling costs as selling expenses.
- Homeboy Industries has elected not to make an assessment of evaluating when a customer obtains control of promised goods or services.
- Homeboy Industries has elected not to make an assessment of whether an estimate of variable consideration is constrained.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

Homeboy Industries leases facilities and equipment from related parties (refer to Note 15) and third parties under operating leases with various terms expiring through December 2024. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Year Ended December 31	Related Party	Third-Party	Total
2021	\$ 66,437	\$ 64,976	\$ 131,413
2022	68,430	55,823	124,253
2023	-	29,644	29,644
2024	-	9,669	9,669
TOTAL	\$ 134,867	\$ 134,112	\$ 294,979

Rent expense under operating leases for the year ended December 31, 2020, was \$348,662.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 13 - COMMITMENTS AND CONTINGENCIES (continued)

(b) CONTRACTS

Homeboy Industries' grants and contracts are subject to inspection and audits by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated.

(c) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, Homeboy Industries may become involved in various lawsuits. Some of these proceedings may result in judgments being assessed against Homeboy Industries, which, from time to time, may have an impact on changes in net assets. Homeboy Industries believes that these proceedings, individually or in the aggregate, would not have a material effect on the accompanying consolidated financial statements.

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2020, consist of the following:

Time Restricted	\$ 1,825,407
Businesses and Other Programs	903,003
Curriculum	260,428
Job Training	146,425
Buildings and Facilities	89,976
Art Academy	88,000
	<hr/>
TOTAL NET ASSETS	
WITH DONOR RESTRICTIONS	\$ 3,313,239
	<hr/>

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2020:

Expiration of Specified Time Period:	
Pledges Receivable Not Available until Due	\$ 1,363,000
Satisfaction of Purpose Restrictions:	
Buildings and Facilities	670,025
Curriculum	669,690
Job Training	374,075
Art Academy	170,000
Mental Health	120,000
Tattoo Removal	5,000
Legal	270,000
Businesses and Other Programs	<u>871,588</u>
TOTAL NET ASSETS RELEASES FROM DONOR RESTRICTIONS	<u>\$ 4,513,378</u>

NOTE 15 - RELATED PARTY TRANSACTIONS

Homeboy Industries leases its Silkscreen program facility from a key employee [see Note 13(a)]. Rent paid during the year ended December 31, 2020, to this key employee was \$62,623. Silkscreen program directors' family members work in the Silkscreen program in accounting and sales.

NOTE 16 - NEW ENTITIES

Homeboy Ventures & Jobs Fund, LLC was created in May 2020 as a California Limited Liability Company for the purpose of (a) accelerating the growth of socially focused enterprises that will create quality jobs for low-income and other disadvantaged persons who face employment challenges, including formerly gang involved and the previously incarcerated, through investments in existing and new Homeboy-related services and businesses and (b) engaging in educational activities with a focus on educating communities around the country on (i) the Portfolio Businesses (as defined below), (ii) the opportunities for engaging with the low-income and other disadvantaged communities served by such businesses, and (iii) the social impact attributable to such businesses. Homeboy Industries is the sole member of Homeboy Ventures & Job Fund, LLC.

Homeboy Arts Academy, Inc. was created in September 2020, as a California Nonprofit Public Benefit Corporation for the purpose of relieving poverty and distress of the underprivileged, lessen neighborhood tensions, eliminate prejudice and discrimination, and combat community deterioration in low-income and underserved communities through the use of art and other creative means. Homeboy Industries is the sole corporate stockholder of Homeboy Arts Academy, Inc.

HOMEBOY INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2020

NOTE 17 - DEFERRED TAX ASSET

Homeboy Recycling has a deferred tax asset of \$467,952 due to net operating loss carryforwards. At December 31, 2020, a valuation allowance was recorded for the entire balance of the deferred tax asset. The net operating losses may be carried forward indefinitely and may be offset against future taxable income.

NOTE 18 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by Homeboy Industries at December 31, 2020, and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at December 31, 2020:	
Cash and Cash Equivalents	\$ 7,649,060
Designated Cash	3,000,000
Restricted Cash	650,996
Accounts Receivable (Net)	1,358,662
Contributions and Pledges Receivable (Net)	<u>1,825,407</u>
TOTAL FINANCIAL ASSETS AT DECEMBER 31, 2020	14,484,125
Less: Amounts Not Available to Be Used within One Year, Due to:	
Donor-Imposed Restrictions:	
Funds Held with Purpose Restrictions	(1,487,832)
Pledges Restricted by Time	<u>(242,572)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 12,753,721</u>

Homeboy Industries regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Homeboy Industries is substantially supported by unrestricted contributions and government grants and contracts. As part of Homeboy Industries' liquidity management, it has the policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Homeboy Industries has various sources of liquidity at its disposal, including cash and cash equivalents, accounts and pledges receivables. Homeboy Industries also has access to a \$2,000,000 line of credit with the entire amount available at December 31, 2020. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Homeboy Industries considers pledges receivable restricted by time only and expected to be collected in the next fiscal year as available for general expenditures. Subsequent to year-end, Homeboy Industries also received a \$20 Million unrestricted gift.