

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**



JUNE 30, 2017

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REED S. SPANGLER
JANE E. RUSSELL
WILLIAM L. JACKSON

INDEPENDENT AUDITOR'S REPORT

TRAVIS J. WILSON
VANESSA M. GARCIA
HOWARD B. ATKINSON
MARILYN D. PARKE
DIANE M. RAVENSCROFT
DAVID E. LEHMAN

To the Board of Directors of
Domestic Violence Solutions for Santa Barbara County

GAIL H. ANIKOUCHINE
Consultant
RICHARD L. HUNT
Consultant
SCOTT N. WILSON
Consultant

We have audited the accompanying financial statements of Domestic Violence Solutions for Santa Barbara County (a California nonprofit organization) which comprise the statement of financial position as of June 30, 2017, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

Santa Barbara
115 E. MICHELTORENA ST.
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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 (U.S. GAAP); 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.

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Auditors' Responsibility

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

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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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

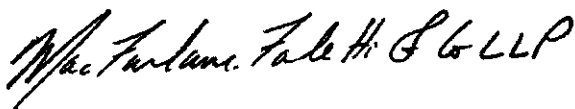
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Domestic Violence Solutions for Santa Barbara County as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Domestic Violence Solutions for Santa Barbara County's June 30, 2016, financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated August 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2017, on our consideration of Domestic Violence Solutions for Santa Barbara County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Domestic Violence Solutions for Santa Barbara County's internal control over financial reporting and compliance.



**Santa Barbara, California
October 2, 2017**

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

To the Board of Directors of
Domestic Violence Solutions for Santa Barbara County:

We have audited, in accordance with the auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Domestic Violence Solutions for Santa Barbara County (the Organization) (a California nonprofit organization) which comprise the statement of financial position as of June 30, 2017, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon date October 2, 2017.

Internal Control over Financial Reporting

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

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

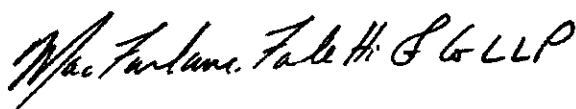
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did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

Compliance and Other Matters

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

Purpose of This Report

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



Santa Barbara, California

October 2, 2017

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals as of June 30, 2016)

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals 2017</u>	<u>Totals 2016</u>
Cash and cash equivalents	\$ 223,385	\$ 55,000	\$ -	\$ 278,385	\$ 557,406
Accounts receivable	206,465	-	-	206,465	118,931
Grants receivable	-	177,977	-	177,977	238,142
Deposits and prepaid expenses	11,064	-	-	11,064	2,094
Property and equipment, net	1,571,365	-	-	1,571,365	1,704,301
Unemployment reserve account	-	-	-	-	5,291
Interest in charitable remainder trust	-	-	80,759	80,759	76,913
Beneficial interest in assets held by others	-	138,172	1,288,700	1,426,872	1,302,897
TOTAL ASSETS	<u>\$ 2,012,279</u>	<u>\$ 371,149</u>	<u>\$ 1,369,459</u>	<u>\$ 3,752,887</u>	<u>\$ 4,005,975</u>
 LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 6,893	\$ -	\$ -	\$ 6,893	\$ 12,139
Accrued payroll and related expenses	56,308	-	-	56,308	47,702
Security deposits	1,800	-	-	1,800	3,095
Notes Payable	607,777	-	-	607,777	668,142
Total Liabilities	<u>672,778</u>	<u>-</u>	<u>-</u>	<u>672,778</u>	<u>731,078</u>
 NET ASSETS					
Unrestricted net assets	1,339,501	-	-	1,339,501	1,647,433
Temporarily restricted net assets	-	371,149	-	371,149	275,551
Permanently restricted net assets	-	-	1,369,459	1,369,459	1,351,913
Total Net Assets	<u>1,339,501</u>	<u>371,149</u>	<u>1,369,459</u>	<u>3,080,109</u>	<u>3,274,897</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,012,279</u>	<u>\$ 371,149</u>	<u>\$ 1,369,459</u>	<u>\$ 3,752,887</u>	<u>\$ 4,005,975</u>

