TALLER SAN JOSE HOPE BUILDERS

Consolidated Financial Statements
and Independent Auditors' Report

June 30, 2017 and 2016

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18012 Sky Park Circle, Suite 200
Irvine, California 92614
tel 949-852-1600
fax 949-852-1606
www.rjicpas.com

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 its subsidiary, which compromise the consolidated statements of financial position as of June 30, 2017 and 2016, 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 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 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 above present fairly, in all material respects, the financial position of Taller San Jose Hope Builders and its subsidiary as of June 30, 2017 and 2016, 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 27, 2017

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 358,559	$ 247,988
Accounts receivable	124,519	314,769
Contributions and grants receivable, net	1,448,768	1,291,267
Inventory and construction in progress	26,331	37,805
Property held for resale	15,799	15,799
Investments	634,596	748,434
Property and equipment, net	1,164,925	1,243,106
Other assets	42,020	80,607
Total assets	$ 3,815,517	$ 3,979,775
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 492,788	$ 349,128
Lines of credit	272,733	298,339
Total liabilities	765,521	647,467
NET ASSETS		
Unrestricted net assets		
Undesignated	131,116	582,821
Designated for specific purposes	634,596	748,434
	765,712	1,331,255
Temporarily restricted net assets	2,284,284	2,001,053
Total net assets	3,049,996	3,332,308
Total liabilities and net assets	$ 3,815,517	$ 3,979,775

See independent auditors' report and accompanying notes to the consolidated financial statements.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

For The Years Ended June 30, 2017 and 2016

UNRESTRICTED NET ASSETS

	2017	2016
Support and Revenue		
Grants and contributions	$ 994,056	$ 1,007,649
Program service fees	1,000,442	943,494
Special events, net of direct benefit expenses of $69,609 and $73,171, in 2017 and 2016, respectively	842,449	644,892
In-kind contributions	80,835	229,886
Investment income	16,907	24,004
Net unrealized gain (loss) on investments	83,512	(28,950)
Loss on disposition of properties and equipment	(75,321)	(2,356)
Total support and revenue	2,942,880	2,818,619
Net assets released from restrictions		
Satisfaction of program restrictions	2,162,470	2,487,195
Total unrestricted support, revenue, and assets released from restriction	5,105,350	5,305,814
Expenses		
Program services - general	3,301,230	3,290,397
Program services - construction	1,330,912	1,180,900
Management and general	469,982	534,065
Development and fundraising	568,769	434,914
Total expenses	5,670,893	5,440,276
Decrease in unrestricted net assets	(565,543)	(134,462)
TEMPORARILY RESTRICTED NET ASSETS		
Grants, pledges and contributions	2,445,701	2,253,672
Satisfaction of program restrictions	(2,162,470)	(2,487,195)
Increase (decrease) in temporarily restricted net assets	283,231	(233,523)
Total Decrease in Net Assets	(282,312)	(367,985)
Net Assets at Beginning of Year	3,332,308	3,700,293
Net Assets at End of Year	$ 3,049,996	$ 3,332,308

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2017

	Program Services - General	Program Services - Construction	Management and General	Development and Fundraising	Total
Compensation and related expenses	$ 1,988,050	$ 849,264	$ 351,990	$ 327,443	$ 3,516,747
Subcontractors and construction materials	-	359,371	-	-	359,371
Student support	437,867	297	-	-	438,164
Program supplies and related expenses	189,774	4,331	-	-	194,105
Supplies, printing and office	65,186	13,284	13,318	9,231	101,019
Occupancy	370,029	6,392	15,161	15,161	406,743
Depreciation	109,844	19,141	7,228	984	137,197
Professional fees	33,090	-	33,377	35,400	101,867
Insurance	45,737	36,929	10,585	506	93,757
Computer supplies and support	32,196	225	8,477	8,220	49,118
Interest	-	1,416	6,615	-	8,031
Special events	-	-	-	86,451	86,451
Marketing, meetings and conferences	29,448	39,952	22,279	82,443	174,122
Other	9	310	952	2,930	4,201
	$ 3,301,230	$ 1,330,912	$ 469,982	$ 568,769	$ 5,670,893

See independent auditors' report and accompanying notes to the consolidated financial statements.

