



**DOMESTIC VIOLENCE SOLUTIONS
FOR SANTA BARBARA COUNTY**

FINANCIAL STATEMENTS

JUNE 30, 2018

**DOMESTIC VIOLENCE SOLUTIONS
FOR SANTA BARBARA COUNTY
TABLE OF CONTENTS
June 30, 2018**

Independent Auditor's Report.....	1-2
Report on Internal Control Over Financial Reporting And on Compliance and Other Matters.....	3-4
Statement of Financial Position.....	5
Statement of Activities.....	6
Statement of Functional Expenses.....	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9-21



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Domestic Violence Solutions for Santa Barbara County

We have audited the accompanying financial statements of Domestic Violence Solutions for Santa Barbara County (the "Organization") which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 of 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 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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable 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 the Organization as of June 30, 2018, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of the Organization as of June 30, 2017, were audited by other auditors whose report dated October 2, 2017, expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 16, 2018, on our consideration of the Organization'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
October 16, 2018



**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**

Board of Directors
Domestic Violence Solutions for Santa Barbara County

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2018.

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 our 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 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
October 16, 2018

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Financial Position

June 30, 2018

(With Summarized Comparative Totals for the Year 2017)

<i>Assets</i>	Unrestricted	Temporarily	Permanently	Total	
		Restricted	Restricted	2018	2017
Cash and cash equivalents	\$ 985,956	\$ -	\$ -	\$ 985,956	\$ 278,385
Accounts receivable	203,881	-	-	203,881	206,465
Grants receivable	-	85,465	-	85,465	177,977
Deposits and prepaid expenses	18,323	-	-	18,323	11,064
Property and equipment, net	1,416,767	-	-	1,416,767	1,571,365
Construction in progress	54,986	-	-	54,986	-
Interest in charitable remainder trust	-	-	65,599	65,599	80,759
Beneficial interest in assets held by others	-	207,938	1,288,700	1,496,638	1,426,872
<i>Total assets</i>	2,679,913	293,403	1,354,299	4,327,615	3,752,887
 <i>Liabilities and Net Assets</i>					
<i>Liabilities</i>					
Accounts payable	\$ 44,371	\$ -	\$ -	\$ 44,371	\$ 6,893
Accrued payroll and related expenses	82,936	-	-	82,936	56,308
Security deposits	1,200	-	-	1,200	1,800
Notes payable	515,265	-	-	515,265	607,777
<i>Total liabilities</i>	643,772	-	-	643,772	672,778
 <i>Net Assets</i>					
Unrestricted	2,036,141	-	-	2,036,141	1,339,501
Temporarily restricted net assets	-	293,403	-	293,403	371,149
Permanently restricted net assets	-	-	1,354,299	1,354,299	1,369,459
<i>Total net assets</i>	2,036,141	293,403	1,354,299	3,683,843	3,080,109
	\$ 2,679,913	\$ 293,403	\$ 1,354,299	\$ 4,327,615	\$ 3,752,887

