TALLER SAN JOSE HOPE BUILDERS

Consolidated Financial Statements
and Independent Auditors' Report

June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Board of Directors of
Taller San Jose Hope Builders
Santa Ana, CA

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Taller San Jose Hope Builders (a California nonprofit organization, the Organization) and Subsidiary, which compromise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conduct 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taller San Jose Hope Builders and Subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the accompanying Schedules I through IV is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ramirez Jimenez International CPAs

Irvine, CA
September 26, 2016

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 247,988	$ 632,471
Accounts receivable, net	314,769	115,523
Contributions and grants receivable, net	1,291,267	1,164,565
Inventory and construction in progress	37,805	16,461
Property held for resale	15,799	15,799
Investments	748,434	1,204,203
Property and equipment, net	1,243,106	1,148,724
Other assets	80,607	27,050
Total assets	$ 3,979,775	$ 4,324,796
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 349,128	$ 359,857
Deferred income		41,143
Lines of credit	298,339	223,503
Total liabilities	647,467	624,503
NET ASSETS		
Unrestricted net assets		
Undesignated	582,821	242,516
Designated for specific purposes	748,434	1,204,203
	1,331,255	1,446,719
Temporarily restricted net assets	2,001,053	2,253,574
Total net assets	3,332,308	3,700,293
Total liabilities and net assets	$ 3,979,775	$ 4,324,796

See accompanying notes to the consolidated financial statements

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2016 and 2015

UNRESTRICTED NET ASSETS	2016	2015
Support and Revenue		
Grants and contributions	$ 1,007,649	$ 717,648
Program service fees	943,494	734,205
Special events, net of direct benefit expenses of $73,171 and $68,101, in 2016 and 2015, respectively	644,892	702,489
In-kind contributions	229,886	101,861
Investment income	24,004	13,449
Net unrealized (loss) gain on investments	(28,950)	37,346
(Loss) gain on disposition of properties and equipment	(2,356)	21,778
Total support and revenue	2,818,619	2,328,776
Net assets released from restrictions		
Satisfaction of program restrictions	2,006,860	1,531,007
Total unrestricted support, revenue, and assets released from restriction	4,825,479	3,859,783
Expenses		
Program services - general	3,290,397	2,263,136
Program services - construction	1,180,900	1,071,701
Management and general	534,065	476,682
Development and fundraising	434,914	681,692
Total expenses	5,440,276	4,493,211
Decrease in unrestricted net assets	(614,797)	(633,428)
TEMPORARILY RESTRICTED NET ASSETS		
Grants, pledges and contributions	2,253,672	2,508,198
Satisfaction of program restrictions	(2,006,860)	(1,531,007)
Increase in temporarily restricted net assets	246,812	977,191
Total (Decrease) Increase in Net Assets	(367,985)	343,763
Net Assets at Beginning of Year	3,700,293	3,356,530
Net Assets at End of Year	$ 3,332,308	$ 3,700,293

See accompanying notes to the consolidated financial statements

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2016

	Program Services - General	Program Services - Construction	Management and General	Development and Fundraising	Total
Compensation and related expenses	$ 2,113,020	$ 662,649	$ 382,907	$ 106,988	$ 3,265,564
Subcontractors and construction materials		416,689			416,689
Student support	412,451	1,300			413,751
Program supplies and related expenses	226,527	7,457			233,984
Supplies, printing and office	89,025	12,875	9,930	15,565	127,395
Occupancy	211,654	8,513	11,351	19,865	251,383
Depreciation	91,835	23,998	984	8,151	124,968
Professional fees	50,000	5,864	91,898	83,492	231,254
Insurance	26,800	27,152	10,537	605	65,094
Computer supplies and support	35,391	304	3,725	10,557	49,977
Interest			7,014		7,014
Special events				69,761	69,761
Marketing, meetings and conferences	33,694	13,430	14,248	117,332	178,704
Other		669	1,471	2,598	4,738
	$ 3,290,397	$ 1,180,900	$ 534,065	$ 434,914	$ 5,440,276

