

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

**Financial Statements**  
**For the Years Ended June 30, 2019 and 2018**

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 (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***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 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 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, 2019 and 2018, 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.

## ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, as of July 1, 2018, the Organization adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

As discussed in Note 12 to the financial statements, we also audited the adjustments applied to restate the financial statements as of and for the year ended June 30, 2018 as a result of the retrospective adoption of ASU No. 2016-14. In our opinion, such adjustments are appropriate and have been properly applied.

*Dillwood Burkel & Millar, LLP*

Santa Rosa, California  
November 11, 2019

# Becoming Independent

## Statements of Financial Position

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,781,667	\$ 1,950,305
Accounts receivable, net	1,192,575	1,036,801
Pledges receivable	88,841	5,000
Restricted cash and cash equivalents	661,625	666,733
Prepaid expenses and other current assets	173,481	148,687
Total Current Assets	<u>3,898,189</u>	<u>3,807,526</u>
<b>Noncurrent Assets</b>		
Investments	1,953,900	1,903,946
Property, equipment and improvements, net	5,550,340	5,536,133
Other noncurrent assets	9,991	15,362
Total Noncurrent Assets	<u>7,514,231</u>	<u>7,455,441</u>
<b>Total Assets</b>	<u><u>\$ 11,412,420</u></u>	<u><u>\$ 11,262,967</u></u>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 906,468	\$ 892,743
Notes payable, current portion, net	331,391	463,057
Borrowing premium, current portion	13,502	12,236
Total current liabilities	<u>1,251,361</u>	<u>1,368,036</u>
<b>Noncurrent liabilities</b>		
Notes payable, noncurrent portion, net	2,510,340	2,695,898
Borrowing premium, noncurrent portion	72,849	86,351
Total noncurrent liabilities	<u>2,583,189</u>	<u>2,782,249</u>
<b>Total liabilities</b>	3,834,550	4,150,285
<b>Net assets</b>		
Without donor restrictions	7,383,224	6,647,395
With donor restrictions	194,646	465,287
<b>Total net assets</b>	<u>7,577,870</u>	<u>7,112,682</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 11,412,420</u></u>	<u><u>\$ 11,262,967</u></u>

See accompanying Notes to Financial Statements.

# Becoming Independent

## Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Changes in net assets</b>			
Support and revenue			
Service fees	\$ 11,311,505	\$ -	\$ 11,311,505
Work activities revenue	1,174,437	-	1,174,437
Contributions and grants	611,956	279,202	891,158
Santa Rosa Junior College subsidy	563,717	-	563,717
Investment income	80,947	-	80,947
Gain on sale of assets	12,454	-	12,454
Net assets released from restrictions	549,843	(549,843)	-
Total support and revenue	<u>14,304,859</u>	<u>(270,641)</u>	<u>14,034,218</u>
Expenses			
Program services			
Day training and activities	8,072,762	-	8,072,762
Transportation	738,338	-	738,338
Independent living skills	2,909,082	-	2,909,082
Total program services	<u>11,720,182</u>	<u>-</u>	<u>11,720,182</u>
Support services			
Management and general	1,230,946	-	1,230,946
Fundraising	617,902	-	617,902
Total supporting services	<u>1,848,848</u>	<u>-</u>	<u>1,848,848</u>
Total expenses	<u>13,569,030</u>	<u>-</u>	<u>13,569,030</u>
<b>Changes in net assets</b>	735,829	(270,641)	465,188
<b>Net assets at beginning of year, restated</b>	<u>6,647,395</u>	<u>465,287</u>	<u>7,112,682</u>
<b>Net assets at end of year</b>	<u>\$ 7,383,224</u>	<u>\$ 194,646</u>	<u>\$ 7,577,870</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>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Changes in net assets</b>			
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	417,532	(417,532)	-
	<u>14,040,976</u>	<u>251,180</u>	<u>14,292,156</u>
Total support and revenue			
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
	<u>12,413,971</u>	<u>-</u>	<u>12,413,971</u>
Total program services			
Support services			
Management and general	1,193,692	-	1,193,692
Fundraising	626,699	-	626,699
	<u>1,820,391</u>	<u>-</u>	<u>1,820,391</u>
Total supporting services			
Total expenses	<u>14,234,362</u>	<u>-</u>	<u>14,234,362</u>
Changes in net assets	(193,386)	251,180	57,794
Net assets at beginning of year, restated	<u>6,840,781</u>	<u>214,107</u>	<u>7,054,888</u>
Net assets at end of year, restated	<u>\$ 6,647,395</u>	<u>\$ 465,287</u>	<u>\$ 7,112,682</u>