TALLER SAN JOSE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2016

	Program Services - General	Program Services - Construction	Management 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 independent auditors' report and 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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (282,312)	$ (367,985)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	137,197	124,968
Donated property and equipment	(4,030)	(2,500)
Loss on disposition of property and equipment	75,321	826
Unrealized (gain) loss on investments	(83,512)	22,130
Accrued interest on lines of credit	4,394	4,836
Change in operating assets and liabilities:		
Accounts receivable	190,246	(199,246)
Contributions and grants receivable	(157,500)	(126,702)
Inventory and construction in progress	(62,830)	(21,344)
Other assets	34,228	(53,557)
Accounts payable and accrued expenses	143,663	(10,729)
Deferred income	-	(41,143)
NET CASH USED IN OPERATING ACTIVITIES	(5,135)	(670,446)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(56,003)	(217,676)
Proceeds from board designated sustainability fund	250,000	400,000
Purchase of investments for designated gifts	(41,000)	
Proceeds (reinvestments) from sale of investments	(7,291)	33,639
NET CASH PROVIDED BY INVESTING ACTIVITIES	145,706	215,963
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on lines of credit	140,000	170,000
Repayments of note payable	(170,000)	(100,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(30,000)	70,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110,571	(384,483)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	247,988	632,471
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 358,559	$ 247,988
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 3,637	$ 7,014

See independent auditors' report and 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). SSJO has the right to appoint Board members of TSJHB and approval rights to certain transactions. The Organization 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, 2017 or 2016.

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 believes that all accounts receivable as of June 30, 2017 and 2016 were fully collectible; therefore, no allowance for doubtful accounts has been recorded.

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, 2017 and 2016, the amount of retentions receivable were $14,972 and $19,734, respectively, and these amounts are recorded as a component of accounts receivable on the accompanying consolidated balance sheets.

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, 2017 and 2016 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. Management believes that all promises to give as of June 30, 2017 and 2016 were fully collectible; therefore, no allowance for doubtful promises to give has been recorded.

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, 2017 and 2016, donated goods and services received by the Organization meeting the above criteria were valued at $80,835 and $229,886, respectively, which were primarily related to donated professional services, 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, 2017 and 2016, the Organization did not identify any material impairment of its long-lived assets.

Reclassifications

Certain amounts in the fiscal 2016 consolidated financial statements have been reclassified to conform to the fiscal 2017 presentation. Assets released from restriction (satisfaction of program restrictions - unrestricted net assets) were previously reported as $2,006,860 for the year ended June 30, 2016 were $2,487,195, with a corresponding change to satisfaction of program restrictions (temporarily restricted net assets). There was no net effect on the total change to net assets as a result of this reclassification.

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 2013 through 2016 and state tax returns for the tax years 2012 through 2016 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 FASB" issued 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.

In January 2017, the FASB issued ASU 2017-02; *Not-for-Profit Entities* - *Consolidation* (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity. This ASU provides clarification for not-for-profit entities in applying the consolidation guidance of Subtopic 810-10. This ASU is effective for fiscal year beginning after December 31, 2016 with early adoption permitted. The Organization is currently evaluating the potential impact of this ASU on its consolidated financial statements.

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, 2017 and 2016:

	Total	Level 1	Level 2	Level 3
June 30, 2017				
Fixed income funds	$ 370,687	$ -	$ 370,687	$ -
Equity funds and common	263,909	-	263,909	-
	$ 634,596	$ -	$ 634,596	$ -
June 30, 2016				
Fixed income funds	$ 105,241	$ -	$ 105,241	$ -
Equity funds and common	643,193	-	643,193	-
	$ 748,434	$ -	$ 748,434	$ -

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, 2017, contributions and grants receivable of $737,628 were expected to be received within one year, and $793,140 is expected withn one to five years. There is a discount for long term pledges of $82,000, and no allowance for doubtful accounts, as management expects they are fully collectable. 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 discount of $19,000 on the long term pledges.