See accompanying notes to the consolidated financial statements

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2015

	Program Services - General	Program Services - Construction	Management and General	Development and Fundraising	Total
Compensation and related expenses	$ 1,476,814	$ 661,349	$ 391,364	$ 391,285	$ 2,920,812
Subcontractors and construction materials	-	311,315	-	-	311,315
Student support	273,227	2,456	-	-	275,683
Program supplies and related expenses	142,517	-	-	-	142,517
Supplies, printing and office	83,193	13,698	10,676	17,062	124,629
Occupancy	140,341	12,964	8,761	16,923	178,989
Depreciation	81,350	27,562	985	6,244	116,141
Professional fees	-	5,886	25,534	131,304	162,724
Insurance	19,317	28,181	9,864	-	57,362
Computer supplies and support	28,201	74	2,216	13,811	44,302
Interest	-	-	1,068	-	1,068
Special events	-	-	-	76,061	76,061
Marketing, meetings and conferences	18,176	7,818	24,943	27,020	77,957
Other	-	398	1,271	1,982	3,651
	$ 2,263,136	$ 1,071,701	$ 476,682	$ 681,692	$ 4,493,211

See accompanying notes to the consolidated financial statements

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (367,985)	$ 343,763
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	124,968	116,141
Donated property and equipment	(2,500)	(20,041)
Loss on disposition of property and equipment	826	163
Unrealized loss (gain) on investments	22,130	(51,080)
Gain on sale of properties held for resale	-	(15,178)
Accrued Interest on line of credit	4,836	652
Change in operating assets and liabilities:		
Accounts receivable	(199,246)	34,345
Contributions and grants receivable	(126,702)	(415,520)
Inventory and construction in progress	(21,344)	20,479
Other assets	(53,557)	(4,813)
Accounts payable and accrued expenses	(10,729)	2,661
Deferred income	(41,143)	41,143
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(670,446)	52,715
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(217,676)	(91,156)
Proceeds from sale of properties held for resale	-	60,387
Proceeds from board designated quasi-endowment to finance expansion	400,000	-
Proceeds from sale of investments	33,639	210,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	215,963	179,231
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on lines of credit	170,000	130,000
Repayments of lines of credit	(100,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	70,000	130,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(384,483)	361,946
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	632,471	270,525
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 247,988	$ 632,471

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 7,014	$ 1,068

See accompanying notes to the consolidated financial statements

NOTE A - ORGANIZATION

Taller San Jose Hope Builders (TSJHB or the Organization) was opened in 1995 to provide learning and vocational training for youth in Santa Ana, California and the surrounding communities. At-risk youth and young adults in Orange County who have not completed their secondary education and who do not have sufficient job skills to earn a living wage are encouraged to finish their education to gain some specific job skills, to set clear goals for their lives and to move on to productive adulthood. The Organization was incorporated in August 2005. The sole member of the Organization is the Sisters of St. Joseph of Orange (SSJO). As such, SSJO fully controls the Organization. It changed its name in fiscal 2016 from Taller San Jose to Taller San Jose Hope Builders.

Hope Builders Construction Company (HBCC) was incorporated under the laws of the State of California on May 24, 2006. It was originally incorporated as a profit making corporation, but on December 26, 2012, it reorganized as a nonprofit public benefit corporation. As part of the reorganization, it became a membership organization, and Taller San Jose Hope Builders is the only member. HBCC received tax-exempt status under federal law as a subordinate organization as defined in Section 501(c)(3) of the Internal Revenue Code. In fiscal 2016, it changed its name from Hope Builders, Inc. to Hope Builders Construction Company.

HBCC is a licensed general contracting venture employing graduates of the Organization in an effort to further refine their skills enhancing their ability for a productive future. HBCC focuses on building affordable housing units through collaborations with local cities and serves the capital improvement needs of the Orange County non-profit community.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Taller San Jose Hope Builders and its subsidiary, Hope Builders Construction Company together, the Organization. All material inter-organization transactions and balances have been eliminated in consolidation.

Net Asset Classifications

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Net assets of the restricted class are created only by donor-imposed restriction on their use. All other net assets, including Board-designated amounts, are legally unrestricted, and are reported as part of the unrestricted class.

Unrestricted net assets consist of funds that are fully available for the Organization to utilize in any of its programs or supporting services at the discretion of the Board of Directors.

Temporarily restricted net assets consist of funds that are restricted by donors for a specific time period or purpose.

Permanently restricted net assets consist of funds that contain donor-imposed restrictions requiring the principal to be invested in perpetuity and that only the income be used. Income earned on these funds may be unrestricted or temporarily restricted, depending upon the donor-imposed restrictions. There were no permanently restricted net assets at June 30, 2016 or 2015.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as additions to temporarily restricted or permanently restricted net assets. When a temporary restriction has been satisfied, the related temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "satisfaction of program restrictions."

