Las Trampas School, Inc.

Financial Statements

For the Years Ended

June 30, 2017 and 2016

With Independent Auditors' Report Thereon

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

LAS TRAMPAS SCHOOL, INC.

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
June 30, 2017

Mission

Las Trampas supports adults with developmental disabilities to discover their capabilities and to lead full lives in their home, at work, and in the community.

History

Las Trampas has a longstanding, rich history of providing services to people with developmental disabilities and their families. Founded in 1958 as a non-profit residential school by parents, family, and community members, Las Trampas School, Inc. provided on-site residential and educational services to children with developmental disabilities. The school was named for the creek that runs through the beautiful, three-and-a-half acre property in Lafayette, California. As the children grew into adulthood along with progressive changes in service provisions, Las Trampas changed its mission to provide services to adults with developmental disabilities.

Currently, Las Trampas provides day program educational and vocational services, residential services, supported and Independent living services throughout the communities of Lafayette, Concord, Pleasant Hill, and Walnut Creek, California. These services include:

- ADP Adult Development Program
- ARM Adult Residential Model
- SLS Supported Living Services
- ILS Independent Living Services

Philosophy

It is the philosophy of Las Trampas that all persons with developmental disabilities are entitled to develop their optimum state of social, physical, and mental well-being, and share an integrated lifestyle similar to what non-disabled persons enjoy.

Skills Training Methodologies

Las Trampas strives to provide the highest quality of services for adults with developmental disabilities by employing evidence-based teaching methods and curriculums that meet the training needs of the individuals served by the agency. Las Trampas provides training opportunities both on-site and in the community. On-site skills training includes simulated practice of the skills learned. However, Las Trampas believes that the best learning opportunities happen in community settings where the learned skills can be utilized in real-world settings, the settings where the individuals will be expected to employ the skills learned.

Board of Directors and Executive Management as of June 30, 2017

Name	Position	Name	Position
Charles Henry	President	Sara Castille	Director
Julie Seelen	1st Vice President	Michael Collier	Director
Julie Seelen	Treasurer	Patrick Flaharty	Director
Peter Jurichko	Secretary	Claude Garbarino	Director
		Inga Miller	Director

Daniel L. Hogue, M.S.
Executive Director

LAS TRAMPAS SCHOOL, INC.

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Las Trampas School, Inc.

We have audited the accompanying financial statements of Las Trampas School, Inc. (a California nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

Auditor's 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 audits 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.

The Board of Directors
Las Trampas School, Inc.

INDEPENDENT AUDITORS' REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Las Trampas School, Inc. as of June 30, 2017 and 2016 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Prior Year Summarized Comparative Information

The financial statements of Las Trampas School as of June 30, 2017 were audited by us and in our report dated February 21, 2017, we expressed an unmodified opinion on those financial statements. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Regalia & Associates

Danville, California
October 23, 2017

LAS TRAMPAS SCHOOL, INC.

Statements of Financial Position
June 30, 2017 and 2016

Assets

	2017	2016
Current Assets:		
Cash and cash equivalents	$1,650,663	$1,401,743
Accounts receivable	476,591	378,513
Grants and pledges receivable	104,100	759,300
Prepaid expenses and deposits	71,915	87,725
Total current assets	2,303,269	2,627,281
Noncurrent Assets:		
Investments	3,635,706	2,835,990
Property and equipment, net	1,825,785	1,755,556
Total assets	$7,764,760	$7,218,827

Liabilities and Net Assets

	2017	2016
Current Liabilities:		
Accounts payable	$ 41,183	$ 49,192
Accrued expenses	277,457	246,311
Notes and leases payable - current	16,040	7,596
Total current liabilities	334,680	303,099
Noncurrent Liabilities:		
Notes and leases payable - long term	366,174	343,480
Total liabilities	700,854	646,579
Net Assets:		
Unrestricted:		
Operating	1,816,432	1,955,819
Board-designated for property and equipment	1,825,785	1,755,556
Board-designated for endowment	1,769,045	1,580,071
Total unrestricted	5,411,262	5,291,446
Temporarily restricted	1,603,144	1,231,302
Permanently restricted	49,500	49,500
Total net assets	7,063,906	6,572,248
Total liabilities and net assets	$7,764,760	$7,218,827

