Openhouse *and* Openhouse Laguna LLC

Combined
Financial Statements

For the Years Ended
June 30, 2023 and 2022
With Independent Auditors’ Report Thereon

Introduction

The purpose of this section, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), is to provide a narrative explanation of our financial statements that enables individuals to better understand our financial statements by providing a context by which our financial information may be analyzed.

MD&A should be read in conjunction with the Combined Financial Statements and includes the results of the Organization through the year ended June 30, 2023. Certain historical information may also be presented to evaluate trends of current results.

Mission

Openhouse (the "Organization") is a public benefit organization exempt from federal income taxation under Section 501(c)(3). Our IRS identification number is 94-3337955.

Openhouse enables San Francisco Bay Area LGBTQ+ seniors to overcome the unique challenges they face as they age by providing housing, direct services and community programs. Founded in 1998, Openhouse works to center the voices and experiences of LGBTQ+ older adults by providing opportunities to make social connections and build community.

Openhouse is committed to creating a safe environment to encourage and support community members to share our diverse perspectives and identities to foster dynamic community engagement.

We recognize and affirm that LGBTQ+ older adults live at intersections of race, ethnicity, class, culture, HIV status, sexual orientation, gender, gender identity and expression, spirituality and ability. At Openhouse, everyone is a community member.

Strategies and Trends

All year (FY23), Openhouse celebrated its 25th Anniversary of serving LGBTQ+ seniors with housing, housing assistance, social services and community engagement activities. We also rejoiced in a second year of emerging from the COVID pandemic and returning to more on-site programing. Openhouse continued to bring more LGBTQ+ seniors back onsite for a variety of programs while maintaining virtual experiences for most life-long learning classes and 11 emotional support groups serving 329 seniors in FY23. Group gatherings expanded, but full return of all events and activities is expected to roll out gradually as we enter the fourth year of the pandemic. We served a total of 3,206 community members in FY23, making a significant impact in the lives of LGBTQ+ seniors. There were 1,672 hours of programming to support and engage our community members, and an additional 1,466 hours of intergenerational programs attended by 174 participants. A total of 1,207 LGBTQ+ seniors received housing and resource navigation, including 210 housing workshop participants. San Francisco has more than 25,000 LGBTQ+ seniors 60 years or older, and 60% of them live alone. Staff and volunteers made 1,124 Friendly Visitor calls in FY23 to fight deadly social isolation and loneliness, and there were 78 active pairs of older and younger community members in the year's Friendly Visitor Program. One of those pairs was featured in a video published by The San Francisco Standard, a relatively new on-line daily newspaper. The publicity generated a record number of views and shares on our social media channels and inquiries about our volunteer opportunities. In fact, 7,315 volunteer hours in FY23 was a 50% increase over the previous year. Our force of 462 volunteers contributed an equivalent value of $273,000 in FY23, demonstrating the critical need for volunteers in fulfilling our mission.

Strategies and Trends *(continued)*
Rainbow Lunch, our most popular social meal program, is back to capacity, and by popular demand we have expanded our Transgender/Gender Non-Conforming and Intergenerational Programs. At our 2023 Spring Fling Brunch and Tea Dance, we broke all previous fundraising records, and were proud to welcome U.S. House of Representatives Speaker Emerita Nancy Pelosi to accept the Adelman-Gurevitch Founders Award. On the housing front, Openhouse anchored a once in a decade citywide affordable housing opportunity, assisting almost 200 applicants during a three-day rush to secure a place in the lottery for 10 housing properties across the City.

We continue to offer our Community to You (C2Y) Program, providing home delivered groceries, essential items, and gift bags/baskets during special occasions such as holidays and LGBT Pride Month in June. We delivered 4,160 grocery bags in FY23, that's 20 tons of fresh food going to seniors who still struggle to do their own shopping. A new addition to the Home Delivered Groceries Program was the use of Waymo's autonomous driving vehicles for volunteers making the deliveries. Our community partnership with Waymo has expanded significantly over the past year, including financial support and in-kind donations as well as employee volunteers. At Openhouse, we believe we have a unique approach in providing a safe and welcoming place for LGBTQ+ seniors to build the community in which they want to live and age with dignity, diversity, and support from their chosen family. This past year, we heard our community when they told us the COVID pandemic triggered anxiety and depression from the deadly AIDS era, and what they needed more than anything was affordable mental health care. Now, for the first time, we are offering 10 weeks of free therapy sessions with a Licensed Clinical Social Worker on staff. Our Mental Health Services Program continues to grow and we plan to add a peer-to-peer counseling component to help program participants stay on their individualized care plans toward holistic health and wellness.