See accompanying Notes to Financial Statements.

# Becoming Independent

## Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services			Program Services Total	Supporting Services			Total Expenses
	Day Training and Activities	Transportation	Independent Living Skills		Management and General	Fundraising	Supporting Services Total	
Salaries, staff	\$ 4,575,770	\$ 331,255	\$ 2,131,715	\$ 7,038,740	\$ 662,699	\$ 284,866	\$ 947,565	\$ 7,986,305
Salaries, clients	479,836	-	-	479,836	-	-	-	479,836
Employee benefits	676,528	72,028	273,311	1,021,867	83,408	32,220	115,628	1,137,495
Payroll taxes/workers comp	504,554	67,067	268,367	839,988	50,687	24,223	74,910	914,898
	<u>6,236,688</u>	<u>470,350</u>	<u>2,673,393</u>	<u>9,380,431</u>	<u>796,794</u>	<u>341,309</u>	<u>1,138,103</u>	<u>10,518,534</u>
Supplies	378,895	5,027	39,376	423,298	70,377	9,059	79,436	502,734
Vehicle expenses	333,046	160,765	648	494,459	352	236	588	495,047
Professional fees	115,834	2,918	13,104	131,856	160,091	35,971	196,062	327,918
Repairs and maintenance	107,290	5,115	12,890	125,295	31,623	68,634	100,257	225,552
Marketing	10,014	161	1,278	11,453	35,925	112,322	148,247	159,700
Travel and transportation	67,111	2,428	79,210	148,749	994	655	1,649	150,398
Utilities	116,650	3,022	6,547	126,219	12,048	2,753	14,801	141,020
Insurance	80,002	2,681	13,083	95,766	26,478	2,320	28,798	124,564
Rent	102,432	81	8,280	110,793	2,672	25	2,697	113,490
Interest	85,896	2,108	9,696	97,700	4,019	1,370	5,389	103,089
Training and conference	37,801	1,541	11,415	50,757	29,430	4,986	34,416	85,173
Telephone and data	51,488	3,458	8,829	63,775	3,974	2,173	6,147	69,922
Other	35,979	13	693	36,685	17,146	9,993	27,139	63,824
Postage and copying	2,480	15	164	2,659	2,566	19,060	21,626	24,285
	<u>1,524,918</u>	<u>189,333</u>	<u>205,213</u>	<u>1,919,464</u>	<u>397,695</u>	<u>269,557</u>	<u>667,252</u>	<u>2,586,716</u>
Depreciation and amortization	<u>311,156</u>	<u>78,655</u>	<u>30,476</u>	<u>420,287</u>	<u>36,457</u>	<u>7,036</u>	<u>43,493</u>	<u>463,780</u>
<b>Total</b>	<u>\$ 8,072,762</u>	<u>\$ 738,338</u>	<u>\$ 2,909,082</u>	<u>\$ 11,720,182</u>	<u>\$ 1,230,946</u>	<u>\$ 617,902</u>	<u>\$ 1,848,848</u>	<u>\$ 13,569,030</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	Transportation	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	146,285	26,965	48,404	75,369	221,654
Marketing	12,036	-	1,875	13,911	34,323	151,096	185,419	199,330
Travel and transportation	77,525	2,768	101,043	181,336	3,596	572	4,168	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	19	-	673	7,004	13,860	20,864	21,537
	<u>1,534,670</u>	<u>183,456</u>	<u>348,017</u>	<u>2,066,143</u>	<u>252,456</u>	<u>299,668</u>	<u>552,124</u>	<u>2,618,267</u>
Depreciation and amortization	318,160	78,601	2,780	399,541	42,713	7,212	49,925	449,466
<b>Total</b>	<u>\$ 7,988,918</u>	<u>\$ 823,729</u>	<u>\$ 3,601,323</u>	<u>\$ 12,413,970</u>	<u>\$ 1,193,694</u>	<u>\$ 626,698</u>	<u>\$ 1,820,392</u>	<u>\$ 14,234,362</u>