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for Year Ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals 2017</u>	<u>Totals 2016</u>
PUBLIC SUPPORT AND REVENUE					
Public Support					
Government grants	\$ 867,099	\$ -	\$ -	\$ 867,099	\$ 874,226
Contributions and grants	285,767	55,000	-	340,767	363,104
In-kind donations	168,947	-	-	168,947	168,283
Bequests	-	-	13,700	13,700	-
Special events net of direct expenses of \$43,678 and \$35,117	102,521	-	-	102,521	57,698
Total Public Support	<u>1,424,334</u>	<u>55,000</u>	<u>13,700</u>	<u>1,493,034</u>	<u>1,463,311</u>
Revenue					
Thrift shop royalties	34,463	-	-	34,463	33,452
Rental income	32,745	-	-	32,745	30,962
Court ordered fees	31,780	-	-	31,780	30,341
Trainings	16,330	-	-	16,330	8,617
Change in value of beneficial interest in assets held by others	-	131,895	-	131,895	(20,615)
Change in value of interest in charitable remainder trust	-	-	3,846	3,846	3,663
Interest income	564	-	-	564	266
Miscellaneous income	2,462	-	-	2,462	2,584
Total Revenue	<u>118,344</u>	<u>131,895</u>	<u>3,846</u>	<u>254,085</u>	<u>89,270</u>
Total Public Support and Revenue	<u>1,542,678</u>	<u>186,895</u>	<u>17,546</u>	<u>1,747,119</u>	<u>1,552,581</u>
RECLASSIFICATIONS					
Net assets released from restrictions	91,297	(91,297)	-	-	-
EXPENSES					
Program services	1,520,007	-	-	1,520,007	1,522,053
Management and general	165,942	-	-	165,942	213,615
Fundraising	255,958	-	-	255,958	177,049
Total Expenses	<u>1,941,907</u>	<u>-</u>	<u>-</u>	<u>1,941,907</u>	<u>1,912,717</u>
CHANGE IN NET ASSETS	(307,932)	95,598	17,546	(194,788)	(360,136)
NET ASSETS, BEGINNING OF YEAR	<u>1,647,433</u>	<u>275,551</u>	<u>1,351,913</u>	<u>3,274,897</u>	<u>3,635,033</u>
NET ASSETS, END OF YEAR	<u>\$ 1,339,501</u>	<u>\$ 371,149</u>	<u>\$ 1,369,459</u>	<u>\$ 3,080,109</u>	<u>\$ 3,274,897</u>

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year Ended June 30, 2016)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals 2017</u>	<u>Totals 2016</u>
EXPENSES					
Salaries and wages	\$ 846,878	\$ 71,035	\$ 191,680	\$ 1,109,593	\$ 1,033,202
Payroll taxes	63,302	5,270	14,366	82,938	75,654
Employee benefits	<u>99,336</u>	<u>26,143</u>	<u>17,922</u>	<u>143,401</u>	<u>175,646</u>
Total Salaries and Related Expenses	1,009,516	102,448	223,968	1,335,932	1,284,502
Office expenses	62,841	19,969	6,117	88,927	98,636
Occupancy	73,649	6,667	823	81,139	68,494
Occupancy (in-kind)	80,451	-	-	80,451	80,000
Program supplies (in-kind)	55,288	-	-	55,288	53,674
Insurance	23,749	5,267	3,178	32,194	31,210
Imputed interest (in-kind)	31,113	-	-	31,113	34,609
Professional services	7,436	23,148	259	30,843	47,260
Transportation	28,413	936	1,435	30,784	41,645
Direct mailings	-	-	10,045	10,045	7,419
Advertising	125	55	4,920	5,100	2,808
Direct assistance	3,512	-	-	3,512	6,082
Miscellaneous	9	2,441	456	2,906	2,933
Conferences and training	173	489	2,231	2,893	1,501
Donor development	-	-	2,526	2,526	50
Program supplies	500	-	-	500	694
Outreach and education	452	-	-	452	3,409
Interest	<u>-</u>	<u>74</u>	<u>-</u>	<u>74</u>	<u>19</u>
Total Expenses before Depreciation	1,377,227	161,494	255,958	1,794,679	1,764,945
Depreciation	<u>142,780</u>	<u>4,448</u>	<u>-</u>	<u>147,228</u>	<u>147,772</u>
TOTAL EXPENSES, YEAR ENDED JUNE 30, 2017	<u>\$ 1,520,007</u>	<u>\$ 165,942</u>	<u>\$ 255,958</u>	<u>\$ 1,941,907</u>	
TOTAL EXPENSES, YEAR ENDED JUNE 30, 2016	<u>\$ 1,522,053</u>	<u>\$ 213,615</u>	<u>\$ 177,049</u>		<u>\$ 1,912,717</u>