When donor restriction on contributions are satisfied in the same period as the receipt of the contribution, the Organization reports both revenue and the related expense in the unrestricted net asset category.

Grants were received from various governmental agencies and private foundations. The majority of grant funds were used for program related purposes and improvements to facilities owned by the Organization and were treated as current period revenues and expenditures.

Accounts Receivable

Accounts receivable are recorded when contract provisions are met, and the supporting organization is obligated to remit payments to the Organization. Management performs periodic credit evaluations of its receivable balances and records an allowance for doubtful accounts when it is probable that all or a portion of the receivable will not be collected. Management has established an allowance for doubtful accounts of $0 and $894 at June 30, 2016 and 2015, respectively.

Retention Receivable

Certain construction contracts contain provisions for a percentage of progress billings to be held by the customer until a certain period after completion of the work. As of June 30, 2016 and 2015, the amount of retentions receivable were $19,734 and $0, respectively, and these amounts are recorded as a component of accounts receivable on the accompanying consolidated balance sheet.

Grants Receivable

Grants receivable are recorded when an obligation from a granting agency is committed in writing and when qualifying expenditures are made in connection with grants that provide for reimbursement of such expenditures. Management believes that all grants receivable as of June 30, 2016 and 2015 were fully collectible; therefore, no allowance for doubtful grants has been recorded.

Promises to Give

Unconditional promises to give are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 2016 and 2015, there is was a reserve for uncollectable pledges of $10,000 and $0, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services

Donated goods and services (in-kind contributions) are recorded at their estimated market values at the date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ending June 30, 2016 and 2015, donated goods and services received by the Organization meeting the above criteria were valued at $229,886 and $101,861, respectively, which related to donated professional services, donated properties held for resale, auction items for the annual Light Up a Life special event, and instructors and tutors for the Organization's programs.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments and marketable securities with readily determinable fair values and all investments in debt securities are reported at fair market value.

Property Held for Resale

Property held for resale is recorded at cost, if purchased, or fair value on the date of receipt, if donated, which approximates fair value.

Inventory and Construction in Progress

Inventory is stated at the lower of cost or market, determined using the first-in, first-out method. Construction in progress relates to work in progress for HBCC and represents revenues recognized in excess of amounts billed.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

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 or stipulated how long the assets must be used. 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. 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. The Organization has elected to capitalize all property with a value of $1,000 or more and with a useful life expectancy of at least 3 years. Purchased property and equipment are stated at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

Impairment of Long Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. As of June 30, 2016 and 2015, the Organization did not identify any material impairment of its long-lived assets.

Reclassifications

Certain amounts in the fiscsl 2015 consolidated financial statemetns have been reclassified to conform to the fiscal 2016 presentation.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar provisions of the State of California Revenue and Taxation Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose, if any, is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170b(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

HBCC received tax-exempt status under federal law as a subordinate organization defined in Section 501 (c)(3) of the Internal Revenue Code, and similar status under provisions of the State of California Revenue and Taxation Code.

U.S. federal tax returns for the tax years 2012 through 2015 and state tax returns for the tax years 2011 through 2015 remain open to examination.

The Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return that is not certain to be realized. The Organization believes that it has appropriate support for income tax positions taken, therefore, management has not identified any uncertain income tax positions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Estimates

The preparation of consolidated 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 consolidated financials statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Concentration of Credit Risk

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, deposits of up to $250,000 at FDIC-insured financial institutions are covered by FDIC insurance. At times, deposits may be in excess of the FDIC insurance limits; however, management does not believe the Organization is exposed to any significant related credit risks.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which is effective for non-public entities for annual reporting periods beginning after December 15, 2018, as amended. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Organization is currently evaluating the impact of the adoption of ASU 2014-09 on the consolidated financial statements and has not determined the method of adoption or the impact of such adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting pronouncements today, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Organization is currently evaluating the potential impact this standard will have on their consolidated financial statements and related disclosures.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In August 2016, the FASB issued ASU 2016-14; Not-for-Profit Entities (Topic 958), which will improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The FASB's Not-for-Profit Advisory Committee (NAC) and other stakeholders indicated that existing standards for financial statements of NFPs are sound, but could be improved to provide more useful information to donors, grantors, creditors, and other users of financial statements. The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in this ASU is permitted. The Organization is currently evaluating the potential impact this standard will have on their consolidated financial statements and related disclosures.