See accompanying Notes to Financial Statements.

# Becoming Independent

## Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	<i>Increase (decrease) in cash and cash equivalents</i>	
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 465,188	\$ 57,794
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Contributed equipment	(56,350)	-
Depreciation and amortization	463,778	449,465
Amortization of bond premium	(12,236)	(10,948)
Net realized and unrealized gain	(58,764)	(120,811)
(Increase) decrease in operating assets:		
Accounts receivable	(155,774)	68,581
Prepaid expenses and other current assets	(24,794)	(114,749)
Pledges receivable	(83,841)	32,726
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	13,725	(110,264)
Net cash and cash equivalents provided by operating activities	<u>550,932</u>	<u>251,794</u>
<b>Cash flows from investing activities</b>		
Acquisition of property, equipment and improvements	(398,859)	(129,167)
Decrease in other noncurrent assets	5,371	13,452
Purchases of investment securities	(1,507,891)	(2,221,030)
Proceeds from sale of investment securities	<u>1,516,701</u>	<u>2,345,508</u>
Net cash and cash equivalents (used in) provided by investing activities	(384,678)	8,763
<b>Cash flows from financing activities</b>		
Principal payments on notes payable	<u>(340,000)</u>	<u>(324,984)</u>
Net cash and cash equivalents used in financing activities	<u>(340,000)</u>	<u>(324,984)</u>
<b>Net decrease in cash and cash equivalents</b>	(173,746)	(64,427)
<b>Cash and cash equivalents at beginning of year</b>	<u>2,617,038</u>	<u>2,681,465</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 2,443,292</u>	<u>\$ 2,617,038</u>
Unrestricted cash and cash equivalents	\$ 1,781,667	\$ 1,950,305
Restricted cash and cash equivalents	<u>661,625</u>	<u>666,733</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 2,443,292</u>	<u>\$ 2,617,038</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	<u>\$ 119,575</u>	<u>\$ 130,781</u>

See accompanying Notes to Financial Statements.

# Becoming Independent

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## Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

### 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:

*Without donor restrictions* – Net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations and, therefore, are available to carry out the Organization's operations.

*With donor restrictions* – 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.

#### *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, 2019 and 2018

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

#### *Liquidity and Availability of Financial Assets*

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual, donor imposed or board designated restrictions within one year of the balance sheet date.

Cash	\$ 2,443,292
Accounts Receivable	1,281,416
Total Financial assets at year end	<u>3,724,708</u>
Less those unavailable for general expenditures within one year, due to:	
Debt service reserve	(661,625)
Donor restricted funds	(194,646)
Current maturities of notes payable with borrowing premium	<u>(490,726)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 2,377,711</u></u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. To help manage unanticipated liquidity needs, the Organization maintains a line of credit in amount of \$1,000,000, which it could draw upon. See Note 5 for further information about the line of credit agreement.

#### *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.

# Becoming Independent

## Notes to Financial Statements For the Years Ended June 30, 2019 and 2018

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

#### *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, 2019 and 2018, accounts receivable are presented net of an allowance for doubtful accounts in the amount of \$1,851 and \$2,291, respectively.

#### *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.

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 until the donated assets are purchased and placed in service. Upon the assets being placed in service, the restrictions are considered met and funds are released to unrestricted support. 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, 2019 and 2018.

