SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.

FINANCIAL STATEMENTS

YEARS ENDED
DECEMBER 31, 2017 AND 2016

WITH INDEPENDENT AUDITOR'S REPORT

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DBA HOMEAID ORANGE COUNTY, INC.
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Shelter Providers of Orange County, Inc.
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of Shelter Providers of Orange County, Inc. dba HomeAid Orange County, Inc. (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2017, and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelter Providers of Orange County, Inc. dba HomeAid Orange County, Inc. as of December 31, 2017, and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Diehl Evans LLP

Irvine, California
August 7, 2018

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Assets:		
Cash and cash equivalents	$ 612,634	$ 313,249
Cash from pass-through grant	31,651	168,051
Restricted cash	1,019,668	158,423
Investments from pass-through grant	3,871,567	5,081,150
Receivables:		
Accounts and other receivables	27,978	8,974
Grants receivable	33,601	114,165
Contributions receivable, net	680,733	516,522
Interest receivable from pass-through grant	19,060	3,616
Prepaid and other assets	13,569	9,147
Property and equipment, net	3,157,498	2,051,979
Total Assets	$ 9,467,959	$ 8,425,276

LIABILITIES AND NET ASSETS

	2017	2016
Liabilities:		
Accounts payable and accrued liabilities	$ 61,358	$ 101,622
Pass-through grant	3,922,278	5,252,817
Long-term debt, net of debt discounts	1,606,237	1,586,739
Total Liabilities	5,589,873	6,941,178
Net Assets:		
Unrestricted	2,156,389	664,710
Temporarily restricted	1,721,697	819,388
Total Net Assets	3,878,086	1,484,098
Total Liabilities and Net Assets	$ 9,467,959	$ 8,425,276

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

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Unrestricted Net Assets:		
Support, Revenues, and Gains:		
Donated materials and services	$ 419,038	$ 1,178,467
Contributions	343,813	460,644
Grants	100,040	75,000
Program service fees	132,184	114,440
Investment income	1,385	731
Rental income	-	42,000
Net assets released from restrictions	1,724,480	215,221
Subtotal Support and Revenue	2,720,940	2,086,503
Special Events:		
Revenue	605,244	583,991
Direct expenses	(202,316)	(227,823)
Net Special Events	402,928	356,168
Total Support, Revenues, and Gains	3,123,868	2,442,671
Expenses:		
Program Services:		
Housing development	688,239	1,262,642
In the Community	477,746	569,184
Total Program Services	1,165,985	1,831,826
Supporting Services:		
Fundraising	264,763	387,996
Management and administrative	201,441	137,959
Total Supporting Services	466,204	525,955
Total Expenses	1,632,189	2,357,781
Increase in Unrestricted Net Assets	1,491,679	84,890
Temporarily Restricted Net Assets:		
In-kind contributions	446,911	264,294
Contributions	2,179,878	724,715
Net assets released from restrictions	(1,724,480)	(215,221)
Increase in Temporarily Restricted Net Assets	902,309	773,788
Increase in Net Assets	2,393,988	858,678
Net Assets, Beginning of Year	1,484,098	625,420
Net Assets, End of Year	$ 3,878,086	$ 1,484,098