LAS TRAMPAS SCHOOL, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017
(with Summarized Financial Information for the Year Ended June 30, 2016)

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Operating revenue and contributed support:					
Operating revenue:					
Tuition and fees	$ 5,062,367	$ -	$ -	**$5,062,367**	$ 4,106,994
Rent	49,824	-	-	**49,824**	50,953
Contracts	6,705	-	-	**6,705**	8,196
Interest and dividends	84,852	-	-	**84,852**	140,707
Unrealized investment gains (losses)	260,744	-	-	**260,744**	(160,645)
Gain on sale of property	-	-	-	**-**	676,196
Other revenue	2,638	-	-	**2,638**	94,045
Total operating revenue	5,467,130	-	-	**5,467,130**	4,916,446
Contributed support:					
Contributions	146,034	-	-	**146,034**	187,434
Grants	-	505,753	-	**505,753**	1,258,990
Fundraising events	122,379	-	-	**122,379**	151,657
In Kind Contributions	15,873	-	-	**15,873**	19,139
Total contributed support	284,286	505,753	-	**790,039**	1,617,220
Net assets released from restrictions:					
Timing restrictions	15,801	(15,801)	-	**-**	-
Capital campaign	118,110	(118,110)	-	**-**	-
Subtotal	133,911	(133,911)	-	**-**	-
Total contributed support and revenue	5,885,327	371,842	-	**6,257,169**	6,533,666
Expenses:					
Program services	4,805,517	-	-	**4,805,517**	4,257,738
General and administrative	705,250	-	-	**705,250**	633,391
Fund-raising	254,744	-	-	**254,744**	203,972
Total expenses	5,765,511	-	-	**5,765,511**	5,095,101
Increase in net assets	119,816	371,842	-	**491,658**	1,438,565
Net assets at beginning of year	5,291,446	1,231,302	49,500	**6,572,248**	5,133,683
Net assets at end of year	$ 5,411,262	$ 1,603,144	$ 49,500	**$ 7,063,906**	$ 6,572,248

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	$ 491,658	$1,438,565
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	111,177	102,746
Unrealized (gains) losses in investments	(260,744)	160,645
Reinvested interest and dividends	(84,852)	(140,707)
Changes in:		
Accounts receivable	(98,078)	(26,549)
Grants and pledges receivable	655,200	(574,300)
Prepaid expenses and deposits	15,810	(8,958)
Accounts payable	(8,009)	(12,450)
Accrued expenses	31,146	58,342
Net cash provided by operating activities	853,308	997,334
Cash flows from investing activities:		
Acquisition of property and equipment	(181,406)	(185,545)
(Acquisition) disposition of investments, net	(454,120)	312,747
Net cash provided by (used for) investing activities	(635,526)	127,202
Cash flows from financing activities:		
Proceeds from bank line of credit	1,143,000	120,000
Principal repayments under bank line of credit	(1,143,000)	(120,000)
Proceeds generated from new vehicle lease	48,207	-
Principal payments under notes and lease payable	(17,069)	(5,056)
Net cash provided by (used for) financing activities	31,138	(5,056)
Increase in cash and cash equivalents	248,920	1,119,480
Cash and cash equivalents at beginning of year	1,401,743	282,263
Cash and cash equivalents at end of year	$1,650,663	$1,401,743
Supplemental Disclosures:		
Interest paid	$ 6,896	$ 3,981
State registration taxes paid	$ 150	$ 150

Statement of Functional Expenses
For the Year Ended June 30, 2017
(with Summarized Financial Information for the Year Ended June 30, 2016)