Openhouse took a big step toward increased advocacy for LGBTQ+ seniors in FY23, acquiring funding for two major initiatives that will take the Openhouse service model beyond the San Francisco Bay area. Firstly, our training program is getting a major refresh and will be offered soon as an online curriculum to create positive impact beyond the Bay area. Much of the work on this on-line training program was completed in FY23 with the launch expected in January 2024. A full syllabus of interactive learning, the Openhouse online university even offers virtual interventions for providers needing immediate consultation to de-escalate issues caused by cultural clumsiness or blatant malpractice. Recognizing that the state has no baseline data on the aging experience of our community, Openhouse is leading a partnership for California's first statewide LGBTQ+ aging study. The joint research on LGBTQ+ Aging in California is being conducted by Openhouse and researchers from CITRIS Health at UC Berkeley and UC San Francisco. The California Department of Aging is providing funding for the study that aims to explore and understand the unique experiences of aging LGBTQ+ Californians while focusing on economic and social well-being, mental and cognitive health, and physical health. And, finally, next year we begin construction, with our partner Mercy Housing, on a new affordable development, a 187-unit apartment building at the gateway to the Castro District. A senior Filipina artist joined the architectural team in FY23 to plan a major installation facing east on Market Street. At 15 stories, the Openhouse Community at 1939 Market Street will be the tallest high-rise building along the LGBTQ+ Castro Cultural Corridor.

Strategies and Trends *(continued)*

Our organizational structure remained the same in FY23 with three major service umbrellas led by three directors: Community Support Services (CSS), Community Engagement Programs (CEP), and Training & Transformation (TAT). The first two are direct services to LGBTQ+ seniors, while Training and Transformation directs cultural humility training for professionals working with LGBTQ+ older adults in the government, non-profit and corporate sectors.

Governance

Our Board of Directors currently is comprised of 15 members, including six new board members, all of whom are independent. The Executive Director Kathleen Sullivan, Ph.D. is an ex officio member of the board. The Organization's business is conducted by its employees, managers and officers, under the direction of the Executive Director. Various Board Committees and the full Board meets monthly (which were hybrid meetings in FY23 with some attending in person and others virtually). We hold an annual retreat between board and the senior management team for strategic planning.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Openhouse

Opinion
We have audited the accompanying combined financial statements of Openhouse (a nonprofit organization) and Openhouse Laguna LLC, which comprise the combined statement of financial position as of June 30, 2023, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Openhouse and Openhouse Laguna LLC as of June 30, 2023, and the changes in net assets and its 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of Openhouse and Openhouse Laguna LLC 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 Combined Financial Statements
Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Openhouse and Openhouse Laguna LLC's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements
Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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, including omissions, 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 combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined 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 Openhouse and Openhouse Laguna LLC's 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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Openhouse and Openhouse Laguna LLC's 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 Openhouse and Openhouse Laguna LLC's June 30, 2022 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated December 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Regalia & Associates

November 10, 2023
Danville, California

Combined Statements of Financial Position
June 30, 2023 and 2022

ASSETS

	2023	2022
Current assets:		
Cash and cash equivalents	**$ 2,345,712**	$ 2,805,797
Investments	**3,030,959**	2,001,292
Accounts receivable	**37,286**	23,119
Grants, contributions, and pledges receivable	**567,469**	443,168
Contributed rent receivable, current portion	**92,347**	92,347
Prepaid expenses and other current assets	**25,919**	16,551
Total current assets	**6,099,692**	5,382,274
Noncurrent assets:		
Investment in 55 Laguna, LP	**75,311**	75,367
Investment in Laguna Senior Housing, LP	**(12,601)**	(12,500)
Property and equipment, net	**3,551,191**	3,899,421
Right of use asset - premises	**167,679**	200,033
Contributed rent receivable (net), noncurrent portion	**419,228**	484,222
Total noncurrent assets	**4,200,808**	4,646,543
	$ 10,300,500	$ 10,028,817

