HOMEBOY INDUSTRIES

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

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CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

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Homeboy Industries

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Opinion

We have audited the 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, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Homeboy Industries as of December 31, 2022, and the consolidated 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Homeboy Industries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Homeboy Industries' ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

To the Board of Directors
Homeboy Industries

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Homeboy Industries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Homeboy Industries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information
We have previously audited Homeboy Industries' December 31, 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated June 29, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Green Hasson & Janks LLP

July 27, 2023
Los Angeles, California

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2022
With Summarized Totals at December 31, 2021

ASSETS	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
CURRENT ASSETS:				
Cash and Cash Equivalents	$ 9,869,140	$ -	$ 9,869,140	$ 39,604,867
Short-Term Investments	24,925,703	8,246,086	33,171,789	-
Accounts Receivable (Net)	636,530	-	636,530	1,727,936
Grants and Contracts Receivable	1,955,106	-	1,955,106	735,689
Pledges Receivable	-	4,435,712	4,435,712	1,010,426
Inventory	172,822	-	172,822	240,656
Prepaid Expenses and Other Current Assets	356,608	-	356,608	220,859
TOTAL CURRENT ASSETS	37,915,909	12,681,798	50,597,707	43,540,433
PROPERTY AND EQUIPMENT (Net)	14,667,931	-	14,667,931	9,001,017
OTHER ASSETS:				
Designated Cash	-	-	-	3,000,000
Restricted Cash	-	274,496	274,496	655,675
Investments	9,898,650	-	9,898,650	-
Pledges Receivable (Net)	-	7,839,529	7,839,529	193,100
Deposits and Other Assets	61,581	-	61,581	105,181
Goodwill	137,494	-	137,494	137,494
Right-of-Use Lease Assets	2,097,350	-	2,097,350	-
TOTAL OTHER ASSETS	12,195,075	8,114,025	20,309,100	4,091,450
TOTAL ASSETS	$ 64,778,915	$ 20,795,823	$ 85,574,738	$ 56,632,900
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable	$ 1,299,520	$ -	$ 1,299,520	$ 689,500
Accrued Liabilities	1,796,537	-	1,796,537	1,488,344
Deferred Revenues - Current	5,020,963	-	5,020,963	615,991
Line of Credit	3,287,000	-	3,287,000	-
Paycheck Protection Program Loan	-	-	-	222,197
Lease Liabilities	642,387		642,387	-
Forgivable Promissory Note Payable	800,000	-	800,000	800,000
Bank Promissory Note Payable	-	-	-	85,000
TOTAL CURRENT LIABILITIES	12,846,407	-	12,846,407	3,901,032
OTHER LIABILITIES:				
Deferred Revenues, Net of Current Portion	10,000,000	-	10,000,000	5,000,000
Forgivable City of LA Promissory Note	354,672	-	354,672	-
Lease Liabilities - Long Term	1,530,604	-	1,530,604	-
TOTAL OTHER LIABILITIES	11,885,276	-	11,885,276	5,000,000
TOTAL LIABILITIES	24,731,683	-	24,731,683	8,901,032
NET ASSETS:				
Without Donor Restrictions	40,650,797	-	40,650,797	41,022,033
With Donor Restrictions	-	20,795,823	20,795,823	7,266,330
NET ASSETS ATTRIBUTABLE TO HOMEBOY INDUSTRIES	40,650,797	20,795,823	61,446,620	48,288,363
Non-Controlling Interest	(603,565)	-	(603,565)	(556,495)
TOTAL NET ASSETS	40,047,232	20,795,823	60,843,055	47,731,868
TOTAL LIABILITIES AND NET ASSETS	$ 64,778,915	$ 20,795,823	$ 85,574,738	$ 56,632,900

