

TIME FOR CHANGE FOUNDATION

(A Nonprofit Organization)



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

TIME FOR CHANGE FOUNDATION
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FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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To the Board of Directors
Time for Change Foundation
San Bernardino, CA

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying statements of financial position of Time for Change Foundation as of June 30, 2017 and June 30, 2016, and the related statements of activities, 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 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 Time for Change Foundation as of June 30, 2017 and June 30, 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated **September 7, 2017** on our consideration of Time for Change Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Smith Manion & Co.

September 7, 2017

FINANCIAL INFORMATION

TIME FOR CHANGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
Current Assets		
Cash	\$ 773,899	\$ 613,918
Cash - restricted	237,360	235,131
Total Cash	<u>1,011,259</u>	<u>849,049</u>
Accounts receivable (net)	83,073	71,727
Prepaid expenses	4,584	6,570
Total Current Assets	<u>1,098,916</u>	<u>927,346</u>
 Long-Term Assets		
Property and equipment (net)	1,469,893	1,538,900
Total Long-Term Assets	<u>1,469,893</u>	<u>1,538,900</u>
TOTAL ASSETS	<u>\$ 2,568,809</u>	<u>\$ 2,466,246</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 25,937	26,283
Accrued expenses	65,310	47,909
Deferred revenue	237,360	235,131
Loan payable - Mt. View - current portion	5,386	5,161
Total Current Liabilities	<u>333,993</u>	<u>314,484</u>
 Long-Term Liabilities		
Residual payable	27,960	27,960
Loan payable - AHS	1,680,060	1,637,042
Loan payable - Mt. View - long-term portion	146,594	151,916
Total Long-Term Liabilities	<u>1,854,614</u>	<u>1,816,918</u>
Total Liabilities	<u>2,188,607</u>	<u>2,131,402</u>
 Net Assets		
Unrestricted	380,202	334,844
Temporarily restricted	-	-
Total Net Assets	<u>380,202</u>	<u>334,844</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,568,809</u>	<u>\$ 2,466,246</u>

TIME FOR CHANGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES						
Grants	\$ 1,118,305	\$ -	\$1,118,305	\$ 985,397	\$ -	\$ 985,397
Contributions	104,788	-	104,788	199,027	-	199,027
Special events	150,373	-	150,373	135,320	-	135,320
Phoenix Square	40,524	-	40,524	42,728	-	42,728
Inkind revenue	171,179	-	171,179	213,011	-	213,011
Other income	83,002	-	83,002	104,308	-	104,308
TOTAL SUPPORT AND REVENUES	1,668,171	-	1,668,171	1,679,791	-	1,679,791
EXPENSES						
Program services:	1,361,792	-	1,361,792	1,410,765	-	1,410,765
Total Program Services	1,361,792	-	1,361,792	1,410,765	-	1,410,765
Supporting services:						
Management and general	205,558	-	205,558	144,998	-	144,998
Fund raising	55,463	-	55,463	53,400	-	53,400
Total Supporting Services	261,021	-	261,021	198,398	-	198,398
TOTAL EXPENSES	1,622,813	-	1,622,813	1,609,163	-	1,609,163
Change in Net assets	45,358	-	45,358	70,628	-	70,628
Beginning Net Assets	334,844	-	334,844	264,216	-	264,216
Adjustment to Beginning Net Assets	-	-	-	-	-	-
Ending Net Assets	\$ 380,202	\$ -	\$ 380,202	\$ 334,844	\$ -	\$ 334,844