	Program Services				Supporting Services				
	Residential Homes	Independent and Supported Living	Day Programs	Total Program Services	General and Adminis-trative	Fund-Raising	Total Supporting Services	Total Expenses 2017	Total Expenses 2016
Salaries and benefits	$ 1,695,486	$ 1,631,561	$ 858,389	$ 4,185,436	$ 509,582	$ 152,597	$ 662,179	**$ 4,847,615**	$ 4,224,255
Program consultants	112,147	-	30,450	142,597	-	-	-	**142,597**	105,645
Total salaries and related costs	1,807,633	1,631,561	888,839	4,328,033	509,582	152,597	662,179	**4,990,212**	4,329,900
Conferences and dues	423	661	1,513	2,597	1,288	3,597	4,885	**7,482**	21,562
Event expense	-	-	-	-	-	29,430	29,430	**29,430**	38,410
Food	53,329	-	614	53,943	-	-	-	**53,943**	63,045
Insurance	22,561	23,525	14,794	60,880	5,041	2,183	7,224	**68,104**	62,351
Janitorial supplies	4,780	146	3,406	8,332	456	19	475	**8,807**	10,758
Office and administrative	19,187	6,670	6,617	32,474	14,907	4,015	18,922	**51,396**	44,843
Professional services	3,163	3,443	3,674	10,280	93,282	63,691	156,973	**167,253**	107,622
Program costs	7,002	3,885	14,366	25,253	-	-	-	**25,253**	67,777
Repairs and maintenance	16,857	2,210	15,961	35,028	24,591	120	24,711	**59,739**	57,457
Supplies and services	9,671	2,130	6,599	18,400	6,336	5,477	11,813	**30,213**	20,134
Travel and auto	10,441	13,999	16,247	40,687	7,916	170	8,086	**48,773**	46,617
Utilities and telephone	54,368	17,767	34,715	106,850	13,434	1,693	15,127	**121,977**	121,643
Total expenses before depreciation and capital campaign	2,009,415	1,705,997	1,007,345	4,722,757	676,833	262,992	939,825	**5,662,582**	4,992,119
Depreciation	77,926	-	4,834	82,760	28,417	-	28,417	**111,177**	102,746
Capital campaign	-	-	-	-	-	(8,248)	(8,248)	**(8,248)**	236
Total expenses	$ 2,087,341	$ 1,705,997	$ 1,012,179	$ 4,805,517	$ 705,250	$ 254,744	$ 959,994	**$ 5,765,511**	$ 5,095,101

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization

Las Trampas School, Inc. (the School) was established as a California nonprofit corporation in 1958 to provide assistance to children and adults whose abilities are impaired due to mental or neurological deficiencies. The purpose of the School is to train, educate, and socially adjust these individuals to further condition of normal life, to help them develop suitable skills and occupational activities to the extent that they are able, and to organize social and recreational activities for the benefit of each individual.

Nature of Activities
The following four programs are included in the accompanying financial statements:

- Residential Homes (ARM) – Program is funded by California statute and provides licensed board and care of four residential homes for developmentally disabled individuals. There are 24 consumers residing in the homes.

- Supported Living (SLS) – Program is funded by a contract with the Regional Center of the East Bay (RCEB) to support developmentally disabled individuals in their own residences. There are 20 consumers participating in this program.

- Day Program (ADP) – Program is funded by California statute and provides a program for approximately 70 individuals with more developmental challenges than the other programs and for consumers who are non-ambulatory and non-verbal.

- Independent-Living Services (ILS) – Program is funded by a contract with RCEB. This program is designed to support developmentally disabled individuals who are able to live in the community with minimum staff supervision. The School helps the individuals learn a particular skill such as budgeting, menu planning, or keeping medical appointments. During the fiscal year ended June 30, 2017, the School served 17 individuals participating in the ILS program.

2. Summary of Significant Accounting Policies

Basis of Accounting
The financial statements of the School and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, accrued assets, accrued liabilities, and net asset accounts.

Basis of Presentation
Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*.

(continued)

2. Summary of Significant Accounting Policies *(continued)*

Basis of Presentation

Under ASC 958.205, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The School has also adopted the provisions of ASC 958.205.55.31 thru 958.205.55.53, *Presentation of Financial Statements – Endowment Disclosures* (which incorporated the previously issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*).

Revenue Recognition

The School records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The School maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. The School has not experienced any losses in such accounts.

Investments and Endowment

The School follows the provisions of *Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs* and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the School could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2017 and 2016. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Investments include money market funds, certificates of deposit, and mutual funds. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included on the statements of activities and changes in net assets.

(continued)

2. Summary of Significant Accounting Policies *(continued)*

Investments and Endowment (continued)

The School's endowment consists of a diverse mixture of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by ASC 958.320, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The School has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted net assets or unrestricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA (and SPMIFA, the State Prudent Management of Institutional Funds Act which California has adopted).