Management does not believe any other recently issued but not yet effective accounting pronouncement, if adopted, would have a material effect on the Organization's present or future consolidated financial statements.

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization determines the fair market values of its investments based on the fair value hierarchy established in FASB ASC Topic 820, *Fair Value Measurements* . The statement requires fair value to be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices in active markets for identical assets and liabilities, including equity and debt securities and derivative contracts that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2016 and 2015:

	Total	Quoted Prices	Significant Other	Significant
June 30, 2016				
Fixed income funds	$ 105,241	$ -	$ 105,241	$ -
Equity funds and	643,193	-	643,193	-
	$ 748,434	$ -	$ 748,434	$ -
June 30, 2015				
Fixed income funds	$ 488,511	$ -	$ 488,511	$ -
Equity funds and	715,692	-	715,692	-
	$ 1,204,203	$ -	$ 1,204,203	$ -

NOTE D - CONTRIBUTIONS AND GRANTS RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

As of June 30, 2016, contributions and grants receivable of $1,080,516 are expected to be received within one year, and $220,751 is expected within one to five years. There is an allowance for doubtful accounts of $10,000, based on analysis of individual pledges, and a dscount of $19,000 on the long term pledges. As of June 30, 2015, contributions and grants receivable of $792,233 were expected to be received within one year, and $372,332 were expected within one to five years. At June 30, 2015, there was no allowance for uncollectable accounts, as management expected contributions and grants receivables to be fully realized.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2016	2015
Land and building	$ 1,065,584	$ 1,065,584
Building improvements and renovations	703,912	579,533
Equipment, furniture and fixtures	562,192	467,466
Vehicles	153,858	153,858
	2,485,546	2,266,441
Less accumulated depreciation	1,242,440	1,117,717
	$ 1,243,106	$ 1,148,724

Depreciation expense was $124,968 and $116,141 for the fiscal years ended June 30, 2016 and 2015, respectively.

NOTE F - JOINT VENTURE

On October 1, 2011, the Organization entered into a joint venture agreement (JV) with Citivest, Inc. (Citivest), a taxable corporation. The JV was created to allow the JV partners to acquire, rehabilitate, and resell residential property. Certain lenders made distressed properties available to interested not-for-profit entities as a donation or for a reduced price. Pursuant to the JV Agreement, Taller San Jose Hope Builders acquired the properties and arranged for their rehabilitation through HBCC. Citivest financed any acquisition, maintenance and rehabilitation costs, and arranged for their sale. Once the properties were sold, the proceeds were shared, with 70% going to TSJHB, and 30% to Citivest. The JV Agreement also provided for the payment of a participation fee to TSJHB of 1% of the acquisition loan. Citivest was paid a 3% participation fee plus a transaction overhead fee of $2,000 per property. In addition, Citivest was entitled to a preferred return of 10% of the costs advanced.

Prior to July 1, 2014, 25 properties had been acquired, and 24 were sold.

During the years ending June 30, 2016, the following transactions occurred:

As of July 1, 2014		
Book value of properties held for resale,		$ 61,008
During the year ended June 30, 2015		
Net sales proceeds on properties held for resale (1 property)	(189,900)	
Preferred return to Citivest	5,208	
Costs advanced on sold properties	98,425	
Allocable proceeds to Citivest	25,880	
Allocable proceeds to TSJHB	60,387	
Carrying value of properties sold		45,209
Loss on sale of properties held for resale		15,178
As of June 30, 2015 and 2016		
Book value of property held for resale		$ 15,799

At June 30, 2015 and 2016, all properties in the JV had been sold. The Organization still owns one donated property which has not been financed through the JV and this has a carrying value of $15,799.

NOTE G - INVESTMENTS

HBCC is a 50.1 % owner and one of three members of HBCV, LLC, (the LLC) which was organized in August 2014 to purchase, refurnish, and develop housing for low-income families and seniors while offering work experience and employment opportunites to young adults. One of the other members has been appointed the Manager, who controls day to day operations and financial policies of the LLC. TSJHB, while it owns 50.1%, does not control any aspect of the LLC, and as a result, its has not been consolidated into these consoldiated financial statements.