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year Ended June 30, 2016)

	<u>Total 2017</u>	<u>Total 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from unrestricted revenues and support, net	\$ 1,216,498	\$ 1,298,973
Cash received from temporarily restricted contributors	115,165	586,330
Cash received from permanently restricted contributors	13,700	-
Interest income	564	266
Cash paid for salaries and related expenses, net	(1,327,526)	(1,301,272)
Cash paid for other operating costs, net	(290,976)	(266,586)
Interest paid	<u>(74)</u>	<u>(19)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(272,649)</u>	<u>317,692</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Distribution from beneficial interest in others	21,620	20,664
Purchase of equipment and leasehold improvements	<u>(14,292)</u>	<u>(6,784)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,328</u>	<u>13,880</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for permanently restricted endowment	(13,700)	-
Short-term borrowing from beneficial interest in assets held by others	-	50,000
Repayment on borrowings from beneficial interest in assets held by others	-	(50,000)
Principal payments on notes payable	<u>-</u>	<u>(1,427)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(13,700)</u>	<u>(1,427)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(279,021)	330,145
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>557,406</u>	<u>227,261</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 278,385</u>	<u>\$ 557,406</u>
RECONCILIATION OF NET ASSETS TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	\$ (194,788)	\$ (360,136)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	147,228	147,772
In-kind loan forgiveness	(60,165)	(60,330)
Change in value of interest in charitable remainder trust	(3,846)	(3,663)
Unrealized (gain) loss on beneficial interest in asset held by others	(131,895)	20,615
Changes in		
Accounts receivable	(87,534)	(29,750)
Bequests receivable	-	510,000
Grants receivable	60,165	60,330
Deposits and prepaid assets	(8,970)	4,069
Unemployment reserve account	5,291	43,251
Accounts payable	(5,446)	4,114
Accrued payroll and related expenses	8,606	(16,770)
Security deposits	<u>(1,295)</u>	<u>(1,810)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (272,649)</u>	<u>\$ 317,692</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Amounts paid for interest	\$ 74	\$ 19
Noncash transactions consisted of the following:		
In-kind donation of goods	\$ 57,383	\$ 53,223
In-kind donation of rent	\$ 80,451	\$ 80,451
In-kind imputed interest	\$ 31,113	\$ 34,609

NOTE 1 ORGANIZATION

Domestic Violence Solutions for Santa Barbara County, formerly Shelter Services for Women, Inc., (the Organization) is a California nonprofit corporation dedicated to ending the intergenerational cycle of domestic violence by providing prevention and intervention services and by challenging society's attitudes, beliefs and behaviors to effect social change. Incorporated March 30, 1980, the Organization operates three emergency shelters, two transitional housing sites, county-wide teen services, and a full range of counseling and support services for men, women, and children. Services include a 24-hour crisis support line, a Domestic Violence Emergency Response Team (DVRT), which works alongside law enforcement at the scene of a domestic violence crisis, and a 40-hour domestic violence education training program.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. It is at least reasonably possible that the significant estimates could change in the coming year. Significant estimates used in the preparation of these financial statements include:

- Depreciable lives and estimated residual value of property and equipment
- Allocation of certain expenses by function
- Collectability of accounts and grants receivable
- Imputed interest rates on below market loans
- Value of interest in charitable remainder trust
- Valuation of in-kind contributions of goods and rent

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, cash and cash equivalents include cash on hand and amounts on deposit with an initial maturity of three months or less at financial institutions.