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

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2022
With Summarized Totals for the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
REVENUE AND SUPPORT:				
Grants and Contributions	$ 14,196,010	$ 18,690,356	$ 32,886,366	$ 41,523,197
Sales	8,040,811	-	8,040,811	9,131,377
Government Contracts	8,155,560	-	8,155,560	2,558,008
Special Events (Net of Direct Donor Benefit Expenses of $307,647)	1,740,332	-	1,740,332	1,833,296
In-Kind Contributions	459,866	-	459,866	1,031,309
Other Revenue	569,988	-	569,988	656,056
TOTAL REVENUE AND SUPPORT	33,162,567	18,690,356	51,852,923	56,733,243
EXPENSES:				
Program Services	31,872,307	-	31,872,307	25,379,254
Management and General	4,474,117	-	4,474,117	3,586,306
Fundraising and Marketing	2,712,698	-	2,712,698	2,197,485
TOTAL EXPENSES	39,059,122	-	39,059,122	31,163,045
Net Assets Released from Purpose and Time Restrictions	5,160,863	(5,160,863)	-	-
CHANGE IN NET ASSETS	(735,692)	13,529,493	12,793,801	25,570,198
OTHER INCOME:				
Investment Return (Net)	95,189	-	95,189	-
Paycheck Protection Program Loans Forgiveness	222,197	-	222,197	1,890,098
Forgivable Promissory Note Payable Forgiveness	-	-	-	800,000
Employee Retention Credits	-	-	-	2,169,277
TOTAL OTHER INCOME	317,386	-	317,386	4,859,375
CHANGE IN NET ASSETS	(418,306)	13,529,493	13,111,187	30,429,573
Change in Net Assets Attributable to Non-Controlling Interest	47,070	-	47,070	51,807
CHANGE IN NET ASSETS ATTRIBUTABLE TO HOMEBOY INDUSTRIES	(371,236)	13,529,493	13,158,257	30,481,380
Net Assets - Beginning of Year	41,022,033	7,266,330	48,288,363	17,806,983
NET ASSETS - END OF YEAR	$ 40,650,797	$ 20,795,823	$ 61,446,620	$ 48,288,363

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022
With Summarized Totals for the Year Ended December 31, 2021

	Program Services					Supporting Services				
	Social Enterprises	Job Training	Workforce Development and Support Services	Other Programs	Total	Management and General	Fundraising and Marketing	Total	2022 Total	2021 Total
Senior Staff Payroll Expense	$ 2,448,727	$ 850,164	$ 4,315,810	$ 248,787	$ 7,863,488	$ 1,122,439	$ 1,380,195	$ 2,502,634	$ 10,366,122	$ 8,674,836
Training Staff Payroll Expense	2,731,266	6,520,907	658,218	41,466	9,951,857	361,313	39,389	400,702	10,352,559	7,091,563
Payroll Taxes and Employee Benefits	602,069	86,160	442,269	20,132	1,150,630	137,033	105,179	242,212	1,392,842	1,167,796
TOTAL PERSONNEL COSTS	5,782,062	7,457,231	5,416,297	310,385	18,965,975	1,620,785	1,524,763	3,145,548	22,111,523	16,934,195
Advertising	70,655	-	193	-	70,848	5,517	18,962	24,479	95,327	75,743
Bad Debt Expense	-	-	-	-	-	83,505	-	83,505	83,505	74,041
Bank Fees and Interest	124,141	2,479	67	3	126,690	150,044	100,419	250,463	377,153	236,167
Cost of Goods Sold	4,406,361	-	-	-	4,406,361	-	-	-	4,406,361	3,981,006
Conference, Transportation, Membership Expense	339,919	17,266	106,837	252,329	716,351	180,584	19,591	200,175	916,526	736,583
Facility, Equipment, and Depreciation Expense	764,161	405,389	439,705	362,899	1,972,154	487,154	149,449	636,603	2,608,757	1,998,752
Information Technology and Communication Expense	115,222	28,805	86,416	-	230,443	288,054	57,611	345,665	576,108	563,096
Insurance and Miscellaneous Expenses	131,000	46,120	58,538	52,312	287,970	393,947	300,970	694,917	982,887	453,510
Printing, Publications, Delivery Expense	85,116	-	1,244	703	87,063	43,916	155,870	199,786	286,849	307,093
Professional Fees	230,468	-	290,076	360,995	881,539	915,527	349,131	1,264,658	2,146,197	1,674,479
Program Activities	237,809	264,828	515,110	292,669	1,310,416	45,336	15,330	60,666	1,371,082	1,267,612
Supplies	350,901	2,069	30,782	7,422	391,174	115,925	20,602	136,527	527,701	343,326
Transition Support	3,510	1,825,331	-	269,228	2,098,069	11,211	-	11,211	2,109,280	1,486,133
SUB-TOTAL	12,641,325	10,049,518	6,945,265	1,908,945	31,545,053	4,341,505	2,712,698	7,054,203	38,599,256	30,131,736
In-Kind Professional Services	-	-	199,750	127,504	327,254	132,612	-	132,612	459,866	1,031,309
TOTAL FUNCTIONAL EXPENSES	$ 12,641,325	$ 10,049,518	$ 7,145,015	$ 2,036,449	$ 31,872,307	$ 4,474,117	$ 2,712,698	$ 7,186,815	$ 39,059,122	
	33%	26%	18%	5%	82%	11%	7%	18%	100%	
2021 TOTALS	$ 11,105,254	$ 7,044,729	$ 5,871,417	$ 1,357,854	$ 25,379,254	$ 3,586,306	$ 2,197,485	$ 5,783,791		$ 31,163,045
	36%	22%	19%	4%	81%	12%	7%	19%		100%