As of June 30, 2016, HBCV, LLC has purchased and is operating one home as an affordable housing unit. The purchase price and rehabilitation costs were financed by the County of Orange, with a 55 year nonrecourse loan. The LLC collects the rent and subsidy on the property, pays all expenses, and distributes the proportionate share of the excess to the members according to their ownership annually, after reserving an appropriate amount for working capital. For the years ending June 30, 2016 and 2015, the income to HBCC was $12,529 and $0.

NOTE H - LINES OF CREDIT

In April 2008, the Organization secured a line of credit with St. Joseph Health System with a limit of $250,000 for working capital purposes. It was guaranteed by the SSJO and bore interest at 3.5% per annum on the outstanding balance. The entire line of credit and accrued interest was due and payable on or before April 30, 2013, but it was extended by an Investment Committee Resolution in May 2013.

In February 2015, the line of credit was renewed with St. Joseph Health System with a limit of $300,000 and bearing interest at 2.17% per annum and maturity date of April 2018. The guarantee by SSJO was released, and the property is secured by a Deed of Trust recorded on the building which houses the Organization's construction program. As of June 30, 2016 and 2015, $198,339 and $223,503 was outstanding under this line of credit.

On June 15, 2014, the Organization entered into a loan agreement with Orange County Community Foundation to provide up to $100,000 in working capital for large projects of HBCC. Advances bear interest at 2.5% to be paid on a quarterly basis. Advances under this agreement may be made through June 30, 2016, and any outstanding balance must be paid in full by June 30, 2017. During the year ended June 30, 2015, $25,000 was advanced and repaid. During the year ended June 30, 2016, $100,000 was advanced and is outstanding as of June 30, 2016.

NOTE I- RETIREMENT PLAN

The Organization offers employees the opportunity for participation in a contributory retirement plan. The Organization matches employees' contributions up to 1% of their regular salary, and also contributes up to 8% of their salary, based on years of service. The expense to the Organization under this arrangement for the fiscal years ended June 30, 2016 and 2015 was $84,112 and $84,059, respectively.

NOTE J - NET ASSETS

	2016	2015
Unrestricted net assets which have been designated by management		
Funds designated for specific purposes (quasi-endowment) - See Note L	$ 748,434	$ 1,204,203
Temporarily restricted net assets are available for the following purposes:		
Anaheim expansion	588,337	1,467,997
Grant requirements	1,431,716	785,577
	$ 2,020,053	$ 2,253,574

NOTE K - RELATED PARTY TRANSACTIONS

The Organization has transactions with SSJO, which is related due to common control and members of Boards of Directors. The Organization does not have the right, however, to appoint Board members for those organizations. SSJO has the right to appoint Board members of TSJHB and approval rights to certain transactions. SSJO also controls St. Joseph Health (SJH) and St. Joseph Healthcare Foundation (SJHF). Historically, the Organization has relied upon these organizations to supplement its operations through grants, loans, and loan guarantees. During the years ended June 30, 2016 and 2015, the Organization reimbursed SSJO for certain staff and employee benefit related costs in the amount of $81,566 and $52,313, respectively. These costs are included as a component of compensation and related expenses in the accompanying consolidated financial statements.

SSJO has supported the Organization since its inception and continues to do so. For the years ended June 30, 2016 and 2015, SSJO's contributions totaled $178,102 and $188,471, respectively.

SJH and its hospitals and SJHF also support the Organization. For the years ended June 30, 2016 and 2015, SJH's contributions totaled $65,050 and $57,650 respectively. In addition, the Organization reimbursed SJH for certain employee benefit related costs and insurance in the amount of $438,172 and $198,423 respectively. These costs are included as a component of compensation and related expenses and insurance in the accompanying consolidated financial statements. SJH also provides a line of credit to the Organization (See Note H).

The Organization received contributions totaling $115,876 and $110,701 from members of the Board of Directors during the years ended June 30, 2016 and 2015, respectively.

NOTE L - ENDOWMENT FUNDS

Board Designated Quasi-Endowment Fund

Unrestricted net assets at June 30, 2016 and 2015 include a Board of Directors designated endowment fund (quasi-endowment) established in 2001. It is designated by the Board of Directors to be maintained as an endowment fund subject to the Organization's investment and spending policies.

Endowment funds are invested in marketable securities pursuant to the Organization's investment and spending objectives of preserving capital, maintaining liquidity, maximizing long-term total return, and exercising principled purchasing in accordance with the values of the Organization. The disbursement policy calls for transferring 3.5% of the value of the fund each year according to a moving average formula. The Board of Directors may elect to increase this amount through its annual budgeting process.

