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

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
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 statement of financial position as of December 31, 2016, and 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 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 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 auditors' 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, 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.

Prior Period Financial Statements

The financial statements of Shelter Providers of Orange County, Inc. dba HomeAid Orange County, Inc. as of and for the year ended December 31, 2015, were audited by other auditors whose report dated August 17, 2016, expressed an unmodified opinion on those statements.

White Nelson Diehl Evans LLP

Irvine, California
September 26, 2017

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
Cash and cash equivalents	$ 313,249	$ 340,879
Cash from pass-through grant	168,051	672,148
Restricted cash	158,423	-
Investments from pass-through grant	5,081,150	5,453,356
Receivables:		
Accounts receivable	8,974	20,345
Grants receivable	114,165	58,333
Contributions receivable	516,522	76,439
Interest receivable from pass-through grant	3,616	6,903
Other assets	9,147	6,976
Property and equipment	2,051,979	1,761,241
Total Assets	$ 8,425,276	$ 8,396,620

LIABILITIES AND NET ASSETS

	2016	2015
Liabilities:		
Accounts payable and accrued liabilities	$ 101,622	$ 74,238
Pass-through grant	5,252,817	6,132,407
Long-term debt, net of debt discounts	1,586,739	1,564,555
Total Liabilities	6,941,178	7,771,200
Net Assets:		
Unrestricted	664,710	579,820
Temporarily restricted	819,388	45,600
Total Net Assets	1,484,098	625,420
Total Liabilities and Net Assets	$ 8,425,276	$ 8,396,620

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, 2016 AND 2015

	2016	2015
Unrestricted Net Assets:		
Support, Revenues, and Gains:		
Donated materials and services	$ 1,178,467	$ 1,103,037
Contributions	460,644	469,498
Grants	75,000	75,000
Program service fees	114,440	45,372
Investment income (loss)	731	(193)
Rental income	42,000	18,600
Net assets released from restrictions	215,221	37,839
Subtotal support and revenue	2,086,503	1,749,153
Special Events:		
Revenue	583,991	557,299
Direct expenses	(227,823)	(219,157)
Net Special Events	356,168	338,142
Total Support, Revenues, and Gains	2,442,671	2,087,295
Expenses:		
Program Services:		
Housing development	1,262,642	1,046,573
In the community	569,184	676,495
Total Program Services	1,831,826	1,723,068
Supporting Services:		
Fundraising	387,996	176,117
Management and administrative	137,959	114,213
Total Supporting Services	525,955	290,330
Total Expenses	2,357,781	2,013,398
Increase in unrestricted net assets	84,890	73,897
Temporarily Restricted Net Assets:		
In-kind contributions	264,294	-
Contributions	724,715	48,640
Net assets released from restrictions	(215,221)	(37,839)
Increase in temporarily restricted net assets	773,788	10,801
Increase in net assets	858,678	84,698
Net Assets, Beginning of Year	625,420	540,722
Net Assets, End of Year	$ 1,484,098	$ 625,420