Property and Equipment

Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. Property and equipment with a cost basis of $2,000 or more and which benefit future periods is capitalized and depreciated over the estimated useful life of each class of depreciable asset. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets, which range from 3 to 35 years. Repairs and maintenance activities are charged to expense as incurred.

Contributed Services and Costs

Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Net Assets

In accordance with accounting principles generally accepted in the United States of America, financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

2. Summary of Significant Accounting Policies *(continued)*

Net Assets
The School reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Permanently restricted net assets include those net assets that must be maintained in perpetuity in accordance with donor restrictions (see Note 11). The investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, the income from such investments is not restricted and is included in unrestricted net assets. Permanently restricted net assets were created by gifts from donors who stipulated that their contributions be used to perpetuate the operating and program activities of the School.

Unrestricted net assets include all of those donated assets that have no restrictions or limitations imposed on their use. The Board of Directors may elect certain unrestricted funds to be set aside as Board designated funds, which may not be spent without approval by the Board.

Reclassifications
Certain reclassifications have been made to the 2016 financial statements in order to conform to the presentation used in 2017.

Tuition and Fees
Tuition and fees are recognized as revenue in the period in which the services are provided.

Functional Allocation of Expenses
The costs of providing the School's various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes
Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, the School is required to report information regarding its exposure to various tax positions taken by the School and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that the School has adequately evaluated its current tax positions and has concluded that as of June 30, 2017 and 2016, the School does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary. *(continued)*

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Income Taxes (continued)

The School has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that the School continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. The School could potentially receive unrelated business income in the future (such as program advertising or sub-lease rental income) requiring the School to file separate tax returns under federal and state statutes. If such conditions exist, the School will calculate and accrue the applicable taxes.

3. Cash and Cash Equivalents

Cash and cash equivalents include all funds in banks (checking, savings, and certificates of deposit) at the time of purchase that have a maturity date of three months or less. The components of cash and cash equivalents are as follows at June 30, 2017 and 2016:

	2017	2016
Checking (noninterest-bearing)	**$ 188,396**	$ 223,352
Money market and other deposits (interest-bearing)	**152,925**	790,564
Restricted for capital campaign (interest-bearing)	**1,289,602**	368,687
Restricted cash for individual client expenses (noninterest-bearing)	**19,740**	19,140
Total cash and cash equivalents	**$ 1,650,663**	$ 1,401,743

The School attempts to limit its credit risk associated with cash equivalents by utilizing highly rated financial institutions. Funds in money market and other deposit accounts earn interest at rates ranging from 0.02% per annum to 0.20% per annum at June 30, 2017 and 2016.

4. Accounts Receivable

Accounts receivable of $476,591 and $378,513 at June 30, 2017 and 2016, respectively, represent amounts billed for tuition, rent, and other program services and are generally due within 30 days.

The School uses the direct write-off method with regards to receivables deemed uncollectible. There were no bad debts for the years ended June 30, 2017 and 2016. Management has evaluated the receivables as of June 30, 2017 and determined that such amounts are fully collectible based on the financial strength of the parties involved and the organization's experience with collection efforts.

5. Investments and Endowment

Investments consist of the following at June 30, 2017 and 2016:

	2017	2016
Money market and deposit accounts	$ 47,859	$ 261,467
Mutual Funds:		
Large Cap	749,601	594,256
Mid-Cap	387,055	399,317
Short-Term Income	1,464,354	519,879
Intermediate	706,882	737,706
Foreign	-	135,527
Multisector	77,217	63,279
Small Cap	202,738	124,559
Total investments	$ 3,635,706	$ 2,835,990

Investments by net asset classification are summarized as follows at June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Money market and deposit accounts	$ 8,143	$ 39,716	$ -	$ 47,859
Mutual Funds	3,538,347	-	49,500	3,587,847
Totals as of June 30, 2017	$ 3,546,490	$ 39,716	$ 49,500	$ 3,635,706

Investments by net asset classification are summarized as follows at June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Money market and deposit accounts	$ 180,320	$ 81,147	$ -	$ 261,467
Mutual Funds	2,525,023	-	49,500	2,574,523
Totals as of June 30, 2016	$ 2,705,343	$ 81,147	$ 49,500	$ 2,835,990