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

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2022
With Summarized Totals for the Year Ended December 31, 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ 13,111,187	$ 30,429,573
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Net Realized and Unrealized Loss on Investments	681,201	-
Bad Debt Expense on Accounts Receivable	42,900	98,028
Increase in Present Value Discount of Pledges Receivable	809,969	1,950
Depreciation Expense	849,793	632,965
Loss on Disposal of Property and Equipment	116,789	-
Amortization of Right-to-Use Lease Assets	616,476	-
Paycheck Protection Program Loan Forgiveness	(222,197)	(1,890,098)
Forgivable Promissory Note Payable Forgiveness	-	(800,000)
(Increase) Decrease in:		
Accounts Receivable	1,048,506	(1,203,569)
Grants and Contracts Receivable	(1,219,417)	578
Pledges Receivable	(11,881,684)	619,931
Inventory	67,834	(1,469)
Prepaid Expenses and Other Current Assets	(135,749)	(7,283)
Deposits and Other Assets	43,600	(78,853)
Increase (Decrease) in:		
Accounts Payable	610,020	273,952
Accrued Liabilities	308,193	282,527
Deferred Revenues	9,404,972	3,966,724
Lease Liabilities	(540,835)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,711,558	32,324,956
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(82,679,140)	-
Sale of Investments	38,927,500	-
Purchase of Property and Equipment	(2,918,824)	(886,667)
NET CASH USED IN INVESTING ACTIVITIES	(46,670,464)	(886,667)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Forgivable Promissory Note Payable	-	800,000
Proceeds from Paycheck Protection Program Loan	-	222,197
Payments on Bank Promissory Note Payable	(85,000)	(500,000)
Payments on Mortgage Note Payable	(73,000)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(158,000)	522,197
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(33,116,906)	31,960,486
Cash and Cash Equivalents - Beginning of Year	43,260,542	11,300,056
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 10,143,636	$ 43,260,542
CASH AND CASH EQUIVALENTS INCLUDES:		
Cash and Cash Equivalents	$ 9,869,140	$ 39,604,867
Designated Cash	-	3,000,000
Restricted Cash	274,496	655,675
TOTAL CASH AND CASH EQUIVALENTS	$ 10,143,636	$ 43,260,542

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

HOMEBOY INDUSTRIES

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2022
With Summarized Totals for the Year Ended December 31, 2021

		2022		2021
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest Paid in Cash (Net of Amounts Capitalized)	$	104,615	$	22,232
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Acquisition of Property and Equipment with Mortgage Note Payable	$	3,360,000	$	-
Acquisition of Property and Equipment with Forgivable City of LA Promissory Note		354,672		-
Mortgage Note Payable Refinanced with Line of Credit		3,287,000		-
Non-Cash Impact of Implementation of Accounting Standards Update No. 2016-02, *Leases (Topic 842):*				
Increase in Right-of-Use Lease Assets		2,713,826		-
Increase in Lease Liabilities		2,713,826		-