Revenue Recognition

Generally accepted accounting principles require the Organization to differentiate between exchange transactions and contributions. Due to the nature of the Federal grants and contracts, the Organization has determined funds received under grants and contracts to be exchange transactions. Accordingly, the Organization recognizes these grants and contracts as earned revenue as those costs are incurred and subsequently invoiced to the appropriate government agency. Amounts due at year end are recorded in accounts receivable.

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial Statement Presentation

Under generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to three classes of net assets based on the existence and nature of donor imposed restrictions as follows:

Unrestricted Net Assets

Unrestricted net assets consist of funds free of any donor-imposed restrictions and which the governing board has discretionary control for use in carrying on the general operations of the Organization, funds received under exchange transactions and dividends less expenses incurred in providing services and fundraising and other administrative expenses. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and other increases of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Organization that fulfill donor stipulations. In addition, temporarily restricted net assets include planned gifts and contributions receivable. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as temporarily restricted net assets. When a restriction expires temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions".

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions and other inflows of funds subject to donor imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization. Permanently restricted net assets consist of those donor-restricted endowments held by the Santa Barbara Foundation for the benefit of the Organization.

Contributions and Grants

Contributions are recorded at their fair value on the date of donation. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

In-kind Contributions

Numerous volunteers give their time and expertise to the Organization in a wide variety of areas to further its program and objectives. This contribution, despite its considerable value to the mission of the Organization, is not reflected in the financial statements. Donated rents and program related materials are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. In-kind interest is calculated using an imputed interest rates ranging from 4% to 6%.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the time of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Management's policy is to capitalize certain purchases and donations with a value greater than \$5,000 and an expected life in excess of one year. Depreciation is computed using straight-line methods over the assets' estimated useful life.

Income Taxes

The Organization is a California nonprofit public benefit corporation, which is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d); therefore, no provisions for income taxes are reflected in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2017, the Organization had no uncertain tax positions requiring accrual. The Organization files tax returns in U.S. federal and California jurisdictions and is no longer subject to U.S. federal and state tax examinations by tax authorities for fiscal years ending before June 30, 2014 and June 30, 2013, respectively.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2016, from which the information was derived.

NOTE 3 ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consist primarily of amounts due from government agencies related to grants and contracts. The amounts considered fully collectible within one year and therefore no present value discounts or allowances for uncollectible receivables have been recorded.

Grants receivable consist of promises to forgive debt by local municipalities. Management anticipates full receipt of grants receivables; therefore, no allowance for uncollectible grants receivable has been recorded.

NOTE 3 ACCOUNTS AND GRANTS RECEIVABLE (Continued)

As of June 30, 2017, grants are expected to be received in the following amounts:

	Grants Receivable
2018	\$ 59,514
2019	43,567
2020	38,114
2021	21,391
2022	11,660
Thereafter	3,731
Totals	\$ 177,977

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	Estimated Life	2017	2016
Land	-	\$ 474,896	\$ 474,896
Building and improvements	5-20 years	3,821,565	3,807,274
Furniture and equipment	5-7 years	225,230	225,230
Vehicles	3-5 years	65,870	65,870
		4,587,561	4,573,270
Less: accumulated depreciation		(3,016,196)	(2,868,969)
Net property and equipment		\$ 1,571,365	\$ 1,704,301

Depreciation expense for the years ended June 30, 2017 and 2016, was \$147,228 and \$147,772, respectively. As referenced in Note 19, the Santa Maria property was held for sale as of June 30, 2017.

NOTE 5 INTEREST IN CHARITABLE REMAINDER TRUST

The Organization has been named as a residual beneficiary in a charitable remainder trust (CRT) restricted for the endowment. The CRT was initially recorded as a permanently restricted contribution and an asset equivalent to the present value of the trust assets and estimated future income net of the present value of estimated future payouts to the income beneficiaries. The assets are recorded at approximate fair market value based upon the most recent information filed by the trust which is available to the Organization. The present value of the estimated future value of assets to be received by the Organization is calculated using the Internal Revenue Service (IRS) annuity tables and a discount rate based on the Organization's historic risk-free rate of return currently estimated at 5%. The change in value of the CRT was \$3,846 and \$3,663 for the years ended June 30, 2017 and 2016, respectively.