TIME FOR CHANGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

CASH FLOWS FROM OPERATING ACTIVITIES	2017	2016
Change in Net Assets	\$ 45,358	\$ 70,628
<i>Adjustments to reconcile change in net assets to net cash provided by operations:</i>		
<i>Noncash items:</i>		
Depreciation	69,007	60,876
Accrued interest	43,018	43,018
<i>(Increase) decrease in cash due to:</i>		
Accounts receivable	(11,346)	55,831
Prepaid expenses	1,986	(2,907)
<i>Increase (decrease) in cash due to:</i>		
Accounts payable	(346)	4,304
Accrued expenses	17,401	4,958
Deferred revenue	2,229	(13,760)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	167,307	222,948
 CASH FLOW FROM INVESTING ACTIVITIES		
Property and equipment purchased	-	(258,503)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	(258,503)
 CASH FLOW FROM FINANCING ACTIVITIES		
Loan payments	(5,097)	-
Loan proceeds	-	157,077
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(5,097)	157,077
 Net Increase (Decrease) in Cash	162,210	121,522
Beginning Cash and Cash Equivalents	849,049	727,527
Ending Cash and Cash Equivalents	\$ 1,011,259	\$ 849,049
 Supplemental Data:		
Interest paid	\$ 49,687	\$ 43,576

TIME FOR CHANGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Supportive Services			Grand Total
		Management & General	Fund Raising	Total	
EXPENSES					
Salaries and wages	\$ 463,749	\$ 81,850	\$ 961	\$ 82,811	\$ 546,560
Payroll taxes	36,456	5,399	750	6,149	42,605
Employee benefits	(350)	23,303	-	23,303	22,953
Total payroll and related expense	499,855	110,552	1,711	112,263	612,118
Auto	12,998	-	-	-	12,998
Client support	192,435	-	-	-	192,435
Dues and subscriptions	7,934	-	-	-	7,934
Rent	56,301	11,880	24,735	36,615	92,916
Repairs and maintenance	14,030	-	-	-	14,030
Consultants/directors	66,870	2,790	5,000	7,790	74,660
Utilities and telephone	53,160	4,151	-	4,151	57,311
Insurance	37,222	9,045	-	9,045	46,267
Interest	22,017	27,670	-	27,670	49,687
Advertising	88	3,714	-	3,714	3,802
Travel	30,874	6,327	-	6,327	37,201
Training	1,107	-	-	-	1,107
Office	117,616	26,093	15,410	41,503	159,119
Inkind expenses	171,179	-	-	-	171,179
Other operating expenses	9,551	2,884	8,607	11,491	21,042
Total expenses before depreciation	793,382	94,554	53,752	148,306	941,688
Depreciation expense	68,555	452	-	452	69,007
TOTAL EXPENSES	\$ 1,361,792	\$ 205,558	\$ 55,463	\$ 261,021	\$ 1,622,813

TIME FOR CHANGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Supportive Services			Grand Total
		Management & General	Fund Raising	Total	
EXPENSES					
Salaries and wages	\$ 395,798	\$ 35,948	\$ 7,500	\$ 43,448	\$ 439,246
Payroll taxes	34,826	3,045	750	3,795	38,621
Employee benefits	25,355	5,630	-	5,630	30,985
Total payroll and related expense	455,979	44,623	8,250	52,873	508,852
Auto	20,386	-	-	-	20,386
Client support	201,869	-	-	-	201,869
Dues and subscriptions	4,289	-	-	-	4,289
Rent	78,811	12,280	21,113	33,393	112,204
Repairs and maintenance	11,792	-	-	-	11,792
Consultants/directors	72,760	12,379	6,700	19,079	91,839
Utilities and telephone	62,214	3,948	-	3,948	66,162
Insurance	30,327	8,069	-	8,069	38,396
Interest	0	43,576	-	43,576	43,576
Advertising	4,162	3,127	1,400	4,527	8,689
Travel	29,528	-	-	-	29,528
Training	2,909	-	-	-	2,909
Office	154,804	14,511	6,366	20,877	175,681
Inkind expenses	210,567	-	-	-	210,567
Other operating expenses	9,944	2,033	9,571	11,604	21,548
Total expenses before depreciation	894,362	99,923	45,150	145,073	1,039,435
Depreciation expense	60,424	452	-	452	60,876
TOTAL EXPENSES	\$ 1,410,765	\$ 144,998	\$ 53,400	\$ 198,398	\$ 1,609,163

TIME FOR CHANGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Time for Change Foundation is a non profit organization that provides housing and support services to low Income families in the County of San Bernardino. Activities include: emergency shelter, permanent supportive housing, developing affordable housing, counseling, educational services, and basic needs such food, clothing, and transportation assistance.