LIABILITIES AND NET ASSETS

	2023	2022
Current liabilities:		
Accounts payable and accrued liabilities	**$ 272,841**	$ 253,154
Accrued payroll liabilities	**142,871**	128,590
Lease payable - current portion	**34,133**	31,867
Total current liabilities	**449,845**	413,611
Lease payable - noncurrent portion	**139,125**	173,259
Total liabilities	**588,970**	586,870
Net assets:		
Without donor restrictions:		
Board-designated operating reserve	**2,671,215**	2,060,229
Undesignated	**6,192,940**	6,088,448
With donor restrictions	**847,375**	1,293,270
Total net assets	**9,711,530**	9,441,947
	$ 10,300,500	$ 10,028,817

Combined Statement of Activities and Changes in Net Assets
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets without donor restrictions:			
Support and revenue:			
Grants and contributions:			
Individual and corporate contributions	$ 1,921,074	$ -	**$ 1,921,074**
Foundation grants	319,000	135,000	**454,000**
Government grants	2,116,064	-	**2,116,064**
Total grants and contributions	4,356,138	135,000	**4,491,138**
Special events:			
Contributions	84,322	-	**84,322**
Special event revenues	153,829	-	**153,829**
Direct cost of benefit to donors	(42,900)	-	**(42,900)**
Other event costs	(96,476)	-	**(96,476)**
Net revenue from special events	98,775	-	**98,775**
Other income:			
Net income from investments in:			
55 Laguna, LP	(56)	-	**(56)**
Laguna Senior Housing, LP	(101)	-	**(101)**
Developer fees	178,201	-	**178,201**
Program service revenue	191,117	-	**191,117**
Interest income	77,014	-	**77,014**
Other income	34,582	-	**34,582**
Realized and unrealized gains on investments	13,610	-	**13,610**
Total other income	494,367	-	**494,367**
Net assets released from restrictions	608,247	(608,247)	**-**
Change in unamortized discount	-	27,352	**27,352**
Total support and revenue	5,557,527	(445,895)	**5,111,632**
Expenses:			
Program services	3,664,377	-	**3,664,377**
Management and general	490,345	-	**490,345**
Fundraising	687,327	-	**687,327**
Total expenses	4,842,049	-	**4,842,049**
Increase (decrease) in net assets	715,478	(445,895)	**269,583**
Net assets at beginning of year	8,148,677	1,293,270	**9,441,947**
Net assets at end of year	$ 8,864,155	$ 847,375	**$ 9,711,530**

Combined Statement of Activities and Changes in Net Assets
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets without donor restrictions:			
Support and revenue:			
Grants and contributions:			
Individual and corporate contributions	$ 943,788	$ 15,000	$ 958,788
Foundation grants	195,850	1,585,000	1,780,850
Government grants	1,851,779	-	1,851,779
Total grants and contributions	2,991,417	1,600,000	4,591,417
Special events:			
Contributions	109,594	-	109,594
Special event revenues	112,574	-	112,574
Direct cost of benefit to donors	(39,380)	-	(39,380)
Other event costs	(109,037)	-	(109,037)
Net revenue from special events	73,751	-	73,751
Other income:			
Net loss from investments in:			
55 Laguna, LP	(55)	-	(55)
Laguna Senior Housing, LP	(98)	-	(98)
Developer fees	323,808	-	323,808
Program service revenue	191,907	-	191,907
Interest income	1,397	-	1,397
Other income	15,233	-	15,233
Total other income	532,192	-	532,192
Net assets released from restrictions	1,117,219	(1,117,219)	-
Change in unamortized discount	-	30,515	30,515
Total support and revenue	4,714,579	513,296	5,227,875
Expenses:			
Program services	3,653,569	-	3,653,569
Management and general	414,644	-	414,644
Fundraising	543,385	-	543,385
Total expenses	4,611,598	-	4,611,598
Increase in net assets before loss on disposal of assets:	102,981	513,296	616,277
Loss on disposal of assets	(43,738)	-	(43,738)
Total increase in net assets	59,243	513,296	572,539
Net assets at beginning of year	8,089,434	779,974	8,869,408
Net assets at end of year	$ 8,148,677	$ 1,293,270	$ 9,441,947