NOTE 6 BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization has a beneficiary interest in the Santa Barbara Foundation Endowment Fund (Fund) under an Agency Fund Agreement (Fund Agreement). The Fund attempts to provide stable capital appreciation on a total return basis. Assets of the Fund are fully exposed to market risks and may experience market volatility and principal loss. The beneficial interest in the Fund is reported by the Organization at the estimated fair market value which is based on the reported net asset value of the Fund as reported by the Santa Barbara Foundation. At June 30, 2017 and 2016, the estimated fair market value of the Organization's interest in the Fund was \$1,426,872 and 1,302,897, respectively.

The Fund Agreement provides for the distribution of funds to be in accordance with the Santa Barbara Foundation's (SBF) spending policy for its endowed funds and consistent with the applicable provisions of the California Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Fund Agreement allows SBF to seek the Organization's advice concerning the timing and amounts of extraordinary distributions from the Fund to the Organization, however, the funding of any extraordinary distribution is at the SBF's sole discretion. Distributions from the Fund to the Organization for the years ended June 30, 2017 and 2016, totaled \$21,620 and \$20,614, respectively.

NOTE 7 NOTES PAYABLE

Notes payable consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Mortgage secured by a first trust deed on the Santa Maria Second Stage, payable to the Successor Redevelopment Agency, City of Santa Maria. The non-interest-bearing note will be forgiven over a period of ten years.	\$ 26,853	\$ 48,487
Mortgage secured by a second trust deed on the Santa Maria Second Stage, payable to the Successor Redevelopment Agency, City of Santa Maria. The non-interest-bearing note will be forgiven over a period of ten years.	25,795	30,849
Mortgage secured by a third trust deed on the Santa Maria Second Stage, payable to the Successor Redevelopment Agency, City of Santa Maria. The non-interest-bearing note will be forgiven over a period of ten years.	92,073	119,821
Mortgage secured by a first trust deed on the Santa Maria Shelter, payable to the Successor Redevelopment Agency, City of Santa Maria. The non-interest-bearing note will be forgiven over a period of ten years.	33,056	38,985
Mortgage secured by a first trust deed on second stage transitional housing building and rent income from the building, payable to the Successor Redevelopment Agency, City of Santa Barbara. The note is non-interest-bearing, with unpaid principal due October 2023.	<u>430,000</u>	<u>430,000</u>
Total Notes Payable	<u>\$ 607,777</u>	<u>\$ 668,142</u>

NOTE 7 NOTES PAYABLE (Continued)

Aggregate principal maturities of the mortgages for the next five years and thereafter are as follows as of June 30:

2018	\$ 59,514
2019	43,567
2020	38,114
2021	21,191
2022	11,660
Thereafter	<u>433,731</u>
Total	<u>\$ 607,777</u>

Total imputed interest for the non-interest-bearing notes payable for the years ended June 30, 2017 and 2016, was \$31,113 and \$34,609, respectively. Imputed interest rates on these notes range from 4% to 6%.

NOTE 8 LINE OF CREDIT

The Organization maintains a line of credit with Montecito Bank and Trust for \$100,000 secured by all equipment, expiring March 1, 2018. The interest rate is the prime rate plus 1%, with a minimum of 6%. At June 30, 2017 and 2016, there were no outstanding balances.

NOTE 9 CONTINGENT LIABILITIES

The Organization received a number of grants from various governmental agencies. These grants are subject to audit by the granting agencies as to allowable costs paid with federal funds. The Organization would be liable for up to the full amount of government funds expended should costs charged to the grants be disallowed.