The composition of endowment net assets for this fund as of June 30, 2016 and 2015 and the changes in endowment net assets for the corresponding years are as follows:

	2016	2015
Endowment net assets, beginning	$ 1,204,203	$ 1,363,123
Unrealized (loss) gain on investments	(10,682)	51,080
Amounts appropriated for expenditure	(45,085)	(210,000)
Amounts appropriated to finance expansion	(400,000)	-
Endowment net assets, ending	$ 748,436	$ 1,204,203

Permanent Endowment Fund

The Organization received contributions in 2009 (referred to as the Legacy Fund) that were permanently restricted by the donors. In 2011, the Legacy Fund was transferred to the Orange Catholic Foundation (OCF) to be held in perpetuity. The income earned from the Legacy Fund investments is available to be expended to support the various programs and ministries of the Organization once the balance reaches $250,000. As of June 30, 2016 and 2015, the balance in the Legacy Fund was $62,760 and $66,587, respectively.

NOTE M- OPERATING LEASE COMMITMENTS

The Organization leases its office facility in Santa Ana, California, pursuant to an operating lease agreement that expires in March 2017. During the year ended June 30, 2016, the Organization entered into a short-term operating lease for temporary space in Anaheim, and five year operating lease for space in Anaheim that expires in January 2021. Total rent expense for the years ended June 30, 2016 and 2015 was $146,821 and $48,455, respectively.

Future minimum rental obligations under these leases are as follows for the years ending June 30:

2017	$	251,230
2018		169,524
2019		174,612
2020		179,848
2021		122,272
	$	897,486

NOTE N - CONTINGENCIES

The Organization receives a significant portion of its revenues from government grants and contracts, which are subject to audit by the grant making agencies. Until such audits have been completed and final settlements determined, there exists a contingency to refund any amount received in excess of allowable costs. Management believes that no material liability will result from such audits.

NOTE O - SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2016 the date the consolidated financial statements were available to be issued and determined there are no material subsequent events that require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL SCHEDULES

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
DETAILS OF CONSOLIDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2016

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
ASSETS				
Cash and cash equivalents	$ 235,682	$ 12,307	$ -	$ 247,989
Accounts receivable, net	85,200	229,568	-	314,768
Contributions and grants receivable, net	1,291,267	-	-	1,291,267
Inventory and construction in progress	29,489	8,316	-	37,805
Property held for resale	15,799	-	-	15,799
Investments	748,434	-	-	748,434
Property and equipment, net	1,241,665	1,441	-	1,243,106
Due from Hope Builders Construction Company	1,113,940	-	(1,113,940)	-
Other assets	60,873	19,734	-	80,607
Total assets	$ 4,822,349	$ 271,366	$ (1,113,940)	$ 3,979,775
LIABILITIES				
Accounts payable and accrued expenses	$ 237,854	$ 111,274	$ -	$ 349,128
Lines of credit	298,339	-	-	298,339
Due to Taller San Jose Hope Builders	-	901,219	(901,219)	-
Total liabilities	536,193	1,012,493	(901,219)	647,467
NET ASSETS				
Unrestricted net assets				
Undesignated	1,536,669	(741,127)	(212,721)	582,821
Designated for specific purposes	748,434	-	-	748,434
	2,285,103	(741,127)	(212,721)	1,331,255
Temporarily restricted net assets	2,001,053	-	-	2,001,053
Total net assets	4,286,156	(741,127)	(212,721)	3,332,308
Total liabilities and net assets	$ 4,822,349	$ 271,366	$ (1,113,940)	$ 3,979,775

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TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
DETAILS OF CONSOLIDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2015