Combined Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating activities:		
Increase in net assets	**$ 269,583**	$ 572,539
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	**348,230**	606,120
Change in unamortized discount	**(27,352)**	(30,515)
Loss on disposal of fixed assets	**-**	43,738
Allocated losses of investments in 55 Laguna, L.P. and Laguna Senior Housing, L.P.	**157**	153
Changes in:		
Accounts receivable	**(14,167)**	277,597
Grants, contributions, and pledges receivable	**(124,301)**	(25,639)
Prepaid expenses and other current assets	**(9,368)**	(4,580)
Contributed rent receivable	**92,346**	92,346
Right of use asset - premises	**32,354**	30,818
Accounts payable and accrued liabilities	**19,687**	(291,612)
Accrued payroll liabilities	**14,281**	37,310
Cash provided by operating activities	**601,450**	1,308,275
		-
Investing activities:		
Acquisition of investments	**(6,147,165)**	(2,001,292)
Proceeds from sale and maturity of investments	**5,117,498**	-
Cash used for investing activities	**(1,029,667)**	(2,001,292)
Financing activities:		
Principal payments applied to lease payable	**(31,868)**	(29,721)
Cash used for financing activities	**(31,868)**	(29,721)
Decrease in cash and cash equivalents	**(460,085)**	(722,738)
Cash and cash equivalents at beginning of year	**2,805,797**	3,528,535
Cash and cash equivalents at end of year	**$ 2,345,712**	$ 2,805,797
Additional cash flow information:		
Interest paid	**$ 29**	$ -
State registration taxes	**$ 400**	$ 150

Combined Statement of Functional Expenses
Year Ended June 30, 2023
(with Summarized Financial Information for the Year Ended June 30, 2022)

	Program Services					Supporting Services			
	Community Engagement Programs	Community Support Services	Strategic Partnerships	Community Day Support	Total Program	Management and General	Fund-Raising	2023 Total	2022 Total
Expenses:									
Salaries	$ 747,456	$ 551,656	$ 208,644	$ 11,375	$ 1,519,131	$ 288,671	$ 479,846	**$ 2,287,648**	$ 1,977,864
Payroll taxes	61,080	44,404	16,794	-	122,278	23,236	38,624	**184,138**	162,312
Employee benefits and related costs	105,120	76,003	29,009	-	210,132	39,193	65,064	**314,389**	241,561
Total personnel costs	913,656	672,063	254,447	11,375	1,851,541	351,100	583,534	**2,786,175**	2,381,737
Professional fees	306,545	53,190	12,406	1,261	373,402	58,673	34,625	**466,700**	545,155
Program and other events	103,870	9,964	3,803	1,037	118,674	2,727	7,063	**128,464**	95,342
Occupancy	225,612	27,495	24,425	34,610	312,142	1,225	2,546	**315,913**	284,757
Construction related costs	445,280	-	-	-	445,280	-	-	**445,280**	389,417
Telephone and internet	18,680	9,612	3,516	1,537	33,345	2,169	4,123	**39,637**	32,222
Supplies and office	29,207	22,376	16,205	693	68,481	7,078	12,610	**88,169**	103,760
Printing, copying and graphic design	43,745	4,754	2,220	-	50,719	1,387	24,067	**76,173**	63,672
Postage	3,737	799	193	-	4,729	217	1,301	**6,247**	6,058
Travel	39,641	8,197	8,825	-	56,663	5,168	4,269	**66,100**	24,915
Insurance	-	232	-	2,330	2,562	52,311	-	**54,873**	45,654
Staff and board development	2,310	3,675	457	-	6,442	373	597	**7,412**	13,722
Depreciation and amortization	307,519	16,937	7,614	-	332,070	6,216	9,944	**348,230**	606,120
Bank and credit card fees	203	-	-	-	203	1,557	1,964	**3,724**	3,094
Bad debt	-	-	-	-	-	-	-	**-**	2,500
Miscellaneous	7,770	354	-	-	8,124	144	684	**8,952**	13,473
	$ 2,447,775	**$ 829,648**	**$ 334,111**	**$ 52,843**	**$ 3,664,377**	**$ 490,345**	**$ 687,327**	**$ 4,842,049**	$ 4,611,598

Notes to Combined Financial Statements
June 30, 2023 and 2022

1. Organization and Nature of Activities

Founded in 1998, Openhouse is the only agency in San Francisco uniquely committed to serving LGBTQ+ seniors and older adults, a population currently estimated to number 20,000 and expected to reach 30,000 by the end of the next decade. Over the last twenty years, Openhouse has grown from a grassroots organization into a multi-service professional agency, trusted by the community we serve, and known and respected by leaders and professionals throughout the city, state, and nation. Openhouse has led the way in raising awareness of the needs of LGBTQ+ older adults, the challenges they face as they age, and their vital role in the city's history, and social and cultural life.