The Organization has opted to self-insure its potential unemployment costs. The third party unemployment trust fund does not require a deposit to be held outside of the Organization. In prior years, the Organization remitted deposits for anticipated costs based upon the Organization's historic claim history. The third party retained the funds to remit to the state of California should there be any claims. While on deposit at the third party, the funds remained an asset of the Organization. Although Management is unaware of any claims as of June 30, 2017, the Organization has no reserve balances set aside for unemployment claims that may arise subsequent to year end. Unemployment claims expense for the years ended June 30, 2017 and 2016, was \$831 and \$20,432, respectively.

NOTE 10 CONCENTRATIONS AND RISKS

Concentrations

A significant portion of the Organization's revenues come from Federal and state grants and contracts. Approximately 66% of the government grant revenue is derived from two governmental grant contracts. Individual donors come primarily from Santa Barbara County, as do the clients of the Organization.

NOTE 10 CONCENTRATIONS AND RISKS (Continued)

Credit Risk

Domestic Violence Solutions for Santa Barbara County occasionally does have more than \$250,000 on deposit with financial institutions. The Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit with any one bank. At June 30, 2017, Domestic Violence Solutions for Santa Barbara County did not have uninsured funds.

Market Risk

The Organization holds its endowment in a diversified fund managed by the Santa Barbara Foundation. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

NOTE 11 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by satisfying the time restrictions or purposes specified by donors. For the year ended June 30, 2017, the release of restrictions and appropriation of endowment net assets for expenditure totaled \$91,297.

NOTE 12 LEASES

The Organization leases facilities in Goleta, California under a conditional lease agreement restricted by purpose and use through March 2020, requiring monthly installments for utilities and maintenance of \$300. The estimated fair value of the in-kind rent is reflected as in-kind donation revenue and associated occupancy expense. The estimated value, totaling \$80,451, is based upon prevailing rates per square foot for similar facilities.

NOTE 13 TRANSITIONAL HOUSING

In May 1993, the Organization purchased an apartment building in Santa Barbara County to be used for transitional housing. The down payment on the building amounting to \$400,000 was provided by a grant from the U.S. Department of Housing and Urban Development (HUD).

HUD grant terms require that the facility be used as transitional housing for 10 years from the date of purchase. Additionally, if the facility is sold within 20 years of initial occupancy, proceeds from that sale should be used to provide supportive housing or for the benefit of low-income persons or for another use approved by HUD.

NOTE 14 ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors have interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the original gift, as of the gift date. As a result of this interpretation, the Organization has classified with the explicit prohibition by the donor as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, the organization considers the following factors in making a determination to appropriate or invest donor-restricted endowment funds:

- (1) The duration and preservation of the funds
- (2) The purposes of the Organization and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Investment Return Objectives, Risk Parameters, and Strategies

The Board approved and adopted investment and spending policies for the endowment assets. The objective of the investment policy is to provide adequate returns to meet the spending needs of the Organization while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return which exceeds the annual distribution with acceptable levels of risk. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to avoid exposing the Organization to unacceptable levels of risk. Endowment assets are invested with the Santa Barbara Foundation which has a well-diversified asset mix, which includes a variety of equity and debt securities.

Spending Policy

The Organization's endowment has been established for general operating purposes. The Organization has established a spending policy that includes the annual distributions, as well as the cost of managing the funds. The Organization has a policy of appropriating for distribution each year the net income generated from the beneficiary interest in assets held by others, which will be measured at the end of each calendar year. Net income is defined as the total receipts allocated to income, including dividends and interest income, during an accounting period minus any fees during the accounting period.

NOTE 14 **ENDOWMENT FUNDS (Continued)**

In establishing this policy, the Organization considered the funding needs of the Organization as well as the goal of protecting the purchasing power of endowment assets over the long-term. Exceptions to this policy are by board resolution to appropriate the earnings or a portion of the earnings designated by the Board based on annual budget needs. Earnings is defined as all net income and appreciation, including realized and unrealized, over the previous year's ending value.