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Activities

Year Ended June 30, 2018

(With Summarized Comparative Totals for the Year 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Public Support and Revenue					
Public Support					
Government grants	\$ 905,608	\$ -	\$ -	\$ 905,608	\$ 867,099
Contributions and grants	168,690	314,880	-	483,570	340,767
In-kind donations	138,150	-	-	138,150	168,947
Bequests	450,000	-	-	450,000	13,700
Net assets released from restrictions	462,392	(462,392)	-	-	-
Special events:					
Special events - gross	115,816	-	-	115,816	146,199
Direct special event costs	(34,861)	-	-	(34,861)	(43,678)
Net special event proceeds	80,955	-	-	80,955	102,521
Total public support	2,205,795	(147,512)	-	2,058,283	1,493,034
Revenue					
Thrift shop royalties	35,233	-	-	35,233	34,463
Rental income	23,181	-	-	23,181	32,745
Court ordered fees	35,014	-	-	35,014	31,780
Trainings	16,912	-	-	16,912	16,330
Change in value of beneficial interest in assets held by others	-	69,766	-	69,766	131,895
Change in value of interest in charitable remainder trust	-	-	(15,160)	(15,160)	3,846
Interest income	466	-	-	466	564
Gain on sale of land and improvements	342,766	-	-	342,766	-
Miscellaneous income	2,869	-	-	2,869	2,462
Total revenue	456,441	69,766	(15,160)	511,047	254,085
Total Public Support and Revenue	2,662,236	(77,746)	(15,160)	2,569,330	1,747,119
Expenses					
Program services	1,500,324	-	-	1,500,324	1,520,007
Management and general	261,736	-	-	261,736	165,942
Fundraising	203,536	-	-	203,536	255,958
Total expenses	1,965,596	-	-	1,965,596	1,941,907
Increase (decrease) in net assets	696,640	(77,746)	(15,160)	603,734	(194,788)
Net assets, beginning of year	1,339,501	371,149	1,369,459	3,080,109	3,274,897
Net assets, end of year	\$ 2,036,141	\$ 293,403	\$ 1,354,299	\$ 3,683,843	\$ 3,080,109

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Functional Expenses

Year Ended June 30, 2018

(With Summarized Comparative Totals for the Year 2017)

	Program	Management	Fundraising	Total	
	Services	and General		2018	2017
Salaries and wages	\$ 876,830	\$ 87,634	\$ 152,275	\$ 1,116,739	\$ 1,109,593
Payroll taxes	66,302	5,719	11,871	83,892	82,938
Employee benefits	107,491	31,986	14,161	153,638	143,401
Total salaries and benefits	<u>1,050,623</u>	<u>125,339</u>	<u>178,307</u>	<u>1,354,269</u>	<u>1,335,932</u>
Office expenses	48,186	51,410	4,551	104,147	88,927
Occupancy	56,393	7,920	-	64,313	81,139
Occupancy (in-kind)	85,048	-	-	85,048	80,451
Program supplies (in-kind)	26,840	-	-	26,840	55,288
Insurance	25,027	5,100	3,337	33,464	32,194
Imputed interest (in-kind)	26,262	-	-	26,262	31,113
Professional services	1,811	53,285	280	55,376	30,843
Transportation	26,419	8,360	1,538	36,317	30,784
Direct mailings	-	-	4,221	4,221	10,045
Advertising	1,223	2,199	8,246	11,668	5,100
Direct assistance	6,194	-	-	6,194	3,512
Miscellaneous	-	1,727	808	2,535	2,906
Conferences and training	6,967	1,381	1,542	9,890	2,893
Donor development	-	-	619	619	2,526
Program supplies	6,549	316	-	6,865	500
Outreach and education	5,107	-	87	5,194	452
Interest	-	-	-	-	74
Total expenses before depreciation	<u>1,372,649</u>	<u>257,037</u>	<u>203,536</u>	<u>1,833,222</u>	<u>1,794,679</u>
Depreciation	<u>127,675</u>	<u>4,699</u>	<u>-</u>	<u>132,374</u>	<u>147,228</u>
	<u>\$ 1,500,324</u>	<u>\$ 261,736</u>	<u>\$ 203,536</u>	<u>\$ 1,965,596</u>	<u>\$ 1,941,907</u>

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Statement of Cash Flows

Year Ended June 30, 2018

(With Summarized Comparative Totals for the Year 2017)

