

Becoming Independent
(a California Not-for-Profit Corporation)

Financial Statements
For the Years Ended June 30, 2018 and 2017

Together with Independent Auditors' Report

Becoming Independent

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Independent Auditors' Report

To the Board of Directors of
Becoming Independent
Santa Rosa, California

We have audited the accompanying financial statements of Becoming Independent, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Becoming Independent as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dillwood Burkel & Millar, LLP

Santa Rosa, California
October 29, 2018

Becoming Independent

Statements of Financial Position

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,950,305	\$ 2,024,452
Accounts receivable, net	1,036,801	1,105,382
Pledges receivable	5,000	37,726
Restricted cash and cash equivalents	666,733	657,013
Prepaid expenses and other current assets	148,687	33,938
Total Current Assets	<u>3,807,526</u>	<u>3,858,511</u>
Noncurrent Assets		
Investments	1,903,946	1,907,613
Property, equipment and improvements, net	5,536,133	5,833,655
Other noncurrent assets	15,362	28,814
Total Noncurrent Assets	<u>7,455,441</u>	<u>7,770,082</u>
Total Assets	<u><u>\$ 11,262,967</u></u>	<u><u>\$ 11,628,593</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 892,743	\$ 1,003,007
Notes payable, current portion, net	463,057	443,891
Borrowing premium, current portion	12,236	10,948
Total current liabilities	<u>1,368,036</u>	<u>1,457,846</u>
Noncurrent liabilities		
Notes payable, noncurrent portion, net	2,695,898	3,017,272
Borrowing premium, noncurrent portion	86,351	98,587
Total noncurrent liabilities	<u>2,782,249</u>	<u>3,115,859</u>
Total liabilities	4,150,285	4,573,705
Net assets		
Unrestricted	6,067,824	6,142,545
Temporarily restricted	1,044,858	912,343
Total net assets	<u>7,112,682</u>	<u>7,054,888</u>
Total liabilities and net assets	<u><u>\$ 11,262,967</u></u>	<u><u>\$ 11,628,593</u></u>

See accompanying Notes to Financial Statements.

Becoming Independent

Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Changes in net assets			
Support and revenue			
Service fees	\$ 10,877,088	\$ -	\$ 10,877,088
Contributions and grants	991,207	668,712	1,659,919
Work activities revenue	1,068,331	-	1,068,331
Santa Rosa Junior College subsidy	535,960	-	535,960
Investment income	150,858	-	150,858
Net assets released from restrictions	536,197	(536,197)	-
Total support and revenue	<u>14,159,641</u>	<u>132,515</u>	<u>14,292,156</u>
Expenses			
Program services			
Day training and activities	7,988,918	-	7,988,918
Transportation	823,730	-	823,730
Independent living skills	3,601,323	-	3,601,323
Total program services	<u>12,413,971</u>	<u>-</u>	<u>12,413,971</u>
Support services			
Management and general	1,193,692.00	-	1,193,692
Fundraising	626,699	-	626,699
Total supporting services	<u>1,820,391</u>	<u>-</u>	<u>1,820,391</u>
Total expenses	<u>14,234,362</u>	<u>-</u>	<u>14,234,362</u>
Changes in net assets	(74,721)	132,515	57,794
Net assets at beginning of year	<u>6,142,545</u>	<u>912,343</u>	<u>7,054,888</u>
Net assets at end of year	<u>\$ 6,067,824</u>	<u>\$ 1,044,858</u>	<u>\$ 7,112,682</u>

See accompanying Notes to Financial Statements.

Becoming Independent

Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes in net assets				
Support and revenue				
Service fees	\$ 11,142,356	\$ -	\$ -	\$ 11,142,356
Contributions and grants	747,816	567,783	-	1,315,599
Work activities revenue	788,567	-	-	788,567
Santa Rosa Junior College subsidy	571,877	-	-	571,877
Investment income	190,860	-	-	190,860
Other income	24,370	-	-	24,370
Net assets released from restrictions	444,141	(444,141)	-	-
Total support and revenue	<u>13,909,987</u>	<u>123,642</u>	<u>-</u>	<u>14,033,629</u>
Expenses				
Program services				
Day training and activities	7,479,184	-	-	7,479,184
Transportation	770,962	-	-	770,962
Independent living skills	3,658,060	-	-	3,658,060
Total program services	<u>11,908,206</u>	<u>-</u>	<u>-</u>	<u>11,908,206</u>
Support services				
Management and general	1,358,279	-	-	1,358,279
Fundraising	674,967	-	-	674,967
Total supporting services	<u>2,033,246</u>	<u>-</u>	<u>-</u>	<u>2,033,246</u>
Total expenses	<u>13,941,452</u>	<u>-</u>	<u>-</u>	<u>13,941,452</u>
Changes in net assets	(31,465)	123,642	-	92,177
Reclassification	1,000	-	(1,000)	-
Net assets at beginning of year	<u>6,173,010</u>	<u>788,701</u>	<u>1,000</u>	<u>6,962,711</u>
Net assets at the end of year	<u>\$ 6,142,545</u>	<u>\$ 912,343</u>	<u>\$ -</u>	<u>\$ 7,054,888</u>