NOTE E - PROPERTY AND EQUIPMENT

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

	2017	2016
Land and building	$ 1,065,584	$ 1,065,584
Building improvements and renovations	751,915	703,912
Equipment, furniture and fixtures	574,224	562,192
Vehicles	146,907	153,858
	2,538,630	2,485,546
Less accumulated depreciation	1,373,705	1,242,440
	$ 1,164,925	$ 1,243,106

Depreciation expense was $137,197 and $124,968 for the fiscal years ended June 30, 2017 and 2016, respectively.

NOTE F - PROPERTY HELD FOR RESALE

The Organization owns one undeveloped residential property donated by a lender through a distressed property program, with a carrying value of $15,799 as of June 30, 2017 and 2016.

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 has the power to control the day to day operations and financial policies of the LLC. HBCC, while it owns 50.1%, does not control any aspect of the LLC, and as a result, has not been consolidated into these consoldiated financial statements.

As of June 30, 2017 and 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, 2017 and 2016, the income recognized by HBCC was $9,615 and $12,529.

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 line is secured by a Deed of Trust recorded on the building which houses the Organization's construction program. As of June 30, 2017 and 2016, $272,733 and $198,339 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 bore interest at 2.5% to be paid on a quarterly basis. Advances under this agreement were made through June 30, 2016, and any outstanding balance was required to be paid in full by June 30, 2017. During the year ended June 30, 2016, $100,000 was advanced and was outstanding as of June 30, 2016. The loan was repaid in full during the year ended June 30, 2017.

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, 2017 and 2016 was $91,732 and $84,112, respectively.

NOTE J - NET ASSETS

	2017	2016
Unrestricted net assets which have been designated by management for specific purposes:		
Funds designated for specific purposes - See Note L	$ 634,596	$ 748,434
Temporarily restricted net assets are available for the following purposes:		
Anaheim expansion	1,187,484	583,587
Grant requirements	1,096,800	1,417,466
	$ 2,284,284	$ 2,001,053

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 Healthcare Foundation (SJHF). The Organization also shares a history of founding and support through SSJO with St. Joseph Health (SJH). Historically, the Organization has relied upon these organizations to supplement its operations through grants, loans, and loan guarantees.

During the years ended June 30, 2017 and 2016, the Organization reimbursed SSJO for certain staff and employee benefit related costs in the amount of $94,858 and $81,566, respectively. For the years ended June 30, 2017 and 2016, SSJO's contributions totaled $152,302 and $178,102, respectively.

SJH and its hospitals and SJHF also support the Organization. For the years ended June 30, 2017 and 2016, SJH's contributions totaled $268,500 and $65,050 respectively. In addition, the Organization reimbursed SJH for certain employee benefit related costs and insurance in the amount of $575,801 and $438,172 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 $205,362 and $115,876 from members of the Board of Directors during the years ended June 30, 2017 and 2016, respectively.

NOTE L - SUSTAINABILITY FUNDS

Board Designated Sustainability Fund

Unrestricted net assets at June 30, 2016 included a Board of Directors designated endowment fund (quasi-endowment) established in 2001. It was designated by the Board of Directors to be maintained as an endowment fund subject to the Organization's investment and spending policies. In March, 2017, the Board of Directors determined the intent was actually for a sustainability fund to support the operations of the Organization. The Fund was renamed the Sustainability Fund. It continues to be Board-designated, and requires Board approval for additions and withdrawals.

NOTE L - SUSTAINABILITY FUNDS (CONTINUED)

Sustainability 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, once the balance exceeds the required months of working capital. The Board of Directors may elect to increase this amount through its annual budgeting process.

The composition of net assets for this fund as of June 30, 2017 and 2016 and the changes in endowment net assets for the corresponding years are as follows:

	2017	2016
Fund net assets, beginning	$ 748,436	$ 1,204,203
Unrealized gain (loss) on investments	95,160	(10,682)
Amounts contibuted for sustainability	41,000	-
Amounts appropriated for expenditure	(250,000)	(45,085)
Amounts appropriated to finance expansion	-	(400,000)
Fund net assets, ending	$ 634,596	$ 748,436

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, 2017 and 2016, the balance in the Legacy Fund was $71,563 and $62,760, 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 2019. 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, 2017 and 2016 was $239,637 and $146,821, respectively.