	<u>2018</u>	<u>2017</u>
<i>Cash flows from operating activities</i>		
Cash received from unrestricted revenues and support, net	1,621,275	1,216,498
Cash received from temporarily restricted contributors	407,392	115,165
Interest income	466	564
Cash paid for salaries and related expenses, net	(1,327,641)	(1,327,526)
Cash paid for other operating costs, net	(319,872)	(290,976)
Interest paid	-	(74)
<i>Net cash provided (used) by operating activities</i>	<u>381,620</u>	<u>(286,349)</u>
<i>Cash flows from investing activities</i>		
Proceeds from sale of land and improvement	440,829	-
Purchase of equipment and leasehold improvements	(98,931)	(14,292)
Purchase of permanently restricted investments	-	(13,700)
Distribution from beneficial interest in assets held by others	-	21,620
<i>Net cash provided by investing activities</i>	<u>341,898</u>	<u>(6,372)</u>
<i>Cash flows from financing activities</i>		
Contributions for permanently restricted endowment	-	13,700
<i>Net cash used by financing activities</i>	<u>-</u>	<u>13,700</u>
Net increase (decrease) in cash and cash equivalents	723,518	(279,021)
<i>Cash and cash equivalents, beginning of year</i>	<u>278,385</u>	<u>557,406</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 1,001,903</u>	<u>\$ 278,385</u>
Reconciliation of net assets to		
net cash provided (used) by operating activities		
Increase (decrease) in net assets	\$ 603,734	\$ (194,788)
Adjustments to reconcile increase (decrease) in net		
assets to net cash provided by operating activities:		
Depreciation	132,374	147,228
Gain on sale of land and improvement	(342,766)	-
In-kind loan forgiveness	(92,512)	(60,165)
Change in value of charitable remainder trusts	15,160	(3,846)
Unrealized gain on beneficial interest in assets held by others	(69,766)	(131,895)
Permanently restricted contributions	-	(13,700)
(Increase) decrease in:		
Accounts receivable	2,584	(87,534)
Grants receivable	92,512	60,165
Deposits and prepaid expensess	(7,259)	(8,970)
Unemployment reserve account	-	5,291
Increase (decrease) in:		
Accounts payable	21,531	(5,446)
Accrued liabilities	26,628	8,606
Security deposits	(600)	(1,295)
<i>Net cash provided (used) by operating activities</i>	<u>381,620</u>	<u>(286,349)</u>

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

DOMESTIC VIOLENCE SOLUTIONS FOR SANTA BARBARA COUNTY

Notes to Financial Statements

June 30, 2018

(With Summarized Comparative Totals for 2017)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Domestic Violence Solutions for Santa Barbara County (the "Organization") is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Domestic Violence Solutions for Santa Barbara County, Inc., 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 two 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.

Financial Statement Presentation

Information regarding the Organization's financial position and activities is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets generally result from unrestricted contributions, revenue and special events less expenses incurred in providing services, fundraising and other administrative expenses.

Temporarily restricted net assets are classified as such based on government or donor stipulations that they be used in a later period or for a specific purpose. They also include unrestricted investment income on permanently restricted assets where the income has not yet been appropriated for expenditure. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restriction.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. The unrealized gains and investment income on funds not restricted by the donor are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. (Note 13)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, and cash in banks, and excludes cash and cash equivalents held for investment.

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.

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%

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 square footage.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accounts Receivable

The Organization has made no provision for an allowance for doubtful accounts as of June 30, 2018 and 2017 based on management's analysis of the potential credit risk of funding agencies, historical trends, and other information. The Organization does not require collateral from its funding agencies.

Uncertain Tax Positions

Financial Accounting Standards Board's ASC 740-10, *Accounting for Uncertainty in Income Taxes*, prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization files tax returns in the U.S. federal jurisdiction and in the state of California. The Organization's tax returns from the year 2015 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2014 to the present remain subject to examination by the state of California. Management has evaluated its tax positions for all jurisdictions in which the statute of limitations remains open and has determined that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. The Organization had no unrecognized tax benefits related to tax positions taken during the years ended June 30, 2018 and 2017 or for prior periods.

Tax Exempt Status

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Fair Value Measurements

The Organization follows Accounting Standard Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*, issued by the Financial Accounting Standards Board (FASB). This standard defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. Pursuant to ASC No. 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC No. 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment, estimation, or other unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

Cash: Valued at face value. (Level 1)

Interest in charitable remainder trust: Valued using life expectancy and discount factors obtained from external sources including the Internal Revenue Service. (Level 2)

Interest in assets held by others: Value is based on Net Asset Value (NAV) per the most recent audited financial statements and interim information provided by the fund manager. The Organization does not have the ability to control or direct the assets held by others and the income and principal is subject to certain restrictions on redemption. (Level 2)

Property and Equipment

Property and equipment are stated at cost or, if acquired by gift, at the fair market value at the date of donation. Expenditures for building improvements and major renewals in excess of \$5,000 that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	15-20
Furniture and equipment	5-7
Vehicles	3-5

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications

Certain items in the 2017 financial statements were reclassified in order to conform to the 2018 presentation.