See accompanying Notes to Financial Statements.

Becoming Independent

Statement of Functional Expenses

For the Year Ended June 30, 2018

	Program Services				Supporting Services			Total Expenses
	Day Training and Activities	Trans- portation	Independent Living Skills	Program Services Total	Management and General	Fundraising	Supporting Services Total	
Salaries, staff	\$ 4,521,781	\$ 394,619	\$ 2,567,042	\$ 7,483,442	\$ 709,178	\$ 263,577	\$ 972,755	\$ 8,456,197
Salaries, clients	423,063	-	-	423,063	-	-	-	423,063
Employee benefits	691,497	83,619	314,630	1,089,746	123,179	33,937	157,116	1,246,862
Payroll taxes/workers comp	499,747	83,434	368,854	952,035	66,168	22,304	88,472	1,040,507
	<u>6,136,088</u>	<u>561,672</u>	<u>3,250,526</u>	<u>9,948,286</u>	<u>898,525</u>	<u>319,818</u>	<u>1,218,343</u>	<u>11,166,629</u>
Supplies	334,211	6,585	52,921	393,717	46,207	12,176	58,383	452,100
Vehicle expenses	295,556	138,344	277	434,177	4,295	-	4,295	438,472
Rent	156,905	-	95,730	252,635	5,183	1,775	6,958	259,593
Professional fees	94,033	13,227	29,037	136,297	37,178	51,882	89,060	225,357
Repairs and maintenance	132,526	6,453	7,306	146,284	26,965	48,404	75,369	221,653
Marketing	12,036	-	1,875	13,911	34,323	151,096	185,418	199,329
Travel and transportation	77,525	2,768	101,043	181,336	3,596	572	4,169	185,504
Utilities	109,548	2,905	2,191	114,644	15,771	3,020	18,791	133,435
Insurance	87,217	2,518	7,152	96,887	26,777	2,812	29,589	126,476
Telephone and data	58,198	7,170	42,792	108,160	5,757	2,293	8,050	116,210
Interest	103,266	2,362	1,474	107,102	7,133	1,536	8,669	115,771
Other	37,331	623	1,971	39,925	25,321	7,383	32,704	72,629
Training and conference	35,664	482	4,248	40,394	6,946	2,859	9,805	50,199
Postage and copying	654	22	-	676	7,004	13,860	20,864	21,540
	<u>1,534,670</u>	<u>183,457</u>	<u>348,018</u>	<u>2,066,145</u>	<u>252,454</u>	<u>299,669</u>	<u>552,123</u>	<u>2,618,268</u>
Depreciation and amortization	<u>318,160</u>	<u>78,601</u>	<u>2,780</u>	<u>399,541</u>	<u>42,713</u>	<u>7,212</u>	<u>49,925</u>	<u>449,466</u>
Total	<u>\$ 7,988,918</u>	<u>\$ 823,730</u>	<u>\$ 3,601,323</u>	<u>\$ 12,413,972</u>	<u>\$ 1,193,692</u>	<u>\$ 626,699</u>	<u>\$ 1,820,392</u>	<u>\$ 14,234,363</u>

See accompanying Notes to Financial Statements.