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

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, 2015

	Program Services		Supporting Services		
	Housing Development	In the Community	Fundraising	Management and Administrative	Total Functional Expenses
Donated materials and services	$ 664,219	$ 437,591	$ -	$ 2,500	$ 1,104,310
Shelter project and program expenditures	42,908	37,219	-	-	80,127
Salaries and related costs	287,151	156,603	100,573	41,715	586,042
Accounting	-	-	-	13,450	13,450
Administrative	932	3,487	1,671	1,628	7,718
Advertising	615	2,521	8,035	1,432	12,603
Auction expense	-	-	5,332	-	5,332
Audio and visual	-	-	5,663	-	5,663
Automobile expense	3,408	767	690	1,042	5,907
Awards and recognition	-	-	103	174	277
Bank, management, and city fees	-	572	1,276	715	2,563
Chapter assessment	625	625	625	625	2,500
Computer expenses	3,702	3,702	3,702	3,702	14,808
Conferences and seminars	1,209	587	435	35	2,266
Direct mail expenses	-	-	951	-	951
Insurance	1,206	344	344	5,820	7,714
Interest	-	-	-	21,131	21,131
Meals and entertainment	945	3,076	1,363	2,945	8,329
Office expenses	5,173	1,292	1,292	2,055	9,812
Office supplies	215	2,382	428	215	3,240
Outside services	-	3,000	13,601	-	16,601
Photography and public relation costs	2,614	4,836	1,314	1,314	10,078
Postage	-	209	1,153	237	1,599
Printing	216	4,073	6,467	216	10,972
Property taxes	-	-	-	2,938	2,938
Rent	23,646	5,912	5,912	5,912	41,382
Rentals	-	3,766	2,295	-	6,061
Storage facilities	1,670	278	557	278	2,783
Telephone	2,143	1,165	935	691	4,934
Other costs	-	1,004	9,916	-	10,920
Expenses Before Depreciation	1,042,597	675,011	174,633	110,770	2,003,011
Depreciation of property and equipment	3,976	1,484	1,484	3,443	10,387
Total Functional Expenses	$ 1,046,573	$ 676,495	$ 176,117	$ 114,213	$ 2,013,398

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

SHELTER PROVIDERS OF ORANGE COUNTY, INC.
DBA HOMEAID ORANGE COUNTY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities:		
Increase in Net Assets	$ 858,678	$ 84,698
Noncash Items Included in Increase in Net Assets:		
Depreciation	11,804	10,387
Amortization of deferred financing costs	10,032	2,508
Discount on long-term debt	12,152	(45,600)
Unrealized (gain) loss from investments	-	313
Donated materials and services	(264,294)	-
Changes in:		
Cash from pass-through grant	504,097	2,104,043
Restricted cash	(158,423)	-
Investments from pass-through grant	372,206	(2,026,076)
Accounts receivable	11,371	(20,345)
Grants receivable	(55,832)	(45,833)
Contributions receivable	(440,083)	(34,116)
Interest receivable from pass-through grant	3,287	29,170
Other assets	(2,171)	(1,080)
Accounts payable and accrued liabilities	27,384	(30,687)
Pass-through grant	(879,590)	(101,137)
Net Cash Provided by (Used in) Operating Activities	10,618	(73,755)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(38,248)	(1,745,038)
Net Cash Used in Investing Activities	(38,248)	(1,745,038)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	-	1,627,709
Cash paid for deferred financing costs	-	(20,062)
Net Cash Provided by Financing Activities	-	1,607,647
Net Decrease in Cash and Cash Equivalents	(27,630)	(211,146)
Cash and Cash Equivalents at Beginning of Year	340,879	552,025
Cash and Cash Equivalents at End of Year	$ 313,249	$ 340,879
Supplemental Disclosure of Noncash Activities:		
Donated materials and services	$ 1,294,157	$ 1,206,377
Supplemental Disclosure:		
Interest paid	$ 76,269	$ 15,583

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. The HomeAid Family Care Center (the "Family Care Center") will support the needs of over 120 Orange County families with young children annually. In connection therewith, HomeAid has initiated a capital campaign, purchased a building, and started development (See Notes 5, 8, and 16). In 2016, Housing Development projects included Orangewood Children's Foundation, Illumination Foundation, Family Assistance Ministries, Precious Life Shelter and American Family Housing.

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 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, special events, grants, corporate sponsorships, and cash donations. Donated materials and services include construction materials and services used in Housing Development projects, items for Essentials, and hygiene items for the CareKits. Fundraising income includes, among other things, event sponsorships, ticket sales, auction sales, and individual solicitations. Grant income is generated through private and corporate foundations for general operating and/or the building and renovating of projects. 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 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.

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 Care Center.

Investments

Investments in marketable securities with readily determinable fair values and all 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 on the Organization's accompanying statement 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, 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 $7,746 was capitalized during the year ended December 31, 2016, and is included in property and equipment in the accompanying statements of financial position. No interest was capitalized during the year ended December 31, 2015.