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

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services		Supporting Services		
	Housing Development	In the Community	Fundraising	Management and Administrative	Total Functional Expenses
Donated materials and services	$ 158,994	$ 285,326	$ -	$ 2,436	$ 446,756
Shelter project and program expenditures	34,712	51,584	-	-	86,296
Salaries and related costs	311,585	91,641	137,627	70,039	610,892
Accounting	300	-	-	81,995	82,295
Advertising	9,323	8,076	1,288	5,174	23,861
Automobile expense	5,491	1,864	169	7,051	14,575
Awards and recognition	328	-	-	602	930
Bad debt expense	-	-	27,764	-	27,764
Bank, management, and city fees	416	2,995	5,799	1,827	11,037
Computer expenses	403	1,437	4,626	2,422	8,888
Conferences and seminars	-	1,574	400	1,160	3,134
Direct mail expenses	23	358	-	42	423
Insurance	2,893	-	-	209	3,102
Interest	68,575	-	-	6	68,581
Meals and entertainment	7,620	1,499	241	5,011	14,371
Office expenses	734	1,564	477	2,034	4,809
Office supplies	4,139	1,594	444	2,505	8,682
Outside services	2,250	9,296	63,600	5,700	80,846
Photography and public relation costs	17,109	-	-	-	17,109
Postage	686	381	143	496	1,706
Printing	2,023	1,861	121	655	4,660
Property taxes	11,951	-	-	-	11,951
Rent	14,788	5,448	20,626	5,838	46,700
Rentals	936	4,937	-	-	5,873
Storage facilities	295	969	295	1,225	2,784
Telephone	1,228	1,575	535	2,053	5,391
Other costs	542	1,993	68	719	3,322
Expenses Before Depreciation	657,344	475,972	264,223	199,199	1,596,738
Depreciation of Property and Equipment	30,895	1,774	540	2,242	35,451
Total Functional Expenses	$ 688,239	$ 477,746	$ 264,763	$ 201,441	$ 1,632,189

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

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services		Supporting Services		
	Housing Development	In the Community	Fundraising	Management and Administrative	Total Functional Expenses
Donated materials and services	$ 798,588	$ 327,192	$ 14,280	$ 38,407	$ 1,178,467
Shelter project and program expenditures	34,267	49,188	-	-	83,455
Salaries and related costs	268,864	148,462	142,979	54,517	614,822
Accounting	-	-	-	13,750	13,750
Administrative	129	321	609	3,713	4,772
Advertising	3,016	3,016	10,703	3,016	19,751
Auction expense	-	-	6,288	-	6,288
Audio and visual	-	-	8,487	-	8,487
Automobile expense	4,304	2,091	1,037	801	8,233
Awards and recognition	325	-	-	224	549
Bank, management, and city fees	-	1,997	4,007	1,224	7,228
Chapter assessment	625	625	625	625	2,500
Computer expenses	2,625	3,409	3,409	1,705	11,148
Conferences and seminars	984	115	-	1,635	2,734
Direct mail expenses	-	-	1,411	-	1,411
Insurance	8,011	638	565	255	9,469
Interest	78,555	-	-	-	78,555
Meals and entertainment	1,136	3,193	2,228	2,608	9,165
Office expenses	2,591	3,110	3,110	1,555	10,366
Office supplies	93	2,945	45	45	3,128
Outside services	1,303	1,303	151,928	1,303	155,837
Photography and public relation costs	8,457	5,544	4,502	3,076	21,579
Postage	20	410	1,165	68	1,663
Printing	100	2,436	5,926	100	8,562
Property taxes	17,530	-	-	-	17,530
Rent	25,395	6,349	6,349	6,349	44,442
Rentals	-	840	400	-	1,240
Storage facilities	1,114	557	557	557	2,785
Telephone	1,659	1,011	1,186	655	4,511
Other costs	-	891	12,659	-	13,550
Expenses Before Depreciation	1,259,691	565,643	384,455	136,188	2,345,977
Depreciation of Property and Equipment	2,951	3,541	3,541	1,771	11,804
Total Functional Expenses	$ 1,262,642	$ 569,184	$ 387,996	$ 137,959	$ 2,357,781