Becoming Independent

Statement of Functional Expenses

For the Year Ended June 30, 2017

	Program Services				Supporting Services			Total Expenses
	Day Training and Activities	Trans- portation	Independent Living Skills	Program Services Total	Management and General	Fundraising	Supporting Services Total	
Salaries, staff	\$ 4,272,358	\$ 343,458	\$ 2,584,098	\$ 7,199,914	\$ 726,582	\$ 257,315	\$ 983,897	\$ 8,183,811
Salaries, clients	436,174	55	-	436,229	-	-	-	436,229
Employee benefits	584,701	51,733	300,079	936,513	81,403	28,463	109,866	1,046,379
Payroll taxes/workers comp	481,459	75,876	415,541	972,876	83,177	23,666	106,843	1,079,719
	<u>5,774,692</u>	<u>471,122</u>	<u>3,299,718</u>	<u>9,545,532</u>	<u>891,162</u>	<u>309,444</u>	<u>1,200,606</u>	<u>10,746,138</u>
Vehicle expenses	277,382	164,298	209	441,889	1,081	-	1,081	442,970
Supplies	283,626	5,466	66,228	355,320	11,219	4,395	15,614	370,934
Rent	234,764	115	93,795	328,674	881	1,450	2,331	331,005
Professional fees	44,062	399	18,603	63,064	143,064	62,171	205,235	268,299
Marketing	14,122	-	-	14,122	52,646	191,632	244,278	258,400
Repairs and maintenance	122,853	5,221	14,284	142,358	30,105	73,446	103,551	245,909
Travel and transportation	58,406	1,426	93,188	153,020	7,020	1,041	8,061	161,081
Telephone and data	64,693	13,327	42,519	120,539	22,769	3,089	25,858	146,397
Insurance	64,919	4,257	8,515	77,691	55,343	4,257	59,600	137,291
Interest	103,089	3,754	-	106,843	27,161	-	27,161	134,004
Utilities	92,415	184	2,823	95,422	33,755	306	34,061	129,483
Training and conference	47,211	461	5,948	53,620	28,566	456	29,022	82,642
Other	13,849	425	92	14,366	17,152	3,936	21,088	35,454
Postage and copying	1,501	24	-	1,525	10,085	13,526	23,611	25,136
	<u>1,422,892</u>	<u>199,357</u>	<u>346,204</u>	<u>1,968,453</u>	<u>440,847</u>	<u>359,705</u>	<u>800,552</u>	<u>2,769,005</u>
Depreciation and amortization	281,600	100,483	12,138	394,222	26,270	5,818	32,088	426,310
Total	<u>\$ 7,479,184</u>	<u>\$ 770,962</u>	<u>\$ 3,658,060</u>	<u>\$ 11,908,206</u>	<u>\$ 1,358,279</u>	<u>\$ 674,967</u>	<u>\$ 2,033,246</u>	<u>\$ 13,941,452</u>

See accompanying Notes to Financial Statements.

Becoming Independent

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	<i>Increase (decrease) in cash and cash equivalents</i>	
Cash flows from operating activities		
Increase in net assets	\$ 57,794	\$ 92,177
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation and amortization	449,465	426,310
Amortization of bond premium	(10,948)	(9,807)
Net realized and unrealized gain	(120,811)	(142,872)
Dividends reinvested	-	(37,917)
(Increase) decrease in operating assets:		
Accounts receivable	68,581	10,865
Prepaid expenses and other current assets	(114,749)	52,288
Pledges receivable	32,726	(37,726)
Increase in operating liabilities:		
Accounts payable and accrued expenses	(110,264)	160,332
Net cash and cash equivalents provided by operating activities	<u>251,794</u>	<u>513,650</u>
Cash flows from investing activities		
Acquisition of property, equipment and improvements	(129,167)	(575,522)
Decrease (increase) in other noncurrent assets	13,452	(900)
Purchases of investment securities	(2,221,030)	(160,647)
Proceeds from sale of investment securities	<u>2,345,508</u>	<u>162,305</u>
Net cash and cash equivalents used in investing activities	8,763	(574,764)
Cash flows from financing activities		
Principal payments on notes payable	\$ (324,984)	\$ (319,999)
Principal payments on capital lease	-	(9,540)
Net cash and cash equivalents used in financing activities	<u>(324,984)</u>	<u>(329,539)</u>
Net decrease in cash and cash equivalents	(64,427)	(390,653)
Cash and cash equivalents at beginning of year	<u>2,681,465</u>	<u>3,072,118</u>
Cash and cash equivalents at end of year	<u>\$ 2,617,038</u>	<u>\$ 2,681,465</u>
Unrestricted cash and cash equivalents	\$ 1,950,305	\$ 2,024,452
Restricted cash and cash equivalents	<u>666,733</u>	<u>657,013</u>
Cash and cash equivalents at end of year	<u>\$ 2,617,038</u>	<u>\$ 2,681,465</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 130,781</u>	<u>\$ 89,926</u>

See accompanying Notes to Financial Statements.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 1 Nature of Activities

Becoming Independent (the "Organization" or "BI") is a California not-for-profit corporation that helps people with developmental disabilities live meaningful and productive lives. BI is a community benefit organization serving Sonoma, Napa and Solano counties with a purpose of elevating human abilities for the mutual benefit of the community. Each year thousands of individuals are welcomed with opportunities to be productive and engaged community members through three strategic initiatives: education, supported living, and employment.

