East County Transitional Living Center, Inc.

Financial Statements

Year Ended December 31, 2018

East County Transitional Living Center, Inc.

Contents

ORTEGA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
East County Transitional Living Center, Inc.
El Cajon, California

We have audited the accompanying financial statements of East County Transitional Living Center, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and the related statements of activities, cash flows and functional expenses 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 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 of material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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 East County Transitional Living Center, Inc. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Ortega & Associates, CPA's

May 7, 2019

East County Transitional Living Center, Inc.

Statement of Financial Position
December 31, 2018

Assets	
Current Assets	
Cash and cash equivalents	$ 362,603
Accounts receivable	90,710
Contributions receivable	61,000
Prepaid expenses	27,456
Total current assets	541,769
Other Assets	
Cash - held in trust for others	29,249
Cash - restricted for building construction	411,559
Contributions receivable - restricted for building construction	100,000
Property and equipment - net	705,135
Total other assets	1,245,943
Total Assets	**$ 1,787,712**
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	$ 48,034
Accrued expenses	4,760
Cash held in trust for others	29,249
Current capital lease obligation	10,791
Total current liabilities	92,834
Long-Term Capital Lease Obligation	357,746
Total Liabilities	450,580
Net Assets	
Without donor restrictions	720,573
With donor restrictions	616,559
Total Net Assets	1,337,132
Total Liabilities and Net Assets	**$ 1,787,712**

The accompanying notes are an integral part of this statement.

East County Transitional Living Center, Inc.

Statement of Activities
Year Ended December 31, 2018

Net Assets Without Donor Restrictions	
Support and revenues:	
Program services	$ 1,257,736
Grants	83,746
Contributions	280,604
Other program revenues	100,939
Gifts-in-kind	1,590,328
Gain from disposal of assets	7,586
Interest	638
	3,321,577
Net assets released from restriction	131,900
Total Support and Revenues Without Donor Restrictions	3,453,477
Expenses:	
Program services	2,973,528
Supportive Services	
Management and general	187,085
Funding raising	63,957
Total Expenses	3,224,570
Increase in Net Assets without Donor Restrictions	228,907
Net Assets With Donor Restrictions	
Contributions	339,377
Net assets released from restrictions	(131,900)
Increase in Net Assets with Donor Restrictions	207,477
Increase in Net Assets	436,384
Net Assets, Beginning of year	865,140
Prior year adjustment	35,608
Net Assets, Beginning of year, as restated	900,748
Net Assets, End of year	$ 1,337,132

The accompanying notes are an integral part of this statement.

East County Transitional Living Center, Inc.

Statements of Cash Flows
Year Ended December 31, 2018

Cash Flows From Operating Activities	
Increase in net assets	$ 436,384
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Depreciation	78,159
Gain from disposal of asset	(7,586)
(Increase) decrease in operating assets	
Accounts receivable	(29,782)
Contributions receivable	(61,000)
Prepaid expenses	(8,969)
Increase (decrease) in operating liabilities	
Accounts payable	20,307
Accrued expenses	(8,348)
Cash held in trust for others	(5,269)
Contributions restricted for building construction	(234,377)
Non-cash building improvement contribution received	(197,715)
Net Cash Used by Operating Activities	(18,196)
Cash flows from investing activities	
Insurance proceeds from disposal of asset	11,986
Cash restricted for building construction	(217,587)
Purchase of property and equipment	(32,090)
Net Cash Used by Investing Activities	(237,691)
Cash flows from financing activities	
Proceeds from contributions restricted building construction	234,377
Principal payment on capital lease	(10,369)
Net Cash Provided by Financing Activities	224,008
Net Decrease in Cash and Cash Equivalents	(31,879)
Cash and Cash Equivalents, Beginning of year	423,731
Cash and Cash Equivalents, End of Year	$ 391,852
Supplemental Disclosure	
Noncash Financing Activities:	
Donor contribution of solar panel system	$ 197,715

The accompanying notes are an integral part of this statement.

East County Transitional Living Center, Inc.