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets-June 30, 2015	$ 1,572,201	$ -	$ 49,500	$ 1,621,701
Investment income	136,412	4,295	-	140,707
Net unrealized losses	(155,742)	(4,903)	-	(160,645)
Amounts appropriated	27,200	608	-	27,808
Endowment net assets-June 30, 2016	$ 1,580,071	$ -	$ 49,500	$ 1,629,571
Investment income	37,130	47,722	-	84,852
Net unrealized gains	102,949	157,795	-	260,744
Reclassifications	48,895	(205,517)	-	(156,622)
Endowment net assets-June 30, 2017	$ 1,769,045	$ -	$ 49,500	$ 1,818,545

During the years ended June 30, 2017 and 2016, earnings on investments were reinvested. Investment income consists of interest and dividends and amounted to $84,852 and $140,707 for the years ended June 30, 2017 and 2016, respectively. Net unrealized gains (losses) amounted to $260,744 and ($160,645) for the years ended June 30, 2017 and 2016, respectively.

5. Investments and Endowment *(continued)*

Endowment net asset composition by type of fund is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
As of June 30, 2017:				
Donor-restricted endowment funds	$ -	$ -	$ 49,500	$ 49,500
Board-designated endowment funds	1,769,045	-		1,769,045
Totals as of June 30, 2017	$ 1,769,045	$ -	$ 49,500	$ 1,818,545
As of June 30, 2016:				
Donor-restricted endowment funds	$ -	$ -	$ 49,500	$ 49,500
Board-designated endowment funds	1,580,071	-		1,580,071
Totals as of June 30, 2016	$ 1,580,071	$ -	$ 49,500	$ 1,629,571

The School's Finance Committee which has the responsibility for establishing the School's return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters. The committee routinely oversees investment performances and reviews cash flows necessary to sustain the School's operating activities.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the School to retain as a fund of perpetual duration. In accordance with ASC 958.205.55.31, there are no deficiencies of this nature that are required to be reported in unrestricted net assets at June 30, 2017 and 2016. Such future deficiencies could result from unfavorable market fluctuations occurring after the investment of new restricted contributions and continued appropriation for certain programs which are deemed prudent by the Board of Directors. The School's investments may decline below their original basis due to market fluctuations and unrealized losses which are beyond the control of the School's management. Deficiencies of this nature are reported in unrestricted net assets.

Return Objectives and Risk Parameters

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Finance Committee and the Board of Directors, the endowment assets are invested in a manner that is intended to (1) produce results that approximate the price and yield results of the general market conditions (2) subject the School to a moderate level of investment risk and (c) maintain sufficient liquidity to meet planned expenditures.

5. Investments and Endowment *(continued)*

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on equity-based investments (mutual funds) to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In accordance with the State of California's enacted version of UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) The duration and preservation of the fund, (b) The purposes of the School and the endowment funds, (c) General economic conditions, (d) The possible effect of inflation and deflation, (e) The expected total return from income and the appreciation of investments, (f) Other resources of the School, and (g) The investment policies of the School.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In accordance with this policy, the School reflected appropriations (and thus transferred funds out of investments and into its general checking account) of $173,000 and $185,000 during the years ended June 30, 2017 and 2016, respectively. Over the long term, the School expects the current spending policy to allow its endowment fund assets to grow at a moderate rate annually. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

6. Fair Value Measurements

Composition of assets utilizing fair value measurements at June 30, 2017 is as follows:

	Totals	Level 1	Level 2	Level 3
Investments:				
Money market and deposit accounts	**$ 47,859**	$ 47,859	$ -	$ -
Mutual Funds	**3,587,847**	3,587,847	-	-
Accounts receivable	**476,591**	-	476,591	-
Grant receivable	**104,100**	-	104,100	-
Totals	**$ 4,216,397**	$ 3,635,706	$ 580,691	$ -

Composition of assets utilizing fair value measurements at June 30, 2016 is as follows:

	Totals	Level 1	Level 2	Level 3
Investments:				
Money market and deposit accounts	**$ 261,467**	$ 261,467	$ -	$ -
Mutual Funds	**2,574,523**	2,574,523	-	-
Accounts receivable	**378,513**	-	378,513	-
Grant receivable	**759,300**	-	759,300	-
Totals	**$ 3,973,803**	$ 2,835,990	$1,137,813	$ -

6. Fair Value Measurements *(continued)*

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models. There were no level 3 assets at June 30, 2017 and 2016.