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Increase in Net Assets	$ 2,393,988	$ 858,678
Noncash Items Included in Increase in Net Assets:		
Depreciation	35,451	11,804
Amortization of deferred financing costs	7,522	10,032
Discount on long-term debt	12,151	12,152
Donated materials and services	(419,194)	(264,294)
Changes in:		
Cash from pass-through grant	136,400	504,097
Restricted cash	(861,245)	(158,423)
Investments from pass-through grant	1,209,583	372,206
Accounts and other receivables	(19,004)	11,371
Grants receivable	80,564	(55,832)
Contributions receivable	(164,211)	(440,083)
Interest receivable from pass-through grant	(15,444)	3,287
Other assets	(4,422)	(2,171)
Accounts payable and accrued liabilities	(40,264)	27,384
Pass-through grant	(1,330,539)	(879,590)
Net Cash and Cash Equivalents Provided by Operating Activities	1,021,336	10,618
Cash Flows from Investing Activities:		
Purchase of property and equipment	(721,776)	(38,248)
Net Cash and Cash Equivalents Used in Investing Activities	(721,776)	(38,248)
Cash Flows from Financing Activities:		
Payment on notes payable	(175)	-
Net Cash and Cash Equivalents Used in Financing Activities	(175)	-
Net Increase (Decrease) in Cash and Cash Equivalents	299,385	(27,630)
Cash and Cash Equivalents, Beginning of Year	313,249	340,879
Cash and Cash Equivalents, End of Year	$ 612,634	$ 313,249
Supplemental Disclosure of Noncash Activities:		
Donated materials and services	$ 491,572	$ 1,294,157
Supplemental Disclosure:		
Interest paid	$ 48,907	$ 76,269

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

Note 1: Organization and Nature of Services

Shelter Providers of Orange County, Inc. dba HomeAid Orange County, Inc. (the "Organization" or "HomeAid") was incorporated in 1989 for the purpose of ending homelessness through housing development, community service, and advocacy. The Organization is an Internal Revenue Code Section 501(c)(3) charitable, public benefit not-for-profit organization established by the Building Industry Association of Southern California, Orange County Chapter.

HomeAid's housing development program ("Housing Development") involves the building and renovation of emergency shelters, transitional/interim housing, and permanent supportive housing (the "projects"). HomeAid serves as the developer for each project. Projects are identified and selected based on housing gaps within the Orange County community. Once completed, HomeAid donates the project to an Orange County not-for-profit organization.

In 2015, HomeAid embarked on the development of its own emergency shelter facility to be open 365 days a year to serve Orange County families and operate as an entry point and resource to other nonprofit organizations serving homeless families. The HomeAid Family CareCenter (the "Family CareCenter") supports the needs of over 120 Orange County families with young children annually (an estimated 500 people). Fifty-six beds are available to families with at least one parent and one or more children under the age of 18. In connection therewith, HomeAid has initiated a capital campaign (increasing fund raising costs), purchased a building, and started development (see Note 5 and 8). The Family CareCenter is operated by Mercy House, an independent 501(c)(3) organization under contract with HomeAid. Mercy House has a separate operating budget for the Family CareCenter of which a portion is provided by a pass-through grant from the Children and Families Commission (see Note 6). For the years ended December 31, 2017 and 2016, $419,194 and $264,294, respectively, in donated materials and services were received for the Family CareCenter. These in-kind donations were capitalized in property and equipment and are not reflected in the statement of functional expenses under Housing Development (see Note 9).

In 2016, Housing Development projects included Orangewood Children's Foundation, Illumination Foundation, Family Assistance Ministries, Precious Life Shelter, and American Family Housing.

In 2017, Housing Development projects included Orangewood Children's Foundation, Family Assistance Ministries, Precious Life Shelter, and South County Outreach.

HomeAid's In the Community program ("In the Community") includes HomeAid Essentials ("Essentials"), HomeAid CareKits ("CareKits"), advocacy, and various education and volunteer activities. Essentials is a community effort to collect and distribute baby products, such as diapers, for homeless mothers and babies. CareKits are assembled with critical items, such as water, food, soap, toothpaste, and resource cards, and distributed to homeless families and individuals living on the street. In addition, HomeAid leads various community initiatives in November during National Homelessness Awareness Month to advocate for the homeless and raise awareness in the community. HomeAid has worked directly with the Orange County Commission to End Homelessness and has assisted in the development of a 10-year plan to end homelessness.