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
ASSETS				
Cash and cash equivalents	$ 593,280	$ 39,191	$ -	$ 632,471
Accounts receivable, net	60,736	54,787	-	115,523
Contributions and grants receivable	1,164,565	-	-	1,164,565
Inventory and construction in progress	16,159	302	-	16,461
Property held for resale	15,799	-	-	15,799
Investments	1,204,203	-	-	1,204,203
Property and equipment, net	1,144,471	4,253	-	1,148,724
Due from Hope Builders Construction Company	938,561	-	(938,561)	-
Other assets	27,050	-	-	27,050
Total assets	$ 5,164,824	$ 98,533	$ (938,561)	$ 4,324,796
LIABILITIES				
Accounts payable and accrued expenses	$ 302,405	$ 57,452	$ -	$ 359,857
Deferred income	-	41,143	-	41,143
Lines of credit	223,503	-	-	223,503
Due to Taller San Jose Hope Builders	-	725,840	(725,840)	-
Total liabilities	525,908	824,435	(725,840)	624,503
NET ASSETS				
Unrestricted net assets				
Undesignated	1,181,139	(725,902)	(212,721)	242,516
Designated for specific purposes	1,204,203	-	-	1,204,203
	2,385,342	(725,902)	(212,721)	1,446,719
Temporarily restricted net assets	2,253,574	-	-	2,253,574
Total net assets	4,638,916	(725,902)	(212,721)	3,700,293
Total liabilities and net assets	$ 5,164,824	$ 98,533	$ (938,561)	$ 4,324,796

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TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
DETAILS OF CONSOLIDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
UNRESTRICTED NET ASSETS				
Support and Revenue				
Grants and contributions	$ 811,238	$ 196,411		$ 1,007,649
Program service fees	54,094	1,083,342	(193,942)	943,494
Special events, net	644,892			644,892
In kind contributions	229,886			229,886
Investment income	11,475	12,529		24,004
Net unrealized loss on investments	(28,950)			(28,950)
Loss on disposition and equipment	(2,356)			(2,356)
Total support and revenue	1,720,279	1,292,282	(193,942)	2,818,619
Net assets released from restrictions				
Satisfaction of program restrictions	2,006,860	-	-	2,006,860
Total unrestricted support, revenue, and assets released from restriction	3,727,139	1,292,282	(193,942)	4,825,479
Expenses				
Program services - general	3,290,397			3,290,397
Program services - construction	67,335	1,307,507	(193,942)	1,180,900
Management and general	534,065			534,065
Development and fundraising	434,914			434,914
Total expenses	4,326,711	1,307,507	(193,942)	5,440,276
Decrease in unrestricted net assets	(599,572)	(15,225)	-	(614,797)
TEMPORARILY RESTRICTED NET ASSETS				
Grants, pledges and contributions	2,253,672	-	-	2,253,672
Satisfaction of program restrictions	(2,006,860)	-	-	(2,006,860)
Increase in temporarily restricted net assets	246,812	-	-	246,812
Total decrease in Net Assets	(352,760)	(15,225)	-	(367,985)
Net Assets at Beginning of Year	4,638,916	(725,902)	(212,721)	3,700,293
Net Assets at End of Year	$ 4,286,156	$ (741,127)	$ (212,721)	$ 3,332,308

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TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIAI
DETAILS OF CONSOLIDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
UNRESTRICTED NET ASSETS				
Support and Revenue				
Grants and contributions	$ 482,233	$ 235,415	$ -	$ 717,648
Program service fees	71,001	741,460	(78,256)	734,205
Special events, net	702,489	-	-	702,489
In kind contributions	101,861	-	-	101,861
Investment income	13,449	-	-	13,449
Net unrealized gain on investments	37,346	-	-	37,346
Gain on disposition of properties and equipment	21,778	-	-	21,778
Total support and revenue	1,430,157	976,875	(78,256)	2,328,776
Net assets released from restrictions				
Satisfaction of program restrictions	1,531,007	-	-	1,531,007
Total unrestricted support, revenue, and assets released from restriction	2,961,164	976,875	(78,256)	3,859,783
Expenses				
Program services - general	1,245,834	1,095,558	(78,256)	2,263,136
Program services - construction	1,071,701	-	-	1,071,701
Management and general	476,682	-	-	476,682
Development and fundraising	681,692	-	-	681,692
Total expenses	3,475,909	1,095,558	(78,256)	4,493,211
Decrease in unrestricted net assets	(514,745)	(118,683)	-	(633,428)
TEMPORARILY RESTRICTED NET ASSETS				
Grants, pledges and contributions	2,508,198	-	-	2,508,198
Satisfaction of program restrictions	(1,531,007)	-	-	(1,531,007)
Increase in temporarily restricted net assets	977,191	-	-	977,191
Total increase (decrease) in Net Assets	462,446	(118,683)	-	343,763
Net Assets at Beginning of Year	4,176,470	(607,219)	(212,721)	3,356,530
Net Assets at End of Year	$ 4,638,916	$ (725,902)	$ (212,721)	$ 3,700,293

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