7. Property and Equipment

Property and equipment consist of the following at June 30, 2017 and 2016:

	2017	2016
Land	**$ 707,075**	$ 707,075
Building and improvements	**2,454,070**	2,397,419
Vehicles	**468,446**	420,240
Equipment	**357,315**	349,417
Construction in progress (capital campaign)	**196,790**	128,140
Total property and equipment	**4,183,697**	4,002,291
Less accumulated depreciation	**(2,357,912)**	(2,246,735)
Total property and equipment (net)	**$ 1,825,785**	$ 1,755,556

Total depreciation expense amounted to $111,177 and $102,746 for the years ended June 30, 2017 and 2016, respectively, and is reflected on the statement of functional expenses. During the year ended June 30, 2016, the School sold partially depreciated real estate property (Camino House) for $800,000 with original cost basis of $270,204 and accumulated depreciation of $146,400, resulting in a gain on sale of $676,196.

8. Notes and Leases Payable

Notes and lease payable are summarized as follows at June 30, 2017 and 2016:

	2017	2016
Lease payable to Satander Bank, bearing interest at the fixed rate of 7.433% per annum, secured by 2013 Ford E250 Mobility Van, payable in equal installments of $750 over 59 months, with a final maturity date of March 2019.	**$ 14,727**	$ 22,323
Lease payable to TCF Equipment Finance, bearing interest at the effective rate of 10.91% per annum, secured by 2016 Ford Transit T-150 Van, payable in equal installments of $816 over 60 months, with a final maturity date of August 2021.	**36,736**	-

(continued)

Notes to Financial Statements

8. Notes and Lease Payable *(continued)*

Notes payable are summarized as follows at June 30, 2017 and 2016:

		2017		2016
Community Development Block Grant, bearing interest at the fixed rate of 0.0% per annum (as long as the School does not default under the terms of the loan agreement), secured by real property (Moraga campus), with a maturity date of April 2031.	**$**	**165,000**	$	165,000
Community Development Block Grant, bearing interest at the fixed rate of 4.0%, secured by real property ("Maureen House"), with a maturity date of November 2032. If the School continues to comply with the terms of the loan agreement, the loan and interest will be forgiven and recorded as revenue (debt forgiveness) on the maturity date.		**50,000**		50,000
Community Development Block Grant, bearing interest at the fixed rate of 4.0%, secured by real property ("Southwind House"), with a maturity date of September 2032. If the School continues to comply with the terms of the loan agreement, the loan and interest will be forgiven and recorded as revenue (debt forgiveness) on the maturity date.		**50,000**		50,000
Community Development Block Grant, bearing interest at fixed rate of 4.0%, secured by real property ("Sheila House"), with a final maturity date of August 2035. If the School continues to comply with the terms of the loan agreement, the loan and interest will be forgiven and recorded as revenue on the maturity date.		**65,751**		63,753
Total notes payable	**$**	**382,214**	$	351,076

Principal payments under notes and lease payable over the next five years are as follows: $16,040 due during the year ending June 30, 2018; $14,880 due during the year ending June 30, 2019; $8,837 due during the year ending June 30, 2020; $9,374 due during the year ending June 30, 2021; and $333,083 due during the year ending June 30, 2022 and thereafter. Interest expense amounted to $6,896 and $3,981 for the years ended June 30, 2017 and 2016, respectively.

9. Leases

<u>Rent Expense</u>
The School leases various office equipment under separate operating lease agreements with expiration dates through September 2020 and which require the remittance of fixed monthly and quarterly installment payments. Total rent expense for equipment amounted to $15,803 and $20,541 for the years ended June 30, 2017 and 2016, respectively. Future minimum rental payments to be made under theses leases is summarized as follows at June 30, 2017: $15,436 due during the year ending June 30, 2018; $15,020 due during the year ending June 30, 2019; $3,000 due during the year ending June 30, 2020; and $750 due during the year ending June 30, 2021.