Note 2 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. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations and, therefore, are available to carry out the Organization's operations.

Temporarily restricted net assets – Net assets consist of unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Organization's policy to recognize revenues as unrestricted if the temporary restrictions are met within the same period.

Permanently restricted net assets – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited in perpetuity by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. BI had no permanently restricted net assets as of June 30, 2018 and 2017.

Cash and Cash Equivalents

The Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents, except when a restriction is imposed which limits the investment's use to long-term. Cash is held in demand accounts at banks, and cash balances may exceed the federally insured amounts during the year.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 2 **Significant Accounting Policies, *continued***

Contribution Revenues

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of receipt. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received. Many individuals volunteer their time and perform a variety of tasks that assist the Organization at various events; however, these donated services are not reflected in the financial statements as the services do not require specialized skills.

Service Fees and Other Contract Revenues

The Organization provides services and manages client services according to contract agreements entered into with third parties. Service fees and contract revenues are recognized when the services are provided.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on accounts receivable balances.

The Organization uses the allowance method for recognition of losses from uncollectible accounts receivable. At June 30, 2018 and 2017, accounts receivable are presented net of an allowance for doubtful accounts in the amount of \$2,291 for both years.

Property and Improvements

Property and improvements are recorded at acquisition cost. Depreciation is computed using the straight line method over the estimated useful lives of the assets ranging from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful life of the asset or the term of the lease with any unamortized balance written off to expense if a lease is terminated before the improvement has been fully amortized. It is the Organization's policy to capitalize all computers, equipment, furniture and fixtures at costs greater than \$2,500.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 2 **Significant Accounting Policies, *continued***

Property and Improvements, continued

Contributed property and equipment are recorded at fair value at the date of donation. In the absence of donor stipulations, all contributions of property and equipment are recorded as unrestricted support and depreciated over the assets' estimated useful lives. Contributions of personal property are recorded at fair value which is both measurable and objective. Long-lived assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless otherwise stated by the donor, the restriction expires over the useful life of the asset. Expenditures for maintenance and repairs are charged to expense when incurred.

The Organization reviews the carrying value of property and improvements for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at June 30, 2018 and 2017.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represents debt reserve funds, which are being held by a trustee for future debt service payments.

Investments

Investments consist primarily of fixed income and equity mutual funds, while additional smaller investments are in equities and corporate bonds. The Organization records all investments at fair value in the statements of financial position and investment returns (including realized and unrealized gains and losses on investments, interest and dividends, and investment advisory fees) in the statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 2 **Significant Accounting Policies, *continued***

Fair Value Measurements

The fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Valuations are based on quoted market prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2: Valuations are based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.

Level 3: Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques.

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

The carrying value of cash, accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of short and long-term debt approximates fair value based on discounting the projected market rates available for debt instruments with similar maturities.

Functional Expense Allocation

Expenses that are specifically identifiable are charged directly to the appropriate functional category. All other expenses are charged based on a reasonable allocation. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization.

Income Taxes

The Organization is a nonprofit corporation under Internal Revenue Code Section 501(c)(3) and has been granted tax-exempt status by the Internal Revenue Service and the California Revenue and Taxation Code.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 2 Significant Accounting Policies, *continued*

Income Taxes, continued

The Organization determines whether its tax positions are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2018, the Organization had no unrecognized tax positions or uncertain tax positions requiring accrual. Therefore, no provision for income taxes has been provided in the financial statements. Exempt organization information returns are subject to review through three years after the date of filing for federal and four years after the date of filing for California.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management's estimates primarily relates to the collectability of accounts receivable, and depreciable lives of property, equipment and improvements. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements

During the year ended June 30, 2017, the Organization adopted FASB Accounting Standards Update 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires debt origination costs to be presented net of related debt, and the annual amortization of the costs to be presented as interest expense on a retroactive basis for all periods presented. There was no material impact on the Organization's net assets or financial position upon adoption of the new standard.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit-Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit-Entities* ("ASU 2016-14"), to improve the current net asset classification requirements and the information presented in financial statements and notes about not-for-profit-entities liquidity, financial performance, and cash flows. The adoption of ASU 2016-14 is effective for the Organization beginning July 1, 2018. Management is currently evaluating the impact of the provisions of ASU 2016-14 on the financial statements.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 2 Significant Accounting Policies, *continued*

Reclassification

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation and adoption of new accounting pronouncements. The reclassifications had no effect on previously reported results of operations or net asset balances.