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

2018	$ 250,414
2019	238,674
2020	180,293
2021	106,988
	$ 776,369

NOTE N - CONTINGENCIES

The Organization receives a 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 27, 2017 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, 2017

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
ASSETS				
Cash and cash equivalents	$ 315,110	$ 43,449	$ -	$ 358,559
Accounts receivable	-	124,519	-	124,519
Contributions and grants receivable, net	1,448,768	-	-	1,448,768
Inventory and construction in progress	8,929	17,402	-	26,331
Property held for resale	15,799	-	-	15,799
Investments	634,596	-	-	634,596
Property and equipment, net	1,164,336	589	-	1,164,925
Due from Hope Builders Construction Company	1,140,823	-	(1,140,823)	-
Other assets	42,020	-	-	42,020
Total assets	$ 4,770,381	$ 185,959	$ (1,140,823)	$ 3,815,517
LIABILITIES				
Accounts payable and accrued expenses	$ 347,598	$ 145,190	$ -	$ 492,788
Line of credit	272,733	-	-	272,733
Due to Taller San Jose Hope Builders	-	928,102	(928,102)	-
Total liabilities	620,331	1,073,292	(928,102)	765,521
NET ASSETS				
Unrestricted net assets				
Undesignated	1,231,170	(887,333)	(212,721)	131,116
Designated for specific purposes	634,596	-	-	634,596
	1,865,766	(887,333)	(212,721)	765,712
Temporarily restricted net assets	2,284,284	-	-	2,284,284
Total net assets	4,150,050	(887,333)	(212,721)	3,049,996
Total liabilities and net assets	$ 4,770,381	$ 185,959	$ (1,140,823)	$ 3,815,517

See independent auditors' report

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	Consol-idating Entries	Consolidated Totals
ASSETS				
Cash and cash equivalents	$ 235,681	$ 12,307	$ -	$ 247,988
Accounts receivable	85,201	229,568	-	314,769
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

See independent auditors' report

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
DETAILS OF CONSOLIDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
UNRESTRICTED NET ASSETS				
Support and Revenue				
Grants and contributions	$ 994,056	$ 150,000	$ (150,000)	$ 994,056
Program service fees	107,466	976,247	(83,271)	1,000,442
Special events, net	842,449	-	-	842,449
In kind contributions	80,835	2,000	(2,000)	80,835
Investment income	7,292	9,615	-	16,907
Net unrealized gain on investments	83,512	-	-	83,512
Loss on disposition and equipment	(75,321)	-	-	(75,321)
Total support and revenue	2,040,289	1,137,862	(235,271)	2,942,880
Net assets released from restrictions				
Satisfaction of program restrictions	2,162,470	-	-	2,162,470
Total unrestricted support, revenue, and assets released from restriction	4,202,759	1,137,862	(235,271)	5,105,350
Expenses				
Program services - general	3,301,230	-	-	3,301,230
Program services - construction	282,115	1,284,068	(235,271)	1,330,912
Management and general	469,982	-	-	469,982
Development and fundraising	568,769	-	-	568,769
Total expenses	4,622,096	1,284,068	(235,271)	5,670,893
Decrease in unrestricted net assets	(419,337)	(146,206)	-	(565,543)
TEMPORARILY RESTRICTED NET ASSETS				
Grants, pledges and contributions	2,445,701	-	-	2,445,701
Satisfaction of program restrictions	(2,162,470)	-	-	(2,162,470)
Increase in temporarily restricted net assets	283,231	-	-	283,231
Total decrease in Net Assets	(136,106)	(146,206)	-	(282,312)
Net Assets at Beginning of Year	4,286,156	(741,127)	(212,721)	3,332,308
Net Assets at End of Year	$ 4,150,050	$ (887,333)	$ (212,721)	$ 3,049,996

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	2,487,195	-	-	2,487,195
Total unrestricted support, revenue, and assets released from restriction	4,207,474	1,292,282	(193,942)	5,305,814
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	(119,237)	(15,225)	-	(134,462)
TEMPORARILY RESTRICTED NET ASSETS				
Grants, pledges and contributions	2,253,672	-	-	2,253,672
Satisfaction of program restrictions	(2,487,195)	-	-	(2,487,195)
Increase in temporarily restricted net assets	(233,523)	-	-	(233,523)
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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