The mission of Openhouse is to enable San Francisco's LGBTQ+ seniors to overcome the distinct challenges they face, by providing housing, programming, and community-building that reduce isolation and improve health, well-being, and economic and housing security. Our primary goals are for every LGBTQ+ senior to live in safe and stable housing that is affordable to them; be welcomed and well-served by care providers through each stage of life; and be engaged with and supported by communities of their choice.

2. Summary of Significant Accounting Policies

Basis of Presentation – The combined financial statements of Openhouse have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP") and reflect the financial results of Openhouse and Openhouse Laguna LLC (a California limited liability of which Openhouse is the managing member).

Measure of Operations – The combined statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Openhouse's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

Comparative Financial Information - The accompanying combined financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional category. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with our audited combined financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Use of Estimates – The preparation of combined financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

2. Summary of Significant Accounting Policies *(continued)*

Cash and Cash Equivalents – Cash consists of all monies on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Concentrations of Credit Risk – Financial instruments that potentially subject Openhouse to concentrations of credit risk consist principally of cash and cash equivalents and deposits. Openhouse maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Openhouse manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

To date, Openhouse has not experienced losses in any of these accounts. Credit risk associated with grants, pledges and accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of Openhouse's mission.

Grants, Contributions, and Pledges Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization, if applicable, is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Property and Equipment – Openhouse's policy is to record acquisitions of property and equipment at cost or, if donated, at fair market value on the date of donation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets.

Costs of maintenance and repairs are expensed currently. Openhouse reviews the carrying values of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition.

Contributions of Nonfinancial Assets – Contributed services and costs are reflected at the fair value of the contribution received in accordance with *ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the combined financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

2. Summary of Significant Accounting Policies *(continued)*

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the combined statements of activities and changes in net assets in accordance with the requirements of *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,* which requires Openhouse to report expenses by their natural classification. Every natural expense must be broken out into individual functional categories on an analysis of expenses by their nature and function. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (such as personnel costs, certain professional fees, program and other events, supplies, printing, copying and graphic design, and other overhead) have been allocated based on time and effort using Openhouse's payroll allocations while occupancy expenses have been allocated based on square footage percentages. Other expenses (such as certain professional fees and construction related costs) have been allocated in accordance with the specific services received.

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Openhouse groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

<u>Level 1:</u> Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

<u>Level 2:</u> Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

<u>Level 3:</u> Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

2. Summary of Significant Accounting Policies (*continued*)

Revenue and Revenue Recognition - Revenue is recognized in accordance with authoritative guidance, including *ASU 2018-08, Not-for-Profit Entities (Topic 605)* and *ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)*. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an "exchange transaction") is recognized when earned and therefore measured as services are provided.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

A portion of Openhouse's revenue is derived from cost-reimbursable state and local government grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Openhouse has incurred expenditures in compliance with specific grant provisions. Any amounts received prior to incurring qualifying expenditures are reported as conditional advances in the combined statements of financial position. Openhouse entered into cost-reimbursable grants of $1,772,201 that have not been recognized at June 30, 2023 because qualifying expenditures have not yet been incurred. Openhouse entered into cost-reimbursable grants of $2,844,300 that were not recognized at June 30, 2022 because qualifying expenditures had not yet been incurred.

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

<u>Net Assets Without Donor Restrictions</u>
Net assets without donor restrictions represent funds available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for any particular purpose (such as an operating reserve). Net assets without donor restrictions include board-designated operating reserves of $2,671,215 and $2,060,229 at June 30, 2023 and 2022, respectively. These reserves are estimates of potential future operating and program expenditures which may also include replacements to depreciated property and equipment. Such reserves are subject to ongoing review and modification by the Board of Directors.

<u>Net Assets With Donor Restrictions</u>
Net assets with donor restrictions represent funds subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

2. Summary of Significant Accounting Policies *(continued)*

Income Taxes – Openhouse has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that Openhouse continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. Openhouse may periodically receive unrelated business income requiring Openhouse to file separate tax returns under federal and state statutes. Under such conditions, Openhouse calculates and accrues the applicable taxes.

Financial statement presentation follows the recommendations of *ASC 740, Income Taxes*. Under ASC 740, Openhouse is required to report information regarding its exposure to various tax positions taken by Openhouse and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that Openhouse has adequately evaluated its current tax positions and has concluded that as of June 30, 2023 and 2022, Openhouse does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

Recent and Relevant Accounting Pronouncements – The following pronouncements represent relevant current accounting guidance applicable to nonprofit organizations:

ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern requires an organization’s management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the combined financial statements are issued (or within one year after the date that the combined financial statements are available to be issued, when applicable). As of November 10, 2023 (the date of the Independent Auditors’ Report), management has made this evaluation and has determined that Openhouse has the ability to continue as a going concern.