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

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 (i.e., trainees and community clients) who seek Homeboy Industries' services have experienced complex trauma and are desperate to break a cycle of violence and incarceration. Homeboy Industries meets the needs of trainees via a paid, 18-month Job Training program (which includes intensive case management, and wrap-around support services focused on healing and culminates with work skills and training in the social enterprises). Free services that are open to all community clients: 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. Trainee progress is closely monitored by our case managers. 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, for instance, 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.

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, restorative justice events, 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 clients.

- 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.

NOTE 1 - ORGANIZATION (continued)

Social Enterprises

Homeboy Industries operates the following businesses in furtherance of its mission:

- 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 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 that 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 and Salsa is a licensing agreement that generates monthly revenue based on sales of chips, salsa, and guacamole.

NOTE 1 - ORGANIZATION (continued)

Social Enterprises (continued)

- Homeboy Cafe and Bakery at LAX has two locations in terminal 3 and 4 at Los Angeles International Airport. The facilities are operated by the license partner Areas USA LAX, LLC. The airport restaurants offer sandwiches, beverages and baked goods to travelers at the airport. Homeboy Industries receives a monthly license fee based on the sales at the restaurant.

- Feed Hope was created to respond to the Covid-19 pandemic that expanded the need for packaged meals for senior citizens and the underserved communities. Today, Feed Hope serves prepared meals at the MLK Behavioral Health Center and other health centers, offers catering services, and prepares grab-n-go meals.

Homeboy Recycling (HBR) is a California Social Purpose Corporation that is 75% owned by Homeboy Industries. HBR offers nationwide service for the proper disposal and management of IT assets while creating jobs for people facing systemic barriers to employment. As one of the few R2 (Responsible Recycling) and B Corp certified companies in the world, HBR is committed to the highest possible standards for electronics reuse, e-waste recycling, and the destruction of sensitive data.

Homeboy Services Inc. was created as a California Nonprofit Public Benefit Corporation. The purpose of the entity is to award grants to Homeboy Trainees during the 18-month training program. Homeboy Industries is the sole corporate member of Homeboy Services, Inc.

Homeboy Ventures & Jobs Fund, LLC was created as a California Limited Liability Company for the purpose of 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. Homeboy Industries is the sole member of Homeboy Ventures & Jobs Fund, LLC.

Homeboy Arts Academy, Inc. was created 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.

NOTE 1 - ORGANIZATION (continued)

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

Homeboy Industries analyzes the results of operations utilizing adjusted operating income, which is a non-GAAP financial measure. Adjusted operating income consists of the change in net assets before interest and depreciation expenses. Homeboy Industries believes this measure, as well as the change in net assets, operating activities and cash flows from operations provide donors and others with useful information to compare and understand Homeboy Industries' underlying business trends and performance. Adjusted operating income should be considered a supplement to, and not a substitute for, financial performance measures determined in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In addition, since this non-GAAP measure is not determined in accordance with U.S. GAAP, it is susceptible to varying calculations and may not be comparable as presented to other similarly titled measures of other entities. A reconciliation of the change in net assets to adjusted operating income for the year ended December 31, 2022 is as follows:

Change in Net Assets	$ 13,111,187
Adjust for:	
Interest Expense	104,615
Depreciation Expense	849,793
ADJUSTED OPERATING INCOME	$ 14,065,595

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. The Board of Directors designated, from net assets without donor restrictions, certain funds for a Board designated endowment fund.

- **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 consolidated 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, 2022, 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.

At December 31, 2022, Homeboy Industries had restricted cash totaling $274,496 held in a reserve account for restricted contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2022, 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 that totals $142,031 at December 31, 2022.

(f) INVENTORY

Inventory consists of ingredients for food related social enterprises 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 had conditional grants of $25,100,000 at December 31, 2022.

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.