Note 1: Organization and Nature of Services (Continued)

Operations

The Organization receives its financial support through philanthropic means. The bulk of the Organization's revenue and support comes from five key sources: donated materials and services, contributions, grants, program service fees, and special events. Donated materials and services include construction materials and services used in Housing Development projects, items for Essentials, and hygiene items for CareKits. Contributions are from individuals and corporations. Program service fees are for services provided. Grant income is generated through private and corporate foundations for general operating and/or the building and renovating of projects. Special events income includes, among other things, event sponsorships, ticket sales, auction sales, and individual solicitations. The financial condition of the Organization depends significantly on its ability to receive donated materials and services and raise funds from contributors. A significant reduction in the level of support could affect the Organization's programs and activities. Management of the Organization believes it will continue to have adequate funding sources to maintain the present level of operations.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

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

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Presentation of Financial Statements*, the Organization's resources are classified for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. Accordingly, the net assets of the Organization are classified and reported as follows:

- *Unrestricted Net Assets* - Net assets that are not subject to donor-imposed stipulations and revenue generated from providing services and interest on investments.

- *Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets.

- *Permanently Restricted Net Assets* - Net assets that are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. The Organization does not have any permanently restricted net assets.

Note 2: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash equivalents include petty cash, checking accounts, and investments with initial maturities of three months or less.

Restricted Cash

Restricted cash relates to contributions received for the Family CareCenter.

Investments

Investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in investment income in the Organization's accompanying statements of activities and changes in net assets.

Property and Equipment

Property and equipment are stated at cost when purchased or at the estimated fair value when donated. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 7 years for office equipment, and furniture and fixtures and 39 years for the building.

Capitalized Interest

Interest is capitalized on significant construction in progress using the weighted-average interest rate during the fiscal year. Interest of $15,040 and $7,746 was capitalized during the years ended December 31, 2017 and 2016, respectively, and is included in property and equipment in the accompanying statements of financial position.

Long-Lived Assets

The Organization accounts for long-lived assets in accordance with the FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. For the years ended December 31, 2017 and 2016, there was no impairment of the value of such assets.

Note 2: Summary of Significant Accounting Policies (Continued)

Donated Materials and Services

Donated materials and services are reflected in the accompanying financial statements at their estimated fair market value at the date of receipt.

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteer services that do not meet these criteria are not recognized in the financial statements, as there is no objective basis of deriving their value.

Deferred Financing Costs

Costs incurred in connection with debt financing are recorded as deferred financing costs. Deferred financing costs are amortized using the straight-line basis, which approximates the effective interest rate method, over the contractual terms of the respective financings. Included in the long-term debt balance as a debt discount are total fees of $20,062 at December 31, 2017 and 2016, of which accumulated amortization totaled $20,062 and $12,540, respectively. For the years ended December 31, 2017 and 2016, amortization of deferred financing costs was $7,522 and $10,032, respectively, and is included in interest expense in the Organization's accompanying statements of functional expenses and housing development expense in the accompanying statements of activities and changes in net assets.

Revenue Recognition

Amounts received from grants and contracts are not reported as revenue until the resources are expended for the purpose specified or until a stipulated time restriction ends.

In accordance with FASB ASC 958-605, *Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All other support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Note 2: Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services by a method that best measures the relative degree of benefit. Program services are direct costs, and supporting services are indirect costs.

Use of Estimates

The process of preparing financial statements in accordance with US GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and gains, and expenses and losses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Income Taxes

The Organization is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the Code) and the corresponding state code as a charitable organization whereby only unrelated business income is subject to income tax. The Organization had no unrelated business income during the years ended December 31, 2017 and 2016. Accordingly, there is no provision for income taxes in the accompanying financial statements.

In accordance with FASB ASC 740-10-25, *Income Taxes*, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions, and accordingly, it has not recognized any liability that for unrecognized tax benefits or any related interest or penalties at December 31, 2017 and 2016. The Organization’s tax years from 2014 to 2017 are open to review for federal tax purposes, and tax years from 2013 to 2017 are open to review for state income tax purposes.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

Note 2: Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU requires amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-18 on the presentation of its financial statements.