Statement of Functional Expenses
Year Ended December 31, 2018

Cash Flows From Operating Activities	
Increase in net assets	$ 436,384
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Depreciation	78,159
Gain from disposal of asset	(7,586)
(Increase) decrease in operating assets	
Accounts receivable	(29,782)
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1. Summary of Significant Accounting Policies

Nature of organization

East County Transitional Living Center, Inc. (the Organization) is a California 501(c)(3) non-profit public benefit corporation organized in 2009 to provide hope and a hand-up to homeless and other individuals and families in need, by assisting them into independent, self-sustained living through case-managed transitional programs. The Organization is located in El Cajon California and provides emergency housing, transitional housing, job skills development, biblical training, the opportunity to earn a General Education Diploma, case management, and linkage to important resources which enable participants to become self – sustaining members of the community.

Basis of Accounting and 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:

Net assets without donor restrictions – Represents assets available for operations, which are not limited by donor-imposed restrictions.

Net assets with donor restrictions – Represents contributed assets subject donor-imposed restrictions that will be met either by actions of the Organization and /or passage of time or restrictions requiring the assets to be maintained by the Organization in perpetuity.

Liquidity and Availability of Financial Assets

As part of the Organization's liquidity management plan, cash in excess of daily requirements is set aside into an operating reserve bank account. At December 31, 2018, the operating reserve was $301,545. This reserve, established by the board of directors, may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

Functional Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Program Services revenues are derived from three major sources; *Transitional Housing, Work Therapy* and *Emergency Shelter.*

Transitional Housing -Individuals and families receiving transitional housing and support, pay for these services based on their ability to pay. These services are recognized as revenue when received.

Work Therapy –Income is generated by transitional housing participants working for agencies that have contracted with the Organization for labor. In return for their labor, the contracted agencies provide a voluntary contribution to the Organization. The contributions are accrued to the period the labor services are provided.

Emergency Shelter Program – The Organization has contracted with the City of El Cajon to provide emergency shelter to families during the winter months. The Organization provides these services based on a contracted daily rate and recognizes the revenues as the services are provided.

Grants and Contributions – Grants and contributions received are recorded as without donor restriction or with donor restriction support depending on the existence or nature of any donor-imposed restrictions. All donor restricted support is reported as an increase in net assets with donor restriction.

When a donor-imposed restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions.

Grants and contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as support without donor restriction in that period.

In-Kind Contributions

The Organization records various types of in-kind contributions. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expenses in the period in which the services are performed. Contributions of tangible assets are recognized at fair market value as support and expense when received. In-kind contributions are recognized as net assets without donor restrictions, unless donor stipulation requires them to be recognized as net assets with donor restrictions.

1. Summary of Significant Accounting Policies (Continued)

Accounts receivable

Accounts receivable is from program income earned and not collected as of the last business day of the year, of which the Organization has an unconditional right to receive. The Organization provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. The Organization reviews its past due balances, and accounts deemed uncollectible are written-off. As of December 31, 2018, management had determined all receivables were fully collectible; therefore, no allowance for doubtful accounts was considered necessary.

Contributions Receivable

Contributions receivable represent operating and building construction unconditional promises to give. As of December 31, 2018, all contributions receivable are expected to be collected and management had determined that no allowance for doubtful accounts was considered necessary

Cash and cash equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Excluded from this definition of cash equivalents is the cash restricted for the building construction. The following provides a summary of cash and cash equivalents that sum to the total of the same such amounts in the statement of cash flows:

Cash and cash equivalents	$362,603
Cash – held in trust for others	29,249
Total Cash & Cash equivalents	$391,852

Property and equipment

Expenditures for property and equipment of $1,500 or more are capitalized and stated at cost. Donated assets $1,500 or more are recorded at their estimated fair market values at the date of donation. Depreciation is provided over the estimated useful lives, ranging from 3 to 39 years, of the respective assets on a straight-line basis. Maintenance and repairs are charged to operations as incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (Continued)

Income tax status

The Organization, a California not-for-profit corporation, is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

The Organization's federal Exempt Organization Business Income Tax Returns (Form 990) for 2018, 2017 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Subsequent Events

Management has evaluated subsequent events through May 7, 2019, the date the financial statements were available to be issued.