At December 31, 2022, Homeboy Industries believed all pledges receivable were collectible, and, as a result, no allowance for doubtful pledges was established.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. Deferred revenues as of December 31, 2022 totaled $15,020,963.

(h) INVESTMENTS

Investments in equity and debt securities with readily determinable fair values are reported at fair value. Investments in alternative investments, for which there is no readily available market, are valued by Homeboy Industries using methods that management believes provide a reasonable estimate of fair value. These methods include initial due diligence and ongoing monitoring of investment funds by management and outside consultants.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Interest and dividend income is recorded when earned. Gains or losses (including investments bought, sold, and held during the year), and interest and dividend income are reflected in the consolidated statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulations or by law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Because of the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Long-term investments consist of funds designated by management for long term investment needs and board designated endowment funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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 $2,500, 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.

(j) GOODWILL

The excess of the purchase price over the fair value of identifiable assets acquired, net of liabilities assumed, is recorded as goodwill. Goodwill is not amortized. Homeboy Industries annually assesses goodwill for impairment, or more frequently if events and circumstances indicate that goodwill might be impaired. No impairment losses were recognized during the year ended December 31, 2022.

(k) 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, 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Homeboy Industries recognizes and measures its leases in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. Homeboy Industries is a lessee in certain operating leases for facilities (see Note 11). Homeboy Industries determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. Homeboy Industries recognizes a right-of-use (ROU) liability and a ROU asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise Homeboy Industries uses its incremental borrowing rate. The implicit rates of Homeboy Industries' leases are not readily determinable and accordingly, Homeboy Industries uses the incremental borrowing rate based on the information available at the commencement date for all leases. Homeboy Industries' incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

The ROU asset is subsequently measured throughout the lease term at the amount of the re-measured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

Homeboy Industries has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that Homeboy Industries is reasonably certain to exercise. Homeboy Industries recognizes lease cost associated with short-term leases on a straight-line basis over the lease term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) PAYCHECK PROTECTION PROGRAM (PPP) LOANS

Management has elected to account for the forgivable loans received under the Paycheck Protection Program (PPP) provisions of the 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.

(n) REVENUE RECOGNITION

Homeboy Industries' revenues from contracts with customers are derived from sales earned from its various social enterprises 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. There were no contract assets or liabilities at January 1 or December 31, 2022.

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.

(o) IN-KIND CONTRIBUTIONS

In-kind contributions are recorded at their estimated fair value in the period received and expensed when utilized. In-kind contributions are valued based upon estimates of fair market value that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. In-kind contributions are not sold but rather used for Homeboy Industries' operations.

In-kind contributions that consist of donated services are recognized at fair value if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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 FASB ASC Topic No. 740, *Uncertainty in Income Taxes*, Homeboy Industries recognizes the impact of tax positions in the consolidated 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, 2022, 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.

(q) 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 direct expenses to allocate indirect costs.

(r) 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.

(s) COMPARATIVE TOTALS

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements of Homeboy Industries for the year ended December 31, 2021, from which the summarized information was derived.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) RECLASSIFICATIONS

Certain reclassifications have been made to the 2021 summarized comparative information to conform to the 2022 consolidated financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

(u) MINORITY INTEREST

Homeboy Recycling is 25% owned by a nonaffiliated third party. This third party shares in the change in net assets (positive or negative) of Homeboy Recycling on a pro rata basis. This third party has limited rights and privileges but does not have the ability to influence the operations of Homeboy Recycling. This third party does not share in the changes in net assets from any of the other consolidated entities or have any other significant rights or privileges.

(v) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, 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 statements of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provide additional information about the amounts recorded in the financial statements. Homeboy Industries adopted ASC 842 with a date of the initial application of January 1, 2022 using the optional transition method which allows entities to continue to apply expedients on a consistent basis permitting entities not to reassess historical accounting guidance in the comparative periods presented in the year of adoption.