Note 3: Concentrations, Risks, and Uncertainties

The Organization maintains cash and cash equivalent balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation for up to $250,000. Throughout the course of the year, the Organization regularly maintains cash balances in excess of federally insured limits.

The Organization obtained a substantial portion of its support from a single source during the year ended December 31, 2017 and another single source during the year ended December 31, 2016. Support received from these sources for the years ended December 31, 2017 and 2016 aggregated approximately $1,000,000 and $300,000, respectively. At December 31, 2017, there was no amount due from the source, and at December 31, 2016, amounts due from the source, which are included in contributions receivable, were approximately $150,000.

Note 4: Contributions Receivable

Contributions receivable at December 31, 2017 and 2016, are as follows:

	2017	2016
HomeAid Family CareCenter	$ 748,489	$ 490,154
General contributions	1,000	59,154
Less: Allowance for doubtful contributions	(27,764)	-
Less: Discount for present value of contributions receivable	(40,992)	(32,786)
Contributions Receivable, Net	$ 680,733	$ 516,522
Contributions receivable before discounts due in:		
Less than one year	$ 316,990	$ 294,218
One to five years	432,499	255,090
	$ 749,489	$ 549,308

The discount risk-adjusted interest rate used to calculate the present value of long-term contributions receivable was 4.75 percent for the years ended December 31, 2017 and 2016.

Note 5: Property and Equipment

At December 31, 2017 and 2016, property and equipment consist of the following:

	2017	2016
Land	$ 1,482,361	$ 1,482,361
Building	261,593	261,593
Building improvements	1,369,858	-
Office equipment	12,495	12,495
Furniture and fixtures	93,716	20,062
Construction in progress	-	302,542
Total property and equipment, at cost	3,220,023	2,079,053
Less: Accumulated depreciation	(62,525)	(27,074)
Property and Equipment, at Net Book Value	$ 3,157,498	$ 2,051,979

Depreciation expense for the years ended December 31, 2017 and 2016, was $35,451 and $11,804, respectively.

Note 5: Property and Equipment (Continued)

Property and equipment at December 31, 2017 includes the cost for constructing the Family CareCenter. The following are the costs incurred through December 31, 2016 and the costs of completion incurred in 2017:

Cost incurred through December 31, 2016	$ 2,046,496
Costs incurred in 2017 to complete	1,140,972
Total Cost of the Family CareCenter	$ 3,187,468

Note 6: Pass-Through Grant

The Organization received a designated grant from the Children and Families Commission of Orange County in the amount of $6,250,000 at the end of 2013. This grant is administered by the Organization and passed to other nonprofit organizations to support the construction and operation of emergency shelters to assist homeless families with children ages 0 to 5 over a five year period. The Organization receives program service fees on a project-by-project basis. Program service fees earned for the years ended December 31, 2017 and 2016, were $132,184 and $114,440, respectively. The amount of program service fees received during 2017 and 2016 was $146,401 and $39,786, respectively. Program service fees earned but not received are included in grants receivable in the Organization's accompanying statements of financial position.

The Organization maintains the pass-through grant in separate investment and cash accounts.

Cash, investments, and accrued interest from the pass-through grant consist of the following at December 31 2017 and 2016:

	2017	2016
Cash	$ 31,651	$ 168,051
Certificates of deposit	1,490,827	1,490,186
US Treasury Bills	2,380,740	3,590,964
Accrued interest	19,060	3,616
	$ 3,922,278	$ 5,252,817

Note 6: Pass-Through Grant (Continued)

Reconciliation of the pass-through grant is as follows:

Balance - December 31, 2012	$ -
Grant received	6,250,000
Balance - December 31, 2013	6,250,000
Realized and unrealized losses	(36,954)
Management fees	(9,575)
Balance - December 31, 2014	6,203,471
Realized and unrealized gains	61,339
Management fees	(10,550)
Disbursements - program service fees	(21,277)
Disbursements - passed through	(100,576)
Balance - December 31, 2015	6,132,407
Realized and unrealized gains	25,785
Management fees	(10,725)
Disbursements - program service fees	(39,786)
Disbursements - passed through	(854,864)
Balance - December 31, 2016	5,252,817
Realized and unrealized gains	41,583
Management fees	(10,000)
Disbursements - program service fees	(146,401)
Disbursements - passed through	(1,215,721)
Balance - December 31, 2017	$ 3,922,278

All the investment activity, including earned interest, unrealized losses, and accrued interest in the amounts of $19,060 and $3,616 for the years ended December 31, 2017 and 2016, respectively, that occurred related to the pass-through grant account has been reflected in the pass-through grant liability on the accompanying statements of financial position, as the Organization is acting as an agent for these funds.

Note 6: Pass-Through Grant (Continued)

As of December 31, 2017, the Organization has committed a portion of the remaining grant balance to projects overseen by outside service providers. The following is a summary of the committed and uncommitted balances:

Pathways of Hope	$ 406,541
Illumination Foundation	7,744
Mercy House	1,623,532
Family Assistance Ministries	212,464
Total committed balance	2,250,281
Uncommitted balance	1,671,997
Fund Balance - December 31, 2017	$ 3,922,278

In accordance with the grant, the Organization may be required to refund all uncommitted balances at the end of the extended grant period of, June 30, 2022, if the grant is not renewed. The following is a summary of the future committed disbursements under the grant:

2018	$ 1,033,309
2019	547,989
2020	271,038
2021	266,545
2022	131,400
Total Committed Balance	$ 2,250,281

Note 7: Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Note 7: Fair Value Measurements (Continued)

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no changes in the methodology used at December 31, 2017 and 2016.

US Treasury Bills: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Pass-Through Grant Investments:				
US Treasury bills	$ -	$ 2,380,740	$ -	$ 2,380,740
	$ -	$ 2,380,740	$ -	2,380,740
Certificates of deposits [(1)]				1,490,827
Total Investments				$ 3,871,567

[(1)] Investment is not subject to fair value hierarchy measurements.

Note 7: Fair Value Measurements (Continued)

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Pass-Through Grant Investments:				
US Treasury bills	$ -	$ 3,590,964	$ -	$ 3,590,964
	$ -	$ 3,590,964	$ -	3,590,964
Certificates of deposits [1]				1,490,186
Total Investments				$ 5,081,150

[1] Investment is not subject to fair value hierarchy measurements.

Note 8: Long-Term Debt

On September 23, 2015, the Organization obtained a line of credit from a bank in the amount of $1,980,000 with interest-only payments due monthly at an interest rate of 4.75 percent, with a balloon payment due in September 23, 2017. The agreement includes an option for an automatic 90-day extension, which was granted to the Organization. The Organization used this line of credit to purchase the property in Orange, California, for the Family CareCenter. The line of credit is collateralized by the land and building. The balance on the line of credit at December 31, 2017 and 2016, was $1,327,534 and $1,327,709, respectively. The Organization refinanced the line of credit with a note payable on January 19, 2018, at which time the Organization made a principal payment of $700,000. The note payable accrues interest at 4 percent and has a monthly payment of $3,017, plus a balloon payment due at maturity on December 23, 2022.

On September 23, 2015, the Organization obtained a note payable related to the above mentioned property in the amount of $300,000. The note bears no interest and is due in full with one balloon payment due on September 23, 2019, and is collateralized by the land and building. The balance of the note payable at December 31, 2017 and 2016, was $300,000. This note payable may be repaid in cash or in-kind donations.

In accordance with US GAAP, the note payable has been discounted to reflect a market interest rate of 4.75 percent. The discount has been recorded as a temporarily restricted contribution and will be accreted into interest expense in future periods to reflect market interest rate conditions. The discounted balance of the note payable at December 31, 2017 and 2016, was $278,703 and $266,552, respectively.