ASU 2016-02, Leases (Topic 842) Accounting for Leases requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. This standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the combined statements of financial position for all leases with a term longer than 12 months. Leases are required to be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statements of activities and changes in net assets.

2. Summary of Significant Accounting Policies (*continued*)

Recent and Relevant Accounting Pronouncements *(continued)* – *ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Accordingly, Openhouse has incorporated these clarifying standards within the audited combined financial statements.

ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets increases transparency around 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. The Update requires that an organization present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The Update also requires certain enhanced disclosures for contributed nonfinancial assets.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following at June 30:

	2023	2022
Noninterest-bearing accounts	**$ 98,939**	$ 1,804,754
Savings and sweep accounts	**1,993,748**	1,001,043
Money market funds	**253,025**	-
	$ 2,345,712	$ 2,805,797

Openhouse attempts to limit its credit risk associated with cash and cash equivalents by utilizing highly rated financial institutions. Funds on deposit in savings and sweep accounts bear interest at rates ranging from 1.24% to 1.30% per annum as of June 30, 2023. Interest and dividend income amounted to $77,014 and $1,397 for the years ended June 30, 2023 and 2022, respectively.

4. Liquidity

Openhouse regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. Openhouse has various sources of liquidity at its disposal, including cash and cash equivalents, the future collection of receivables, and investments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Openhouse considers all expenditures related to its ongoing work serving LGBTQ+ seniors and older adults to be general expenditures.

4. Liquidity *(continued)*

In addition to the financial assets available to meet general expenditures over the next 12 months, Openhouse operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The following table shows the total financial assets held by Openhouse as of each year-end and the amounts of those financial assets readily available within one year of the date of the combined statement of financial position to meet general expenditures:

	2023	2022
Cash and cash equivalents	**$ 2,345,712**	$ 2,805,797
Investments	**3,030,959**	2,001,292
Accounts receivable	**37,286**	23,119
Grants, contributions, and pledges receivable	**567,469**	443,168
Less: amounts not available to be used within one year:		
Net assets with donor restrictions for programs and projects	**(200,800)**	(641,701)
Board-designated operating reserves	**(2,671,215)**	(2,060,229)
Financial assets available to meet general expenditures over the next twelve months	**$ 3,109,411**	$ 2,571,446

Some of the support that Openhouse receives is restricted by donors. Because donor restrictions require resources to be used in a particular manner or in a future period, Openhouse must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. Openhouse has a history of raising funds to cover all costs necessary to sustain operating activities. As part of Openhouse's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Additionally, the board-designated operating reserve can be made available to meet operating needs, if necessary.

5. Receivables

Receivables include grants, contributions, pledges, and contractually earned amounts related to Openhouse's operating activities and are all due within one year. Receivables consist of the following at June 30:

	2023	2022
Government grants receivable	**$ 307,469**	$ 344,156
Contributions and pledges receivable	**260,000**	99,012
Total grants, contributions, and pledges receivable	**567,469**	443,168
Accounts receivable	**37,286**	23,119
Contributed rent receivable, current portion	**92,347**	92,347
Contributed rent receivable, noncurrent portion	**507,908**	600,255
Less: Unamortized discount	**(88,680)**	(116,033)
Total contributed rent receivable, net	**511,575**	576,569
Total receivables	**$ 1,116,330**	$ 1,042,856

5. Receivables *(continued)*

Openhouse uses the direct write-off method with regards to receivables deemed uncollectable. Management has evaluated the receivables as of June 30, 2023 and determined that such amounts are fully collectable based on the financial strength of the donors and organizations involved. During the year ended June 30, 2022, Openhouse recognized $2,500 in bad debts. During the year ended June 30, 2023, Openhouse did not recognize any bad debts.

6. Investments and Fair Value Measurements

Openhouse Laguna LLC is a co-general partner in two limited partnerships, 55 Laguna, L.P and Laguna Senior Housing, L.P. The investments in these limited partnerships are stated at estimated fair value based on relevant financial data from certain tax documents as provided by the General Partner (Schedule K-1s).