Homeboy Industries elected to apply the following package of practical expedients: (i) whether any expired or existing contracts are or contain a lease; (ii) lease classification for any expired or existing leases and (iii) whether initial direct costs for any expired or existing leases qualify for capitalization under the amended guidance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) NEW ACCOUNTING PRONOUNCEMENTS (continued)

The impact of adopting the amended guidance primarily relates to the recognition of lease assets and lease liabilities on the consolidated statement of financial position for all leases previously classified as operating leases. Homeboy Industries recognized $2,713,826 of ROU assets and related ROU liabilities as of January 1, 2022 for contracts that are classified as operating leases. Leases with an initial term of 12 months or less have not been recorded on the consolidated statement of financial position. There was no other material impact on Homeboy Industries' consolidated financial statements. Refer to Note 2(l) and Note 11 for disclosures related to Homeboy Industries accounting for leases.

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss impairment methodology previously used for certain financial instruments with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates in their measurement. The guidance has subsequently been amended through a series of targeted ASUs. For Homeboy Industries the ASU and the subsequent amendments will be effective for the year ending December 31, 2023, and is expected to be adopted using the modified-retrospective approach.

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 in-kind contributions) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. Homeboy Industries implemented the ASU during the year ending December 31, 2022. The presentation and disclosures of in-kind contributions have been enhanced in accordance with the standard; however, there was no significant impact on Homeboy Industries' consolidated financial statements as a result of the implementation of this standard.

(w) SUBSEQUENT EVENTS

Homeboy Industries has evaluated events and transactions occurring subsequent to the consolidated statement of financial position date of December 31, 2022, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through July 27, 2023, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as noted in Note 9.

NOTE 3 - FAIR VALUE MEASUREMENTS

Homeboy Industries has implemented the accounting standard for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize observable data points such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

The following table presents information about Homeboy Industries' assets that are measured at fair value on a recurring basis at December 31, 2022 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements Using			
	Year Ended December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Values per Share or Its Equivalent (NAV)
Cash and Cash Equivalents	$ 10,551,285	$ 10,551,285	$ -	$ -	$ -
Mutual Funds					
Fixed Income	20,659,986	20,659,986	-	-	-
Equities	11,851,668	11,851,668	-	-	-
Alternative Investments	7,500	-	-	-	7,500
TOTAL	$ 43,070,439	$ 43,062,939	$ -	$ -	$ 7,500

The fair values of investments within Level 1 were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The fair value of the alternative investment in a private equity fund is based on the net asset value per share (NAV) of units held by Homeboy Industries. This investment (a) does not have a readily determinable fair value and (b) prepares their financial statements consistent with the measurement principles of an investment company or has the attributes of an investment company. Investments in private equity are illiquid and there were no unfunded commitments in relation to such investments at December 31, 2022.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2022, are due to be received as follows:

Due within One Year	$ 4,435,712
Due in Two to Five Years	8,656,398
GROSS PLEDGES RECEIVABLE	13,092,110
Less: Present Value Discount (3%)	(816,869)
PLEDGES RECEIVABLE (NET)	$ 12,275,241

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2022, consist of the following:

Buildings	$ 11,234,067
Machinery and Equipment	2,915,061
Land	4,011,588
Furniture and Equipment	1,083,826
Vehicles	968,639
Leasehold Improvements	1,814,682
Computers and Software	586,011
Construction in Progress	1,699,907
TOTAL	24,313,781
Less: Accumulated Depreciation	(9,645,850)
PROPERTY AND EQUIPMENT (NET)	$ 14,667,931

Depreciation expense for the year ended December 31, 2022, was $849,793. The estimated cost to complete the construction in progress project for the rehabilitation building are estimated at $6 million and for the parking lot renovation $245,000. The projects are expected to be completed by end of 2024 and end of 2023, respectively.

NOTE 6 - LINES OF CREDIT

In July 2021, Homeboy Industries entered into a revolving line of credit (the line) with a bank. The maturity date of the line is August 1, 2024 and bears interest at the higher of (1) 2.5% per annum or (2) the bank's prime rate plus 0.25%. At December 31, 2022, the bank's prime rate was 7.5%. The line is collateralized with a deed of trust on Homeboy Industries' Bruno Street property. At December 31, 2022, there was no balance outstanding on the line and the total amount of $2,000,000 was available.