Note 3 Investments

Investments stated at fair value, as of June 30 include:

	2018		2017	
	<i>Fair Value</i>	<i>Costs</i>	<i>Fair Value</i>	<i>Costs</i>
Fixed income mutual funds	\$ 341,394	\$ 344,289	\$ 735,268	\$ 734,032
Equity mutual funds	831,297	813,125	1,118,763	799,484
Bond mutual funds	251,686	252,797	-	-
Marketable Securities	329,814	317,148	-	-
Corporate bonds	149,755	151,474	-	-
Pooled investment funds	-	-	53,583	50,000
Total	<u>\$ 1,903,946</u>	<u>\$ 1,878,833</u>	<u>\$ 1,907,613</u>	<u>\$ 1,583,516</u>

Investment returns are comprised of the following for the years ended June 30:

	2018	2017
Interest and dividends	\$ 9,147	\$ 47,988
Realized gains	437,938	41,062
Unrealized gains (losses)	<u>(296,227)</u>	<u>101,810</u>
	<u>\$ 150,858</u>	<u>\$ 190,860</u>

Dividend and interest income earned is reported net of investment advisory and trustee fees, which totaled approximately \$9,100 and \$10,700 respectively, for the years ended June 30, 2018 and 2017.

As described above, the Organization invests in various investment securities. Investment securities are exposed to interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the fair value of the investment balance.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 4 Fair Value Measurement

The following table presents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds			
Fixed income	\$ 341,394	\$ -	\$ 341,394
Equity	831,297	-	831,297
Bonds	251,686	-	251,686
Marketable securities	329,814	-	329,814
Corporate bonds	149,755	-	149,755
	<u>\$ 1,903,946</u>	<u>\$ -</u>	<u>\$ 1,903,946</u>

The following table presents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds			
Fixed income	\$ 659,794	\$ -	\$ 659,794
Equity	1,020,372	-	1,020,372
Pooled investment funds	-	48,316	48,316
	<u>\$ 1,680,166</u>	<u>\$ 48,316</u>	<u>\$ 1,728,482</u>

Note 5 Property and Improvements

Property and improvements consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 5,334,728	\$ 5,234,252
Furniture and equipment	754,177	888,066
Vehicles	2,185,855	2,185,855
Leasehold improvements	49,503	123,777
	<u>8,324,263</u>	<u>8,431,950</u>
Depreciable assets		
Accumulated depreciation	<u>(5,065,898)</u>	<u>(4,876,063)</u>
	3,258,365	3,555,887
Land	<u>2,277,768</u>	<u>2,277,768</u>
	<u>\$ 5,536,133</u>	<u>\$ 5,833,655</u>

Depreciation amounted to \$426,689 and \$403,534 for the years ended June 30, 2018 and 2017, respectively.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 6 Line of Credit

The Organization has a \$1,000,000 secured revolving line of credit with a commercial bank with a maturity date of June 1, 2019. Borrowings against the line bear interest at the bank's interest rate (4.25%) plus 1.0% on the day of advance. Interest is payable monthly. There were no borrowings against the line as of June 30, 2018 and 2017.

Note 7 Note Payable to Trust

On April 30, 2013, BI entered into a note payable agreement with California Health Facilities Financing Authority through the issuance of Insured Refunding Revenue Bonds (the "Bonds"). In connection with the refinancing, Bonds in the amount of \$4,865,000 were issued at a premium of \$154,599. The proceeds from the borrowing were used to refinance the outstanding long-term debt balance carried by the Organization.

The true interest cost of the note payable is 3.03% per annum. Principal and interest are payable semiannually on February 1 and August 1 of each year, commencing August 1, 2013, with the final payment due on February 1, 2029.

According to the borrowing agreement, the Organization is required to maintain a debt service reserve account with a third-party trustee. The amount maintained in the account is reported as Restricted Cash and Cash Equivalents on the Statements of Financial Position. The borrowing agreement also requires the Organization to make monthly installment payments including interest to a bank account maintained by a third-party trustee to satisfy the funding requirements of the bond issued in connection with the note.

As of June 30, 2018 and 2017, \$666,733 and \$657,013, respectively, were held by the trustee to be applied to the principal and related interest payments.