Note 8: Long-Term Debt (Continued)

The following table represents the maturities of long-term debt and related discounts for the succeeding years ending December 31:

	Principal Payments	Discounts	Total
2018	$ 713,193	$ (12,152)	$ 701,041
2019	311,846	(9,144)	302,702
2020	12,328	-	12,328
2021	12,831	-	12,831
2022	577,335	-	577,335
Total	$ 1,627,533	$ (21,296)	$ 1,606,237

Note 9: Donated Materials and Services

The Organization recognizes contribution revenues for certain services received at the fair value of those services. Contributed services are recognized 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. Donors and sponsors make contributions of materials and services to develop and renovate the Organization's shelter project, as well as donating items for special events. Donated materials and services included in the Organization's statements of activities and changes in net assets for the years ended December 31, 2017 and 2016, totaling $910,766 and $1,572,731, respectively, are based on management and donors' estimates of the fair value of the materials and services provided. For the years ended December 31, 2017 and 2016, donated materials and services of $419,194 and $264,294, respectively, were capitalized to property and equipment. The capitalized property and equipment will be reflected in the statement of functional expenses as depreciation expense over the lives of the related assets.

The breakdown of donated materials and services reflected in the statements of activities and changes in net assets are as follows:

	2017	2016
Donated materials and services	$ 419,038	$ 1,178,467
Special events	44,817	129,970
Temporarily restricted, in-kind contributions	446,911	264,294
Total	$ 910,766	$ 1,572,731

Note 10: Commitments and Contingencies

Contingencies

Financial assistance from federal, state, and local governmental entities in the form of grants is subject to audit. Such audits could result in claims against the Organization for disallowance costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise for such audits since the amounts, if any, cannot be determined at this date.

Operating Leases

The Organization leases its office and storage spaces on a month-to-month basis. Rent expense for the years ended December 31, 2017 and 2016, amounted to $46,700 and $44,442, respectively.

Note 11: Related-Party Transactions

Certain members of the Board of Directors and their affiliated companies have made cash and in-kind contributions to the Organization during years ended December 31, 2017 and 2016, totaling approximately $873,000 and $611,000, respectively, which have been included in contributions and donated services and materials in the Organization's statements of activities and changes in net assets.

Note 12: 403(b) Plan

The Organization sponsors a 403(b) retirement savings plan covering all full-time employees who have attained the age of 21 and have completed 90 days of service with the Organization. The Organization may make discretionary matching contributions of up to 50 percent of employee contributions, which are subject to the approval of the executive committee. The Organization did not make any contribution to the plan during the years ended December 31, 2017 and 2016.

Note 13: Rental Income

The Organization acquired a property in September 2015 to build the Family CareCenter. While the Family CareCenter was in the design and planning phase, the Organization rented the property to its current tenant on a month-to-month basis. The property generated rental income in the amount $42,000 for the year ended December 31, 2016. No rental income was generated during the year ended December 31, 2017, and no future amounts are expected.

Note 14: Temporarily Restricted Net Assets

Temporary restrictions on net assets at the end of 2017 and 2016 are related to funds raised through the Capital Campaign, a drive to raise funds for the Family CareCenter, plus the amortization of imputed interest on the interest-free loan obtained to purchase the shelter (see Note 8).

The amortization of the imputed interest on the interest-free loan will be released from restriction according to the maturity schedule in Note 8. Contributions received for the Family CareCenter will be released from restriction as qualifying expenses are incurred. Expenses that qualify for capitalization are recorded as property and equipment (see Note 5) and released from temporary restricted net assets into unrestricted net assets upon completion of the Family CareCenter.

Temporarily restricted net assets at December 31, 2017 and 2016, are as follows:

	2017	2016
Amortization of imputed interest	$ 21,296	$ 33,448
Family CareCenter - unspent contributions	1,700,401	483,398
Family CareCenter - construction in progress	-	302,542
Total Temporarily Restricted Contributions	$ 1,721,697	$ 819,388

Note 15: Subsequent Events

Events occurring after December 31, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of August 7, 2018, which is the date the financial statements were available to be issued.