# Becoming Independent

## Notes to Financial Statements For the Years Ended June 30, 2019 and 2018

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

#### *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.

#### *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.

# Becoming Independent

## Notes to Financial Statements

### For the Years Ended June 30, 2019 and 2018

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

##### *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.

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, 2019, 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.

##### *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. There was no material impact on the Organization's financial position upon adoption of the new standard.

# Becoming Independent

## Notes to Financial Statements For the Years Ended June 30, 2019 and 2018

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

#### *Reclassification*

In connection with the adoption of ASU No. 2016-14, certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. The prior year's Statement of Activities has been restated to reflect the adoption of the new accounting pronouncement by releasing the temporarily restricted net assets representing net book value of capital assets purchased with donor restricted funds before July 1, 2018.

#### *Recent Accounting Pronouncements*

In December 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which provides guidance for recognizing revenue from contracts with customers. The core principle of Topic 606 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. The guidance is effective for annual reporting periods that begin after December 15, 2018. Management is currently evaluating the impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) ("ASU 2016-02")*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective beginning January 1, 2020. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

### Note 3 Investments

Investments are the Organization's only financial assets that are measured at fair value on a recurring basis stated at fair value. All investments held by BI are considered Level 1 financial assets. As of June 30, investments include the following:

	2019		2018	
	<i>Fair Value</i>	<i>Costs</i>	<i>Fair Value</i>	<i>Costs</i>
Fixed income mutual funds	\$ 71,457	\$ 69,536	\$ 341,394	\$ 344,289
Equity mutual funds	958,740	894,790	831,297	813,125
Bond mutual funds	497,991	482,286	251,686	252,797
Marketable Securities	395,498	346,620	329,814	317,148
Certificates of Deposit	30,215	30,000	-	-
Corporate Bonds	-	-	149,755	151,474
Total	<u>\$ 1,953,901</u>	<u>\$ 1,823,232</u>	<u>\$ 1,903,946</u>	<u>\$ 1,878,833</u>



# Becoming Independent

## Notes to Financial Statements For the Years Ended June 30, 2019 and 2018

### Note 3 Investments, *continued*

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 22,183	\$ 9,147
Realized gains (losses)	(38,509)	437,938
Unrealized gains (losses)	<u>97,273</u>	<u>(296,227)</u>
	<u>\$ 80,947</u>	<u>\$ 150,858</u>

Dividend and interest income earned is reported net of investment advisory and trustee fees, which totaled approximately \$14,780 and \$9,100 respectively, for the years ended June 30, 2019 and 2018.

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.

### Note 4 Property and Improvements

Property and improvements consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 5,334,728	\$ 5,334,728
Furniture and equipment	816,097	754,177
Vehicles	2,013,462	2,185,855
Leasehold improvements	<u>82,752</u>	<u>49,503</u>
Depreciable assets	8,247,039	8,324,263
Accumulated depreciation	<u>(4,974,467)</u>	<u>(5,065,898)</u>
	3,272,572	3,258,365
Land	<u>2,277,768</u>	<u>2,277,768</u>
	<u>\$ 5,550,340</u>	<u>\$ 5,536,133</u>

Depreciation amounted to \$441,002 and \$426,689 for the years ended June 30, 2019 and 2018, respectively.

# Becoming Independent

## Notes to Financial Statements For the Years Ended June 30, 2019 and 2018

### Note 5 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, 2021. 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, 2019 and 2018.

### Note 6 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, 2019 and 2018, \$661,625 and \$666,733, 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	Accrued Interest	Future Minimum Payments
2020	\$ 354,167	\$ (22,776)	\$ 331,391	\$ 105,000	\$ 436,391
2021	316,250	(22,776)	293,474	94,375	387,849
2022	259,167	(22,776)	236,391	83,294	319,685
2023	271,250	(22,776)	248,474	71,631	320,105
2024	284,167	(22,776)	261,391	59,425	320,816
Thereafter	1,574,999	(104,389)	1,470,610	142,502	1,613,112
Total	<u>\$ 3,060,000</u>	<u>\$ (218,269)</u>	<u>\$ 2,841,731</u>	<u>\$ 556,227</u>	<u>\$ 3,397,958</u>

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, 2019 and 2018

#### Note 6 Note Payable to Trust, *continued*

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, 2019 and 2018, borrowing premium in the amount of \$12,236 and \$10,948, respectively, was amortized to interest expense. Unamortized borrowing premium amounted to \$86,351 and \$98,587 as of June 30, 2019 and 2018, respectively.