Future principal and interest payments net of loan origination fees are as follows for the years ending June 30:

	Principal	Loan Origination Fees	Net Total Principal
2019	\$ 485,833	\$ (22,776)	\$ 463,057
2020	354,167	(22,776)	331,391
2021	316,250	(22,776)	293,474
2022	259,167	(22,776)	236,391
2023	271,250	(22,776)	248,474
Thereafter	1,713,333	(127,165)	1,586,168
Total	\$ 3,400,000	\$ (241,045)	\$ 3,158,995

Loan origination fees are amortized using the straight-line method over the term of the note payable, which approximates the amortization using the effective interest rate method.

Becoming Independent

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

Note 7 Note Payable to Trust, *continued*

Accrued interest due in the years ending June 30 are the following:

2019	\$ 165,148
2020	105,000
2021	94,375
2022	83,294
2023	71,631
Thereafter	<u>201,927</u>
	<u>\$ 721,375</u>

The borrowing premium is to be amortized over the term of the debt using the effective interest rate method. During the year ended June 30, 2018 and 2017, borrowing premium in the amount of \$10,948 and \$9,807, respectively, was amortized to interest expense. Unamortized borrowing premium amounted to \$98,587 and \$109,535 as of June 30, 2018 and 2017, respectively.

Future amortization of borrowing premium for the years ending June 30 is as follows:

2019	\$ 12,236
2020	13,502
2021	14,535
2022	12,630
2023	9,745
Thereafter	<u>35,939</u>
	<u>\$ 98,587</u>

In addition to making monthly installment payments to the trustee to satisfy the funding requirements of the debt, the borrowing agreement also requires that the Organization maintain certain financial covenants. As of June 30, 2018, the Organization was in compliance with all such covenants.

Note 8 Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Funding for subsequent periods	\$ 165,641	\$ 235,070
Funding for specific purposes	<u>879,217</u>	<u>677,273</u>
	<u>\$ 1,044,858</u>	<u>\$ 912,343</u>

Becoming Independent

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

Note 8 Restricted Net Assets, *continued*

Net assets released from restrictions during the years ended June 30 include the following:

	<u>2018</u>	<u>2017</u>
Released from program restrictions	\$ 344,064	\$ 302,526
Depreciation of restricted asset	192,132	141,615
	<u>\$ 536,196</u>	<u>\$ 444,141</u>

Note 9 Lease Commitments

Commitments Under Operating Leases

The Organization leases facilities from which it conducts operations. The facilities are leased under non-cancelable operating leases. These leases have expiration dates through August 2020 and require minimum monthly payments of approximately \$8,000 as of June 30, 2018.

The following is a schedule of minimum payments required under non-cancelable operating leases as of June 30, 2018 for future years ending June 30:

2019	\$ 91,380
2020	39,934
2021	5,942
	<u>\$ 137,256</u>

Rental expense under non-cancelable operating lease agreements totaled \$248,855 and \$326,306 for the years ended June 30, 2018 and 2017, respectively.

Note 10 Concentrations

Cash

At various times during the year ended June 30, 2018, the Organization had deposit amounts with a financial institution in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2018, the Organization had approximately \$1,662,000 on deposit in excess of the FDIC insured amount.

Becoming Independent

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 10 **Concentrations, *continued***

Significant Revenue Sources

A significant portion of the Organization's total support and revenue is from services rendered to clients from the following sources for the years ended June 30:

	<u>2018</u>	<u>2017</u>
North Bay Regional Center	75%	78%
Santa Rosa Junior College	4%	4%

Accounts receivable include \$922,579 and \$986,973 from these sources at June 30, 2018 and 2017, respectively.

The service contracts with these agencies are renewed periodically, ranging from every year to every five years.

Note 11 **Employee Benefit Plan**

The Organization has a 403(b) Plan available to employees. Employees may contribute up to the Internal Revenue Service determined maximum, with limits to their annual compensation. The Organization makes discretionary matching contributions, which become fully vested after plan participants complete two years of services. BI's matching contributions totaled \$88,416 and \$60,911 for the years ended June 30, 2018 and 2017, respectively.

Note 12 **Related Party Transactions**

During the year ended June 30, 2018, the Organization engaged Welty & Welty LLP, a law firm owned by a sitting board member to provide legal counsel services and paid a retainer of \$10,000 out of which \$8,313 remained a prepaid expense at the year end.

Note 13 **Subsequent events**

The Organization evaluated subsequent events from July 1, 2017 through October 29, 2018, the date which the financial statements were available to be issued, and determined that there are no material subsequent events that required recognition or additional disclosure in these financial statements.