Subsequent Events

Management has evaluated subsequent events through October 16, 2018, the date that the financial statements were available to be issued.

2. 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.

As of June 30, 2018, grants are expected to be received as follows:

2019	\$ 32,249
2020	32,249
2021	15,227
2022	<u>5,740</u>
	<u>\$ 85,465</u>

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 436,907	\$ 474,896
Buildings and improvements	3,444,784	3,821,565
Furniture and equipment	211,607	225,230
Vehicles	<u>65,870</u>	<u>65,870</u>
	4,159,168	4,587,561
	<u>(2,742,401)</u>	<u>(3,016,196)</u>
	<u>\$ 1,416,767</u>	<u>\$ 1,571,365</u>

4. CONSTRUCTION IN PROGRESS

At June 30, 2018, construction in progress consists of costs incurred for the remodeling of the Transitional Housing shelter in Santa Barbara and includes costs for contractors.

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 (\$15,160) and \$3,846 for the years ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017, the estimated fair market value of the Organization's interest in the Fund was \$1,496,638 and \$1,426,872, respectively.

6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (Cont.)

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. Annually SBF makes distributions from the Fund based on its spending policy available to the Organization. The Organization has the option to request a lesser distribution amount. For the years ended June 30, 2018 and 2017, the distributions were \$0 and \$21,620, respectively.

7. NOTES PAYABLE

Notes payable consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Mortgage secured by a first trust deed on the Santa Maria Shelter, which has converted from transitional housing to an emergency 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.	\$ -	\$ 26,853
Mortgage secured by a second trust deed on the Santa Maria Shelter, which has converted from transitional housing to an emergency 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 by September 17, 2022.	20,740	25,795
Mortgage secured by a third trust deed on the Santa Maria Shelter, which has converted from transitional housing to an emergency 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 by December 17, 2020.	64,525	92,073
Mortgage secured by a first trust deed on the Santa Maria Shelter, which was an emergency shelter prior to being sold in October 2017, was payable to the Successor Redevelopment Agency, City of Santa Maria. The non-interest-bearing note was to be forgiven over a period of ten years.	-	33,056
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>\$ 515,265</u>	<u>\$ 607,777</u>

7. NOTES PAYABLE (Cont.)

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

2019	\$ 32,249
2020	32,249
2021	15,227
2022	5,540
2023	-
Thereafter	<u>430,000</u>
Total	<u>\$ 515,265</u>

Total imputed interest for the non-interest-bearing notes payable for the years ended June 30, 2018 and 2017, was \$26,262 and \$31,113, respectively. Imputed interest rates on these notes range from 4% to 6%.

8. LINE OF CREDIT

The Organization maintains a line of credit for \$100,000 secured by all equipment, expiring March 1, 2019. The interest rate is the prime rate plus 1%, with a minimum of 6%. At June 30, 2018 and 2017, there were no outstanding balances.

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. The Organization is unaware of any claims as of June 30, 2018. Unemployment claims reserve for the year ended June 30, 2018 was \$5,000.

10. CONCENTRATIONS AND RISKS

Concentrations

A significant portion of the Organization's revenues come from Federal and state grants and contracts. Approximately 50% of the government grant revenue is derived from two governmental grant contracts with The California Governor's Office of Emergency Services ("Cal OES"). Individual donors come primarily from Santa Barbara County, as do the clients of the Organization.

Credit Risk

The Organization maintains bank accounts at four financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization's uninsured cash balances totaled approximately \$187,700 at June 30, 2018.