Financial Statement Presentation

The Organization 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 records of the Organization are maintained on the accrual basis of accounting.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Promises to Give

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. For the years ended June 30, 2017 and 2016, Time for Change Foundation received no contributions that were deemed to be permanently restricted support.

Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to a program based on various direct costs related to each program. Certain other restricted programs do not receive an allocation of indirect expenses.

Contributed Services

The Organization does recognize any support, revenue or expense from services contributed by volunteers. If any support, revenue or expense were recorded it would be determined based on the difference of any amount paid to an individual and the comparable compensation, which would be paid to an individual if they were to occupy these paid positions.

Income Taxes

The Organization is an exempt organization for Federal Income tax purposes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for Federal income taxes in the accompanying financial statements.

In accordance with accounting standards, which provides accounting and disclosure guidance about uncertain tax positions taken by an Organization, Management believes that all of the positions taken by the Organization in its federal and state income tax returns are more likely than not to be sustained upon examination. The Organization files returns in the U.S. Federal jurisdiction and the State of California. The Organization's federal income tax returns for the prior (3) tax years remain subject to examination by the Internal Revenue Service. The Organization's California income tax returns for the prior (4) tax years remain subject to examination by the Franchise Tax Board.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Estimates

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

Advertising

The costs of non direct-response advertising are charged to expenses as incurred. Advertising costs were \$3,802 and \$8,689 for the years ended June 30, 2017 and 2016, respectively.

Property, equipment and depreciation

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. 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.

The Organization capitalized all property and equipment acquisitions in excess of \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of physical properties is calculated using the straight-line method over the estimated useful lives of the assets

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Note 2 – Accounts Receivable – Grants and Contracts

As of June 30, 2017 and 2016, the Organization had grants receivable in the amount of \$83,073 and \$71,727 respectively. As of June 30, 2017, the Organization determined the entire amount of the receivables to be fully collectible; therefore, no allowance for doubtful accounts was established.

Note 3 – Concentration of Credit Risk for Cash Held in Bank

The Organization maintains its primary operating and money market accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of years ended June 30, 2017 and 2016, there was \$0 and \$0, respectively, which exceeded federally insured limits.

Note 4 – Deferred Revenue

Deferred Revenue account represents the portion of grants that are advance payments for subsequent fiscal years. As of years ended June 30, 2017 and 2016, the Organization had deferred revenue of \$237,360 and \$235,131, respectively. The cash earmarked for the deferred revenue is presented as restricted on the Statements of Financial Position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5 – Long-Term Debt

Phoenix Square

The Organization entered into two agreements with Affordable Housing Solutions of San Bernardino, Inc. (Lender) to provide rehabilitation and/or permanent financing for the housing development known as Phoenix Square.

Terms of the loans require 3% basic interest with annual installments due June 15th each year for the previous calendar year, commencing June 15, 2012. Absent prepayment acceleration, each of the annual payments due June 15, 2012 through and including June 15, 2067 (Maturity Date) shall be in an amount to equal fifty-two and one-half percent (52.5%) and twenty-two and one-half percent (22.5%) of “Residual Receipts” for the prior calendar year. Residual receipts is defined as the amount Gross Rents exceeds Operating Expenses each calendar year. Total loan payments for years ended June 30, 2017 and 2016 were \$0 for both years. Due to the terms of the loan, a five-year maturity schedule has not been prepared.