The Organization expects the current spending policy to allow its endowment funds to grow at a rate that is at least at the rate of inflation, even with the Organization's objective to maintain the original value of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the year ended June 30, 2017, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Endowment net assets, June 30, 2016	\$ 27,897	\$ 1,351,913	\$ 1,379,810
Net investment return	131,895	17,546	149,441
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>(21,620)</u>	<u>-</u>	<u>(21,620)</u>
Endowment net assets, June 30, 2017	<u>\$ 138,172</u>	<u>\$ 1,369,459</u>	<u>\$ 1,507,631</u>

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Endowment net assets, June 30, 2015	\$ 69,175	\$ 1,348,250	\$ 1,417,425
Net investment return	(20,614)	3,663	(16,951)
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>(20,664)</u>	<u>-</u>	<u>(20,664)</u>
Endowment net assets, June 30, 2016	<u>\$ 27,897</u>	<u>\$ 1,351,913</u>	<u>\$ 1,379,810</u>

NOTE 15 **FAIR VALUE MEASUREMENT**

The Financial Accounting Standard Board's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

NOTE 15 FAIR VALUE MEASUREMENT (Continued)

- Level 1: Quoted market prices in active markets for identical assets or liabilities
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
- Level 3: Unobservable inputs that are not corroborated by market data

The asset'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 methodologies used for assets measured at fair value:

Santa Barbara Foundation Endowment Fund: based upon estimated value of underlying investments derived from reports provided by the Santa Barbara Foundation

Interest in charitable remainder trust: valued at estimated net present value of beneficial interest in trust

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 sets forth by level within the fair value hierarchy the assets at fair values as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Santa Barbara Foundation			
Endowment Fund	\$ -	\$ 1,426,872	\$ -
Interest in charitable			
Remainder trust	-	80,759	-
Total	<u>\$ -</u>	<u>\$ 1,507,631</u>	<u>\$ -</u>

The following table sets forth by level within the fair value hierarchy the assets at fair values as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Santa Barbara Foundation			
Endowment Fund	\$ -	\$ 1,302,897	\$ -
Interest in charitable			
Remainder trust	-	76,913	-
Total	<u>\$ -</u>	<u>\$ 1,379,810</u>	<u>\$ -</u>

During the years ended June 30, 2017 and 2016, the Organization did not transfer any funds among levels 1 or 2 to level 3.

NOTE 16 RETIREMENT PLAN

The Organization has adopted a 401(k) retirement plan and allows all employees the option to participate in a matching program for retirement benefits. The Organization matches 50% on up to 5% of elective deferrals for all employees who choose to participate. For the years ended June 30, 2017 and 2016, employer contributions to the plan totaled \$14,451 and \$10,713, respectively.

NOTE 17 RECLASSIFICATION AND RESTATEMENT

Certain amounts from the June 30, 2016, financial statements have been reclassified to conform with the June 30, 2017, financial statement presentation.

For the year ended June 30, 2016, In-kind contributions and in-kind occupancy expense were restated, with no effect on net assets to reflect estimated values of in-kind rent associated with shelter programs comparable with those reported in the current year.

NOTE 18 NET ASSETS

Unrestricted Net Assets

Unrestricted net assets consist of the following amounts at June 30:

	<u>2017</u>	<u>2016</u>
General operations	\$ 198,136	\$ 373,132
Net property and equipment	<u>1,141,365</u>	<u>1,274,301</u>
	<u>\$ 1,339,501</u>	<u>\$ 1,647,433</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following amounts at June 30:

	<u>2017</u>	<u>2016</u>
Santa Barbara playground	\$ 55,000	\$ -
Other program related	-	9,512
Unspent endowment earnings	138,172	27,897
Time restricted grants receivable	<u>177,977</u>	<u>238,142</u>
	<u>\$ 371,149</u>	<u>\$ 275,551</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of the following amounts at June 30:

	<u>2017</u>	<u>2016</u>
Charitable remainder trust interest	\$ 80,759	\$ 76,913
Time restricted grants receivable	<u>1,288,700</u>	<u>1,275,000</u>
	<u>\$ 1,369,459</u>	<u>\$ 1,351,913</u>

NOTE 19 SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 2, 2017, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization entered into escrow to sell a residential property located in Santa Maria, California for the gross sales price of \$575,000. As of June 30, 2017, the organization is carrying the property at a value, net of accumulated depreciation, of approximately \$100,000.