Market Risk

The Organization holds its endowment in a diversified fund managed by the Santa Barbara Foundation. 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.

11. LEASES

The Organization leases facilities in an unincorporated area within Santa Barbara County, California under a conditional lease agreement restricted by purpose and use through March 2020, requiring monthly installments for utilities and maintenance of \$300. The facility is used as an emergency shelter. The estimated fair value of the in-kind rent is reflected as in-kind donation revenue and associated occupancy expense. The estimated value, totaling \$85,048, is based upon prevailing rates per square foot for similar facilities.

12. 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.

13. 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 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.

13. ENDOWMENT FUNDS (Cont.)

Spending Policy

The Organization's endowment has been established for general operating purposes. The Organization has established a spending policy that includes annual distributions, as well as the cost of managing the funds. The Organization's policy allows annual income distributions from the beneficiary interest in assets held by others at its discretion.

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. Distributions are minimalized to in order to allow funds to grow at a rate that will be commensurate with inflation while maintaining the corpus of the original and new gifts that are received.

As of June 30, 2018 and 2017, changes in endowment net assets consist of the following:

<u>June 30, 2018</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning endowment net assets	\$ 138,172	\$ 1,369,459	\$ 1,507,631
Net investment return	<u>69,766</u>	<u>(15,160)</u>	<u>54,606</u>
Ending endowment net assets	<u>\$ 207,938</u>	<u>\$ 1,354,299</u>	<u>\$ 1,562,237</u>
<u>June 30, 2017</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning endowment net assets	\$ 27,897	\$ 1,351,913	\$ 1,379,810
Net investment return	131,895	3,846	135,741
Contributions	-	13,700	13,700
Appropriation of endowment assets for expenditure	<u>(21,620)</u>	<u>-</u>	<u>(21,620)</u>
Ending endowment net assets	<u>\$ 138,172</u>	<u>\$ 1,369,459</u>	<u>\$ 1,507,631</u>

14. FAIR VALUE MEASUREMENTS

The following sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of December 31, 2018 and 2017:

<u>June 30, 2018</u>	<u>Fair Value (Level 1)</u>	<u>Fair Value (Level 2)</u>	<u>Fair Value (Level 3)</u>
Santa Barbara Foundation			
Endowment Fund	\$ -	\$ 1,496,638	\$ -
Interest in charitable remainder trust	<u>-</u>	<u>65,599</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 1,562,237</u>	<u>\$ -</u>
<u>June 30, 2017</u>	<u>Fair Value (Level 1)</u>	<u>Fair Value (Level 2)</u>	<u>Fair Value (Level 3)</u>
Santa Barbara Foundation			
Endowment Fund	\$ -	\$ 1,426,872	\$ -
Interest in charitable remainder trust	<u>-</u>	<u>80,759</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 1,507,631</u>	<u>\$ -</u>

15. 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, 2018 and 2017, employer contributions to the plan totaled \$6,802 and \$14,451, respectively.

16. NET ASSETS

Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Santa Barbara playground	\$ -	\$ 55,000
Unspent endowment earnings	207,938	138,172
Time restricted grants receivable	<u>85,465</u>	<u>177,977</u>
	<u>\$ 293,403</u>	<u>\$ 371,149</u>

16. NET ASSETS (Cont.)

Permanently Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Charitable remainder trust interest	\$ 65,599	\$ 80,759
Beneficial interest in assets held by others	<u>1,288,700</u>	<u>1,288,700</u>
	<u>\$ 1,354,299</u>	<u>\$ 1,369,459</u>

17. GAIN ON SALE

On October 6, 2017, the Organization sold a shelter located in Santa Maria, California to another nonprofit organization for the gross sales price of \$575,000 and recognized a gain of \$342,766 and net proceeds of \$440,829.

18. CASH FLOW INFORMATION

The Organization had noncash transactions consisting of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
In-kind donation of goods	\$ 26,840	\$ 57,383
In-kind donation of rent	85,048	80,451
In-kind donation of interest	26,262	31,113