In January 2022, Homeboy Industries entered into a $3.4 million mortgage note payable agreement to acquire a building in Los Angeles. The loan bore interest at 3% per annum and was set to mature in January 2023. In October 2022, prior to the loan's maturity, Homeboy Industries refinanced the mortgage note payable with a new revolving line of credit. The revolving line is due on demand. The line bears interest at one-month SOFR plus an applicable margin of equal to 0.11448% per year and permits borrowings up to $8,250,000. The line is collateralized by investment securities held by Homeboy Industries. At December 31, 2022, one-month SOFR was 4.06% and the outstanding balance on the loan was $3,287,000. The total amount available as of December 31, 2022 on the revolving line was $4,963,000.

NOTE 7 - PAYCHECK PROTECTION PROGRAM LOAN

In April 2020, Homeboy Recycling received a PPP loan in the amount of $222,197. The PPP loan, administered by the Small Business Administration (SBA), bore interest at a fixed rate of 1.0% per annum, had the term of five years, and was unsecured and guaranteed by the SBA. Interest accrued on the loan beginning with the initial disbursement; however, payments of principal and interest were deferred until the amount of forgiveness applied for by the borrower was approved by the SBA.

During the year ended December 31, 2022, Homeboy Recycling received full forgiveness and was released from all obligations under the PPP loan. Consequently, PPP loan forgiveness income totaling $222,197 was included in other income on the consolidated statement of activities during the year ended December 31, 2022.

NOTE 8 - FORGIVABLE 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 that are drawn down by Homeboy Industries. Each tranche payment is conditional based on the previous tranche being forgiven. Each tranche will be forgiven when Homeboy Industries satisfies the loan forgiveness achievement metrics noted at each tranche level. In February 2021, Homeboy Industries received the second tranche, for which forgiveness was not achieved as of December 31, 2022 and $800,000 related to this tranche remains as a forgivable promissory note payable.

NOTE 9 - FORGIVABLE CITY OF LA PROMISSORY NOTE

During the year ended December 31, 2022, Homeboy Industries entered into a forgivable note payable agreement with the City of Los Angeles in the amount of $405,106 to reimburse Homeboy Industries for certain project construction costs. The agreement was amended subsequent to year end to a total amount of $805,106. The term of the note is for seven and a half years ending June 30, 2030. The loan is secured by a Deed of Trust, Assignment of Rents and Security, and will be forgiven in $100,000 increments per year commencing upon project completion. As of December 31, 2022 the balance outstanding on the forgivable note payable was $354,672.

NOTE 10 - 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 approved $100,000 to be contributed to the plan for the year ended December 31, 2022.

NOTE 11 - LEASES

Homeboy Industries leases various facilities from a related party (refer to Note 16) and third parties which are accounted for as operating leases. The leases expire at various dates ranging from October 2024 through June 2027. Some of the leases have renewal options of up to 5 years. The exercise of lease renewal options is at Homeboy Industries' discretion. Homeboy Industries has chosen to include the renewal terms in the calculation of the ROU assets and related ROU liabilities when such renewal options are reasonably certain of being exercised. Leases with an initial term of 12 months or less, which are not expected to be renewed beyond one year, are not recorded on the consolidated statement of financial position and are recognized as lease expense on a straight-line basis over the lease term. As of December 31, 2022, Homeboy Industries recognized $2,097,350 of ROU assets and $2,172,991 of related ROU liabilities for contracts that are classified as operating leases. Lease cost for the year ended December 21, 2022 was $688,980.

As of December 31, 2022, the weighted average remaining lease terms of operating leases are approximately 3.5 years. The weighted average discount rates used to determine the ROU liabilities as of December 31, 2022 for the operating leases were approximately 3.0%.

NOTE 11 - LEASES (continued)

Maturities of lease liabilities as of December 31, 2022 are as follows:

Years Ending December 31	Related Party	Third-Party	Total
2023	$ 124,320	$ 572,832	$ 697,152
2024	124,320	554,491	678,811
2025	124,320	377,106	501,426
2026	-	349,712	349,712
2027	-	60,873	60,873
Total Rent Payments	372,960	1,915,014	2,287,974
Less: Imputed Interest			(114,983)
TOTAL			2,172,991
Less: Current Portion			(642,387)
LONG-TERM LEASE LIABILITIES			$ 1,530,604

NOTE 12 - COMMITMENTS AND CONTINGENCIES

(a) 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.