9. Leases *(continued)*

Rent Income

The School leases its residential homes to consumers. These rental agreements are generally for one-year terms and are classified as operating leases. Rental revenue is reported as earned over the terms of the leases. Rental income amounted to $49,824 and $50,953 for the years ended June 30, 2017 and 2016, respectively. Future minimum rental payments to be received under theses leases is summarized as follows at June 30, 2017: $21,000 due during the year ending June 30, 2018 and $2,400 due during the year ending June 30, 2019.

10. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, the School is required to record a liability for the estimated amounts of compensation and related benefits under existing employment laws. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on employee compensation rates. Accrued vacation liabilities amounted to $127,002 and $116,807 at June 30, 2017 and 2016, respectively.

11. Bank Line of Credit

The School has a bank line of credit with Heritage Bank of Commerce to fund short-term operating needs. Outstanding balances are assessed a variable rate associated with the bank's index rate (resulting in an effective interest rate of 4.75% per annum as of June 30, 2017). There was no outstanding balance as of June 30, 2017 and 2016. The line of credit has a total available balance of $350,000 and, when utilized, is secured by certain assets and is subject to annual renewal conditions every December in accordance with the terms of the loan agreement. Interest expense related to the bank line of credit amounted to $1,710 for the year ended June 30, 2017. There was no interest expense associated with the bank line of credit for the year ended June 30, 2016.

12. Major Revenue Source

For the years ended June 30, 2017 and 2016, the School received $4,985,221 and $4,050,776, respectively, from RCEB, representing approximately 80% and 62%, respectively, of the School's total contributed support and revenue. As of June 30, 2017 and 2016, the School had accounts receivable due from RCEB of approximately $476,591 and $378,513, respectively. With respect to its funding agreement with RCEB, the contract states that not more than 15 percent of Regional Center funds be spent on administrative costs. For the years ended June 30, 2017 and 2016, administrative costs as a percentage of total expenses amounted to 12.23% and 12.43%, respectively.

13. Net Assets

Unrestricted Net Assets

Unrestricted net assets consist of the following at June 30, 2017 and 2016:

	2017	2016
Unrestricted cumulative operating activities	$ 1,816,432	$ 1,955,819
Designated by the Board of Directors for property and equipment	1,825,785	1,755,556
Designated by the Board of Directors for endowment fund	1,769,045	1,580,071
Total unrestricted net assets	$ 5,411,262	$ 5,291,446

The Board of Directors may elect certain unrestricted balances to be set aside as Board-designated funds, with future changes subject to approval by the Board. Unrestricted net assets of $5,411,262 and $5,291,446 at June 30, 2017 and 2016, respectively, represent the cumulative retained surpluses since the organization's inception.

Temporarily Restricted Net Assets

Temporarily restricted net assets are summarized as follows for the year ended June 30, 2017:

Restricted For:	Beginning	Additions	Reductions	Ending
ADP communications device	$ -	$ 5,000	$ 2,016	$ 2,984
Capital campaign	1,222,683	488,052	118,110	1,592,625
Chef's Table	800	4,500	1,981	3,319
Maureen house	-	1,000	981	19
Operations and other	3,005	4,000	6,075	930
Share the Spirit	-	2,200	2,200	-
Sprinkler repair and irrigation	2,873	-	1,939	934
Supported living	1,327	-	-	1,327
Technology	614	1,001	609	1,006
Totals	$ 1,231,302	$ 505,753	$ 133,911	$ 1,603,144

Contributions to temporarily restricted net assets amounted to $505,753 and $1,258,990 during the years ended June 30, 2017 or 2016, respectively. Net assets released from restrictions amounted to $133,911 and $251,725 during the years ended June 30, 2017 or 2016, respectively.

Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at June 30, 2017 and 2016:

	2017	2016
Gifts received and restricted for endowment programs	$ 49,500	$ 49,500

There were no contributions to permanently restricted net assets during the years ended June 30, 2017 or 2016. All of the endowment funds, classified as permanently restricted net assets, represent donor contributions that are subject to restrictions of gift instruments requiring that the principal balances be maintained in perpetuity. The School is permitted to utilize all earnings from investments classified as permanently restricted net assets through an appropriation process under UPMIFA guidelines.

14. Other Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future program activities, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the School to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the School's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, including the Executive Director, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments or contingencies have been properly addressed, appropriate amounts have been accrued (where necessary), and there will not be any resolution with a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting agencies.

15. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, the School has evaluated subsequent events through October 23, 2017, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.