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, 2016 and 2015, 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, 2016 and 2015, of which accumulated amortization totaled $12,540 and $2,508, respectively. For the years ended December 31, 2016 and 2015, amortization of deferred financing costs was $10,032 and $2,508, respectively, and is included in interest expense in the Organization’s accompanying statements of functional expenses and housing and development expenses 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 accounting principles generally accepted in the United States of America 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, 2016 and 2015. 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 for unrecognized tax benefits or any related interest or penalties at December 31, 2016 and 2015. The Organization's 2013 to 2016 tax years are open to review for federal tax purposes and 2012 to 2016 tax years 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 explain 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 (FDIC) up to $250,000. The Organization had no cash balances at these institutions that were in excess of federally insured limits at December 31, 2016 and 2015.

The Organization obtained a substantial portion of its support from one source during the year ended December 31, 2016. Support received from this source aggregated approximately $300,000. At December 31, 2016, amounts due from this source in contributions receivables was approximately $150,000. There were no concentrations of support for the year ended December 31, 2015.

Note 4: Contributions Receivable

Contributions receivable at December 31, 2016 and 2015, are as follows:

	2016	2015
HomeAid Family Care Center	$ 490,154	$ -
General contributions	59,154	76,439
Less: Discount for present value of contributions receivable	(32,786)	-
Contributions Receivable	$ 516,522	$ 76,439
Contributions receivable before discounts due in:		
Less than one year	$ 294,218	$ 76,439
One to five years	255,090	-
	$ 549,308	$ 76,439

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, 2016 and 2015.

Note 5: Property and Equipment

At December 31, 2016 and 2015, property and equipment consist of the following:

	2016	2015
Land	$ 1,482,361	$ 1,482,361
Building	261,593	261,593
Office equipment	12,495	12,495
Furniture and fixtures	20,062	20,062
Construction in progress	302,542	-
Total property and equipment, at cost	2,079,053	1,776,511
Less: Accumulated depreciation	(27,074)	(15,270)
Property and Equipment, at Net Book Value	$ 2,051,979	$ 1,761,241

Depreciation expense for the years ended December 31, 2016 and 2015, was $11,804 and $10,387, respectively.

Note 5: Property and Equipment (Continued)

Property and equipment at December 31, 2016 includes the construction in progress for the Family Care Center. The following are the costs incurred through December 31, 2016 and the estimated costs of completion:

Cost incurred through December 31, 2016	$ 2,046,496
Estimated costs to complete	1,300,000
Total Estimated Cost of the Family Care Center	$ 3,346,496

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 non-profit 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, 2016 and 2015 were $114,440 and $45,372, respectively. The amount of program service fees received during 2016 and 2015 were $39,786 and $21,277, respectively. Program service fees earned but not received are included in grants receivable on the Organization's accompanying statement 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:

	2016	2015
Cash	$ 168,051	$ 672,148
Certificates of deposit	1,490,186	2,727,607
U.S. Treasury Bills	3,590,964	2,725,749
Accrued interest	3,616	6,976
	$ 5,252,817	$ 6,132,407

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

All the investment activity, including earned interest, unrealized losses, and accrued interest in the amounts of $3,616 and $6,903 for the years ended December 31, 2016 and 2015, respectively, that occurred related to the pass-through grant account have 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.

As of December 31, 2016, 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	$ 616,176
Illumination Foundation	41,214
Mercy House	1,733,607
Family Assistance Ministries	1,117,500
Total committed balance	3,508,497
Uncommitted balance	1,744,320
Fund Balance – December 31, 2016	$ 5,252,817

Note 6: Pass-Through Grant (Continued)

In accordance with the grant, the Organization may be required to refund all uncommitted balances at the end of the grant period if the grant is not renewed. The Organization is in the process of renewing the grant as of the date of this report. The following is a summary of the future committed disbursements under the grant:

2017	$ 1,680,542
2018	610,983
2019	547,989
2020	271,038
2021	266,545
Thereafter	131,400
Total Committed Balance	$ 3,508,497

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.