Total investments consist of the following at June 30, 2023 and 2022:

	June 30, 2023		June 30, 2022	
	Cost Basis	**Fair Value**	**Cost Basis**	**Fair Value**
Certificates of deposit	$ 1,018,551	**$ 1,018,551**	$ 2,000,000	$ 2,000,333
U.S. Treasury bills	1,998,942	**2,012,408**	-	-
Equities	-	**-**	1,173	959
55 Laguna, L.P.	75,311	**75,311**	75,367	75,367
Laguna Senior Housing, L.P.	(12,601)	**(12,601)**	(12,500)	(12,500)
Totals	$ 3,080,203	**$ 3,093,669**	$ 2,064,040	$ 2,064,159

A summary of assets utilizing fair value measurements at June 30, 2023 is as follows:

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 1,018,551	$ -	$ 1,018,551	$ -
U.S Treasury bills	2,012,408	-	2,012,408	-
Investment in 55 Laguna, LP	75,311	-	-	75,311
Investment in Laguna Senior Housing, LP	(12,601)	-	-	(12,601)
Totals	$ 3,093,669	$ -	$ 3,030,959	$ 62,710

A summary of assets utilizing fair value measurements at June 30, 2022 is as follows:

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 2,000,333	$ -	$ 2,000,333	$ -
Equities	959	959	-	-
Investment in 55 Laguna, LP	75,367	-	-	75,367
Investment in Laguna Senior Housing, LP	(12,500)	-	-	(12,500)
Totals	$ 2,064,159	$ 959	$ 2,000,333	$ 62,867

6. Investments and Fair Value Measurements *(continued)*

The change in Level 3 financial instruments is as follows:

Balance at June 30, 2021	**$**	**63,020**
Unrealized gains (losses), net		(153)
Balance at June 30, 2022		**62,867**
Unrealized gains (losses), net		(157)
Balance at June 30, 2023	**$**	**62,710**

7. Line of Credit

In July 2022, Openhouse opened a $500,000 line of credit with First Republic Bank (now JP Morgan Chase) which, when utilized, bears interest at a rate that is subject to change from time to time based on changes in an independent index, initially 4.75% per annum, with a “floor rate” of 3.5% per annum. Prior to July 2022, Openhouse had access to a $500,000 line of credit with Wells Fargo Bank. Openhouse did not utilize the line of credit during either of the years ended June 30, 2023 and 2022.

8. Property and Equipment

Property and equipment consist of the following at June 30:

		2023		**2022**
Tenant improvements	**$**	**5,335,960**	$	5,379,698
Equipment		**27,565**		27,565
Less: accumulated depreciation and amortization		**(1,812,334)**		(1,464,104)
Property and equipment, net	**$**	**3,555,191**	$	3,899,421

Total depreciation and amortization expense for the years ended June 30, 2023 and 2022 amounted to $348,230 and $606,120, respectively, and is reflected on the combined statement of functional expenses. During the year ended June 30, 2022, Openhouse disposed of certain tenant improvements for a loss of $43,738. There were no disposals of property and equipment during the year ended June 30, 2023.

9. Right of Use Asset and Leases

In December 2015, Openhouse entered into a multi-year lease for office space in the building at 55 Laguna Street. This lease commenced on December 5, 2016, and will expire on December 31, 2027 with an option to renew for an additional 10-year period. The lease requires a monthly remittance of $3,472 at June 30, 2023, with stipulated annual increases of 1.5%. Openhouse also leases the Openhouse Community Center under a lease agreement with Mercy Commercial California expiring December 31, 2029, for an annual fee of $100. The estimated value of this space amounted to $92,347 for each the years ended June 30, 2023 and 2022, respectively. See Note 13 for further discussion.

9. Right of Use Asset and Leases *(continued)*

In accordance with *ASU 2016-02, Leases*, Openhouse is required to reflect the present value of future operating lease payments (discounted at an appropriate borrowing rate) as a "Right of Use" asset and a corresponding lease liability. Accordingly, Openhouse has recorded a total lease liability in the amount of $173,258 and $205,126 at June 30, 2023 and 2022, respectively, for its office space (split between the current amount of $34,133 and noncurrent amount of $139,125 at June 30, 2023) and a corresponding right of use asset for the premises in the amount of $167,679 and $200,033 at June 30, 2023 and 2022, respectively. The weighted average discount rate associated with the calculation of the present value of the future lease payments was 5.0%. Scheduled minimum lease payments required under operating leases with durations in excess of one year are as follows at June 30, 2023:

Year ending June 30, 2024	$	42,125
Year ending June 30, 2025		42,755
Year ending June 30, 2026		43,395
Year ending June 30, 2027		44,044
Years ending June 30, 2028 and thereafter		23,414

Total rent expense amounted to $42,041 and $42,290 for the years ended June 30, 2023 and 2022, respectively, and is included in occupancy expense on the combined statement of functional expenses.