	2017	2016
Loan Payable AHS	\$ 1,433,930	\$ 1,433,930
Interest Payable	246,130	203,112
Total	<u>\$ 1,680,060</u>	<u>\$ 1,637,042</u>

Mountain View Property

The Organization entered into a loan agreement with Bank of America on May 10, 2016 to purchase property for use as housing for its clients. The loan requires monthly payments of \$981 at an interest rate of 4.25%. The loan matures on May 10, 2026 with a balloon payment of approximately \$95,742. Future minimum payments on the loan are as follows:

	2017	2016
Current Portion	\$ 5,386	\$ 5,161
Long Term Portion	146,594	151,916
Total	<u>\$ 151,980</u>	<u>\$ 157,077</u>

Future Maturities of Loan:

June 30,	
2018	\$ 5,386
2019	5,620
2020	5,848
2021	6,119
2022	6,386
Thereafter	<u>122,621</u>
	<u>\$ 151,980</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6 – Property and Equipment

At June 30, 2017 the balance of the property and equipment is as follows:

	Balance at 6/30/16	Additions	Deletions	Balance at 6/30/17
Assets:				
Phoenix Square - Phases 1&2	\$ 1,431,650	\$ -	\$ -	\$ 1,431,650
Mt. View Shelter	254,265	-	-	254,265
Equipment	25,965	-	-	25,965
Vehicles	67,187	-	-	67,187
Improvements	25,000	-	-	25,000
Total Property and Equipment	1,804,067	-	-	1,804,067
Accumulated Depreciation	(265,167)	(69,007)	-	(334,174)
Net Property and Equipment	\$ 1,538,900	\$ (69,007)	\$ -	\$ 1,469,893
Total Depreciation for the year amounted to:				<u>\$ 69,007</u>

At June 30, 2016, the balance of property and equipment was:

	Balance at 6/30/15	Additions	Deletions	Balance at 6/30/16
Assets:				
Phoenix Square	\$ 1,431,650	\$ -	\$ -	\$ 1,431,650
Mt. View Shelter	-	254,265	-	254,265
Equipment	25,171	794	-	25,965
Vehicles	63,743	3,444	-	67,187
Improvements	25,000	-	-	25,000
Total Property and Equipment	1,545,564	258,503	-	1,804,067
Accumulated Depreciation	(204,291)	(60,876)	-	(265,167)
Net Property and Equipment	\$ 1,341,273	\$ 197,627	\$ -	\$ 1,538,900
Total Depreciation for the year amounted to:				<u>\$ 60,876</u>

Note 7 – Leasehold Obligation

The Organization leases its business premises from a third-party landlord. During the year, the Organization extended its lease terms for the buildings. The two year renewable lease terms commencing August 1st and ending July 31st. Total rent paid for the years ended June 30, 2017 and 2016, is \$39,600 for both years. Future minimum lease payments are as follows:

June 30,	
2018	\$ 39,600
2019	-
Total	<u>\$ 39,600</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 8–In Kind

For the years ended June 30, 2017 and 2016, the Organization received \$171,179 and \$213,011, respectively, in donated goods. The goods consisted of furniture and appliance items for the shelters and are valued at the fair value at the date of the donation. The goods are become the property of the tenant, therefore, they are not classified as a fixed asset.

Note 9 – Related Party Transactions

For the purpose of providing shelter to homeless women and their children, the Organization leased two homes from Mr. Mark Carter, the Organization’s co-founder and former spouse of Kim Carter. Total rent paid for the years ended June 30, 2016 and 2015 was \$43,700 and \$45,600, respectively. The Organization purchased the Mt. View property during the year. Although no longer married, Kim Carter still remains on the grant deed for the properties. The lease term is periodic tenancy until such time that the Landlord or the tenant terminates the tenancy with notice.

Annually, the Board of Directors revisits the leases for both the Mt. View house and the Wall Ave. house as part of its fiduciary responsibility to ensure transparency for this related party transaction. In 2007, the City of San Bernardino passed a local ordinance which prohibits group homes from providing shelter to more than two unrelated persons on parole or probation. This ordinance grandfathered the current locations but diminished the Organization’s opportunity to expand with additional group homes or relocate within the City of San Bernardino. Until such time the Organization is able to change this policy the existing locations will continue to be used to provide shelter to homeless women and children.

Note 10–Evaluation of Subsequent Events

Management evaluated the activity of the Organization through, **September 7, 2017**, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

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