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

2020	\$	13,502
2021		14,535
2022		12,630
2023		9,745
2024		6,771
Thereafter		<u>29,168</u>
	\$	<u>86,351</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, 2019, the Organization was in compliance with all such covenants.

#### Note 7 Net Asset with Donor Restrictions

As of June 30, 2019 and 2018, the net assets with donor restriction consisted from the funding for specific purposes in the amounts of \$194,645 and \$465,287, respectively.

Net assets released from program restrictions amounted to \$549,843 and \$417,532 during the years ended June 30, 2019 and 2018, respectively.

# Becoming Independent

## Notes to Financial Statements For the Years Ended June 30, 2019 and 2018

### Note 8 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 December 2021 and require minimum monthly payments of approximately \$9,000 as of June 30, 2019.

The following is a schedule of minimum payments required under non-cancelable operating leases as of June 30, 2019 for future years ending June 30:

2020	\$	48,346
2021		13,873
2022		<u>3,973</u>
	\$	<u>66,192</u>

Rental expense under non-cancelable operating lease agreements totaled \$104,953 and \$248,855 for the years ended June 30, 2019 and 2018, respectively.

### Note 9 Concentrations

#### *Cash*

At various times during the year ended June 30, 2019, 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, 2019, the Organization had approximately \$1,462,000 on deposit in excess of the FDIC insured amount.

#### *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>2019</u>	<u>2018</u>
North Bay Regional Center	81%	76%
Santa Rosa Junior College	4%	4%

Accounts receivable include \$1,043,345 and \$922,579 from these sources at June 30, 2019 and 2018, respectively.

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

# Becoming Independent

## Notes to Financial Statements

### For the Years Ended June 30, 2019 and 2018

#### Note 10 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 three years of services. BI's matching contributions totaled \$94,319 and \$88,416 for the years ended June 30, 2019 and 2018, respectively.

#### Note 11 Related Party Transactions

During the year ended June 30, 2019, the Organization engaged a law firm owned by a sitting board member to provide legal counsel services. No payments were made to the related party this year, the services were provided against the prepaid retainer of \$8,313 remaining from the previous year.

#### Note 12 Beginning Balance Restatement

As a result of the retrospective adoption of ASU No. 2016-14 as discussed in Note 2, a prior period adjustment was recorded to restate the beginning net asset balances for the year ended June 30, 2018 has been restated. The effects of the prior period adjustment are as the follows:

	<u>Previously Reported</u>	<u>Prior Period Adjustment</u>	<u>Restated Balances</u>
Net assets without donor restrictions, beginning of year at July 1, 2017	\$ 6,142,545	\$ 698,236	\$ 6,840,781
Net assets with donor restrictions, beginning of year at July 1, 2017	912,343	(698,236)	214,107
Net assets without donor restrictions, end of year at June 30, 2018	6,067,824	579,571	6,647,395
Net assets with donor restrictions, end of year at June 30, 2018	1,044,858	(579,571)	465,287

#### Note 13 Contingencies

During the year ended June 30, 2019, BI was named in a law suit related to an 2017 accident caused by a BI owned vehicle. The claim is expected to be settled shortly subsequent to year end, and potential loss fully covered by the Organization's insurance.

# Becoming Independent

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## Notes to Financial Statements

### For the Years Ended June 30, 2019 and 2018

#### **Note 14      Subsequent Events**

The Organization evaluated subsequent events from July 1, 2019 through November 11, 2019, 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.