10. Net Assets with Donor Restrictions

Openhouse recognizes support from net assets with donor restrictions when the restrictions imposed by the donors have been satisfied or expired. Net assets with donor restrictions consist of the following at June 30:

Restricted for:		2023		2022
Future periods	**$**	**135,000**	$	75,000
Specific programs and projects		**200,800**		641,701
Contributed rent		**600,255**		692,602
Less: Unamortized discount		**(88,680)**		(116,033)
Total net assets with donor restrictions	**$**	**847,375**	$	1,293,270

11. Endowed Replacement Reserve

During the year ended June 30, 2022, Openhouse was named as a beneficiary of an endowment at The Horizons Foundation, a California nonprofit public benefit corporation (Horizons). Horizons received a gift of $250,000 to create an endowment to be used to fund ongoing maintenance of the Openhouse Community Center (the "endowed replacement reserve"). The agreement between Horizons and Openhouse regarding the endowed replacement reserve specifies that Openhouse shall have the option of annually utilizing the earnings on the endowed replacement reserve upon request and subject to the Horizons Foundation Spending Policy. Openhouse did not receive any distributions from the endowed replacement reserve during the years ended June 30, 2023 and 2022.

12. Retirement Plan

Openhouse offers employees the opportunity for participation in a salary reduction retirement plan qualified under Internal Revenue Code Section 401(k). Under the plan, Openhouse fully matches participating employees' contributions of up to 3% of their salary and matches 50% of participating employees' contributions from 3% to 5% of their salary. During the years ended June 30, 2023 and 2022, Openhouse's contributions to the plan amounted to $37,170 and $16,736, respectively.

13. Contributed Nonfinancial Assets

During the years ended June 30, 2023 and 2022, Openhouse received an in-kind contribution of reduced rent. As discussed in Note 9, Openhouse entered into a lease agreement for the Openhouse Community Center for which the rental payments stated in the agreement are less than the amount that would be charged for similar space rented under similar terms. Using publicly available commercial real estate rental listings, Openhouse estimated the value of the contributed rent to be $930,930, with a present value reduction in the amount of $146,548 determined using a weighted average discount rate of 5.0%. The amount of contributed rent over the remaining lease term is reported as contribued rent receivable in the accompanying combined statements of financial position, and the related rent expense is recorded using the straight-line method over the life of the lease in the accompanying combined statements of activities and changes in net assets. Total contributed rent expense amounted to $92,347 for each of the years ended June 30, 2023 and 2022.

14. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of *ASC 710.25*, *Compensated Absences*. Under ASC 710.25, Openhouse is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded as an accrued liability on the combined statements of financial position based on hourly rates in effect at the end of the fiscal year. Accrued payroll liabilities amounted to $142,871 and $128,590 as of June 30, 2023 and 2022, respectively.

15. Commitments and Contingencies

In the normal course of business, Openhouse could be subject to certain commitments and contingencies which might not be fully reflected in the combined financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) contractual restrictions and donor conditions which obligate Openhouse to fulfill certain requirements as set forth in legal instruments, (b) funding levels which vary based on factors beyond Openhouse's control, such as general economic conditions, (c) service agreements with outside contractors, and (d) financial risks associated with funds on deposit in accounts at financial institutions. Management believes that such commitments or contingencies have been properly addressed, appropriate amounts have been accrued (where necessary), and there will not be any resolution with a material adverse effect on the combined financial statements.

16. Mediation and Settlement

During the year ended June 30, 2021, Openhouse settled in mediation with the general contractor involved with the construction of the facility at 75 Laguna Street in San Francisco, relating to damaged plumbing pipes. Openhouse prevailed in claims for repair costs, investigative costs, and attorneys' fees.

In February 2022, Openhouse and the general contractor entered into a Settlement Agreement and Release to fully resolve any and all claims related to the construction of the facility at 75 Laguna Street. Pursuant to this agreement, Openhouse paid the general contractor a total sum of $315,000.

17. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, Openhouse has evaluated subsequent events through November 10, 2023, the date the combined financial statements were available to be issued. In the opinion of management, there are no subsequent events which necessitate disclosure.