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;
- 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.

Note 7: Fair Value Measurements (Continued)

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

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

The preceding methods 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, 2016:

	Level 1	Level 2	Level 3	Total
Pass-Through Grant Investments:				
U.S. 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.

The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Pass-Through Grant Investments:				
U.S. Treasury Bills	$ -	$ 2,725,749	$ -	$ 2,725,749
	$ -	$ 2,725,749	$ -	2,725,749
Certificates of deposits [1]				2,727,607
Total Investments				$ 5,453,356

[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, and a balloon payment due in September 23, 2017. The agreement includes an option for an automatic 90 day extension if requested by the Organization. The Organization used this line of credit to purchase the property in Orange, California for the Family Care Center. The line of credit is collateralized by the land and building. The balance on the line of credit at December 31, 2016 and 2015 was $1,327,709. The Organization had requested an extension and is in the process of refinancing the line of credit as of the date of this report.

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, 2016 and 2015 was $300,000. This note payable may be repaid in cash or in-kind donations.

In accordance with accounting principles generally accepted in the United States of America, 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, 2016 and 2015 was $266,552 and $254,400, respectively.

The following table represents the maturities of long-term debt, related discounts, and the estimated amortization of deferred financing costs for the succeeding years:

	Principal Payments	Discounts	Deferred Finance Costs	Total
2017	$ 1,327,709	$ (12,152)	$ (7,522)	$ 1,308,035
2018	-	(12,152)	-	(12,152)
2019	300,000	(9,144)	-	290,856
Total	$ 1,627,709	$ (33,448)	$ (7,522)	$ 1,586,739

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, 2016 and 2015 totaling $1,572,731 and $1,206,377, respectively is based on management and donors' estimates of the fair value of the materials and services provided.

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

	2016	2015
Donated materials and services	$ 1,178,467	$ 1,101,809
Special events	129,970	102,068
Other donations	-	2,500
Temporarily restricted, in-kind contributions	264,294	-
Total	$ 1,572,731	$ 1,206,377

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, 2016 and 2015 amounted to $44,442 and $41,382, 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, 2016 and 2015 totaling approximately $611,000 and $51,000, respectively, which have been included in contributions and donated services and materials in the Organization's statement 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 a discretionary matching contributions up to 50 percent of employee contributions, subject to the approval of the executive committee. The Organization did not make a contribution to the plan during the years ended December 31, 2016 and 2015.

Note 13: Rental Income

The Organization acquired a property in September 2015 to build the Family Care Center. While the Family Care Center 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 of $42,000 and $18,600 for the years ended December 31, 2016 and 2015, respectively. No future amounts are expected.

Note 14: Temporarily Restricted Net Assets

Temporary restrictions on net assets at the end of 2016 and 2015 are related to funds raised through the Capital Campaign, a drive to raise funds for the Family Care Center, 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 Care Center will be released from restriction as qualifying expenses are incurred. Expenses that qualify for capitalization are recorded as construction in progress (see Note 5), and will be released from temporary restricted net assets into unrestricted net assets upon completion of the Family Care Center.

Note 14: Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets at December 31, 2016 and 2015 are as follows:

	2016	2015
Amortization of imputed interest	$ 33,448	$ 45,600
Family Care Center - unspent contributions	483,398	-
Family Care Center - construction in progress	302,542	-
Total Temporarily Restricted Contributions	$ 819,388	$ 45,600

Note 15: Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order to conform with the current-year presentation. These reclassifications had no effect on the reported results of operations.

Note 16: Subsequent Events

The Family Care Center was completed and opened for operations in July 2017. From January 1, 2017 through July 31, 2017, the Organization continued to receive contributions for the Family Care Center totaling approximately $2,412,000, of which approximately $1,407,000 have been collected as of the date of this report.

Events occurring after December 31, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of September 26, 2017, which is the date the financial statements were available to be issued.