2. Property & Equipment

The following is a summary of property and equipment at cost less, accumulated depreciation:

Furniture and equipment	$ 70,665
Vehicles	111,574
Leasehold improvements	339,014
Building	212,000
Land	188,000
Construction in progress	16,790
	938,043
Less: accumulated depreciation	232,908
Net property and equipment	$705,135

Depreciation expense was $78,159 for the year ended December 31, 2018.

3. Operating Lease Commitment

The Organization leases program, office space, and vehicles under non-cancellable operating lease agreements with various expirations dates through July 2027.

Future minimum lease payments over the remaining term of the non-cancelable leases as of December 31, 2018, are as follows:

2019	$ 89,959
2020	89,959
2021	89,959
2022	89,959
2023	89,959
Thereafter	269,877
	$719,672

Rental lease expense for the year ended December 31, 2018 was $95,022.

4. Capital Lease Obligation

The Organization entered into a long-term lease agreement in October 2015 for the acquisition of land and building located in Dulzura, California. The lease is for a term of 300 months (25 years) with interest (4%) and principal payments totaling $2,111 due each month. The land and building transfers to the Organization at the end of the lease term. As of December 31, the principal balance of the obligation was $368,537.

Maturities of the obligation for the years succeeding December 31, 2018, are as follows:

2019	$ 10,791
2020	11,231
2021	11,688
2022	12,164
2023	12,661
Thereafter	310,002
	$368,537

5. In-Kind Contributions

In-kind contributions consist of the following:

Food	$1,077,338
General	236,593
Services	58,702
Rent	19,980
Total In-kind contributed goods and services	1,392,613
Building improvements (solar panel system)	197,715
	$1,590,328

6. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

Building Construction	$ 511,559
Emergency Shelter	100,000
	$ 611,559

Net assets were released from donor restrictions as follows:

Purpose of restriction accomplished:	
Expenses incurred and services provided	
to satisfy donor restrictions	$ 131,900

7. Retirement Plan

The Organization maintains a voluntary, contributory tax-deferred retirement plan under section 403(b)(9) of the Internal Revenue Code. All employees are eligible regardless of service duration and are fully vested after1 year of service in their contributions and earnings. There is no match provided by the Organization. The Organization made no contributions to the plan.

8. Related Party Transactions

The Organization provides housing allowances, on an as-needed basis, to the pastoral staff of Christian Fellowship of El Cajon (Fellowship). Some of the members of the pastoral staff also serve as employees and board members of the Organization. The allowances are recorded as charitable contributions on the Statement of Actives. Housing allowances and support paid to the Fellowship totaled $128,000 for the year ended December 31, 2018.

9. Concentration of Credit Risk

The Organization maintains accounts at a financial institution with funds insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2018, cash on deposit was in excess of the federally-insured limits.

10. Change in Accounting Principle

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)—Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 1).

11. Prior Period Adjustment

As disclosed in Note 4 to the financial statements, the Organization entered into a long-term lease agreement in October 2015 for the acquisition of land and building located in Dulzura, California. The lease is for 25 years and the land and building transfer to the Organization at the end of the lease term. Pursuant to these facts, this transaction is a capital lease and should be treated as a purchase that is financed over the term of the agreement. Starting in October 2015 and through December 31, 2017, this transaction was being accounted for as an operating lease and the monthly lease payment of $2,111 was being recorded as rent expense. In addition, at the end of 2017 there was $26,745 in program revenue that should had been accrued as a receivable. The following is a summary of the adjustment to opening net assets.

11. Prior Period Adjustment (Continued)

		Net Asset Adjustment
Transaction as Originally Reported October 2015 to December 2017:		
Rent expense	$ 54,895	$ 54,895
Correctly Record Acquisition in October 2015:		
Capitalized land and building	400,000	
Capital lease obligation	(400,000)	-
Correctly Record Interest & Depreciation for period October 2015 to December 2017:		
Interest expense	33,801	
Depreciation expense	12,231	
	46,032	(46,032)
Correction for Lease Capitalization		8,863
Correction for 2017 Program Revenue Accrual		26,745
Total Prior Period Adjustment		$ 35,608