(b) 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 13 - IN-KIND CONTRIBUTIONS

In-kind contributions totaled $459,866 during the year ended December 31, 2022 and consisted of professional services. Such in-kind contributions were measured using current hourly rates for similar services. There are no restrictions on the in-kinds received from donors, and expenses associated with these in-kind donations are used toward both program services and support services and are allocated in line with the method used for other expenses reported on the consolidated statement of functional expenses.

NOTE 14 - BOARD DESIGNATED ENDOWMENT

The Board of Directors of Homeboy Industries has established a Board designated endowment. The intention of the endowment is that the principal will be preserved, and inflation protected, to provide for a continuous flow of annual distributions to support the operations of Homeboy Industries. However, in the event of a significant event that could not have prudently been predicted by the fiduciaries or in case of extreme opportunities or emergencies, the Board may elect to draw on the principal of the fund.

The primary long-term financial objective for this endowment is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. The endowment is managed to optimize the long run total rate of return on invested assets, assuming prudent level of risk.

The spending policy has been designed to distribute a specific payout rate of the endowment base to support Homeboy Industries' programs. Such a policy allows a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operation by the endowment. In addition, this policy minimizes the probability of invading the principal over the long-term. The spending rate is 4% of the fund's average balance for six trailing quarters.

Board designated endowment balance totaled $2,290,073 at December 31, 2022.

	Net Assets Without Donor Restrictions
Changes in Endowment Net Assets for the Year Ended December 31, 2022	
Endowment Net Assets - Beginning of Year	$ -
Additions	2,287,500
Endowment Assets Appropriated for Expenditure	-
Investment Return (Net)	2,573
ENDOWMENT NET ASSETS - END OF YEAR	$ 2,290,073

NOTE 15 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2022, consist of the following:

Time Restricted	$ 1,375,265
Buildings and Facilities	10,877,565
Education	4,132,502
Social Enterprise	1,468,689
Art Academy	1,330,071
Mental Health	572,736
Venture and Jobs	503,300
Other Programs	465,000
Job Training	70,695
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	$ 20,795,823

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, 2022:

Expiration of Specified Time Period:	
Pledges Receivable Not Available Until Due	$ 752,000
Satisfaction of Purpose Restrictions:	
Other Programs	1,125,000
Mental Health	1,041,429
Job Training	1,031,000
Art Academy	436,855
Education	374,868
Social Enterprises	250,000
Venture and Jobs	115,192
Buildings and Facilities	34,519
TOTAL NET ASSETS RELEASES FROM DONOR RESTRICTIONS	$ 5,160,863

NOTE 16 - RELATED PARTY TRANSACTIONS

Homeboy Industries leased its former Silkscreen program facility from a key employee (see Note 11). Rent paid during the year ended December 31, 2022, to this key employee was $68,429. Additionally, the Silkscreen program directors' family members work in the Silkscreen program in accounting and sales.

NOTE 17 - DEFERRED TAX ASSET

Homeboy Recycling has a deferred tax asset of $551,000 due to net operating loss carryforwards. At December 31, 2022, 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, 2022, and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the consolidated statement of financial position are summarized in the following table:

Financial Assets at December 31, 2022:	
Cash and Cash Equivalents	$ 9,869,140
Short-Term Investments	24,925,703
Accounts Receivable (Net)	636,530
Grants and Contracts Receivable	1,955,106
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	$ 37,386,479

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. 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, marketable debt and equity securities, accounts and pledges receivables. Additionally, Homeboy Industries had Board designated net assets without donor restrictions that, while Homeboy Industries does not intend to spend these for purposes other than those identified, could be made available for current operations if necessary. Homeboy Industries also has access to two lines of credit with a total amount of $6,963,000 available at December 31, 2022. 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.