



ABODE SERVICES

(A California Not-For-Profit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND JUNE 30, 2017



ABODE SERVICES

TABLE OF CONTENTS **JUNE 30, 2018 AND JUNE 30, 2017**

| | |
|--|---------|
| Independent auditors' report | 2 |
| Consolidated statements of financial position | 3 |
| Consolidated statements of activities | 4 - 5 |
| Consolidated statements of functional expenses | 6 - 7 |
| Consolidated statements of cash flows | 8 - 9 |
| Notes to consolidated financial statements | 10 - 29 |



Independent Auditors' Report

The Board of Directors
Abode Services

We have audited the accompanying consolidated financial statements of Abode Services (a California non-profit public benefit corporation), which comprise the consolidated statement of financial position as of June 30, 2018 and June 30, 2017, and the related consolidated statements of activities, functional expenses, cash flows, and notes to consolidated financial statements for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation in the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Abode Services as of June 30, 2018 and June 30, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rina Accountancy Corporation

Certified Public Accountants

San Francisco, CA
January 11, 2019

ABODE SERVICES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| <u>ASSETS</u> | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|--|-----------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 11,432,280 | \$ 8,917,488 |
| Grants receivable | 16,010,507 | 10,204,822 |
| Accounts receivable | 742,103 | 401,827 |
| Pledges receivable, net | 102,034 | 120,510 |
| Investments | 5,097,404 | 4,823,845 |
| Prepaid expenses | 404,043 | 95,806 |
| TOTAL CURRENT ASSETS | <u>33,788,371</u> | <u>24,564,298</u> |
| PROPERTY AND EQUIPMENT, NET | <u>60,776,236</u> | <u>39,259,500</u> |
| OTHER ASSETS: | | |
| Investment in partnerships | 3,531,692 | 3,531,692 |
| Beneficial interest in life insurance policy | - | 39,909 |
| Pledges receivable, net of current portion | 306,102 | 361,532 |
| Deposits | 313,627 | 267,475 |
| Operating and maintenance reserves | 2,864,820 | 2,276,826 |
| TOTAL OTHER ASSETS | <u>7,016,241</u> | <u>6,477,434</u> |
| | <u>\$ 101,580,848</u> | <u>\$ 70,301,232</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 852,549 | \$ 592,127 |
| Note payable, current portion | 176,061 | 684,386 |
| Accrued expenses | 2,526,675 | 2,727,068 |
| Deferred revenue | 6,829,143 | 1,624,666 |
| Deposit liability | 231,858 | 343,914 |
| TOTAL CURRENT LIABILITIES | <u>10,616,286</u> | <u>5,972,161</u> |
| LONG-TERM LIABILITIES: | | |
| Accrued mortgage interest | 6,323,853 | 2,614,167 |
| Mortgages payable, net | 50,955,626 | 36,046,111 |
| Loans payable | 3,257,148 | 2,007,148 |
| TOTAL LONG-TERM LIABILITIES | <u>60,536,627</u> | <u>40,667,426</u> |
| TOTAL LIABILITIES | <u>71,152,913</u> | <u>46,639,587</u> |
| NET ASSETS: | | |
| Unrestricted: | | |
| Board designated | 6,270,317 | 7,085,365 |
| Undesignated | 15,558,862 | 6,981,393 |
| Temporarily restricted | 8,598,756 | 9,594,887 |
| Permanently restricted | - | - |
| TOTAL NET ASSETS | <u>30,427,935</u> | <u>23,661,645</u> |
| | <u>\$ 101,580,848</u> | <u>\$ 70,301,232</u> |

See notes to consolidated financial statements.

ABODE SERVICES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------|-----------------------------------|----------------------|
| SUPPORT AND REVENUE: | | | |
| Grant revenue | \$ 53,457,087 | \$ 634,999 | \$ 54,092,086 |
| Donations | 2,569,766 | - | 2,569,766 |
| In kind contributions | 37,536 | - | 37,536 |
| Project Welcome Home | 1,045,582 | - | 1,045,582 |
| Contribution of partnership interest | 1,523,289 | - | 1,523,289 |
| Other income | 192,832 | - | 192,832 |
| Investment income | 531,575 | - | 531,575 |
| Rental income | 3,972,551 | - | 3,972,551 |
| Management fee income | 143,146 | - | 143,146 |
| Developer fee income | 460,226 | - | 460,226 |
| Net assets released from restrictions | 1,631,130 | (1,631,130) | - |
| | <u>65,564,720</u> | <u>(996,131)</u> | <u>64,568,589</u> |
| TOTAL SUPPORT AND REVENUE | | | |
| OPERATING EXPENSES: | | | |
| Program expenses | 51,983,496 | - | 51,983,496 |
| Supporting services: | | | |
| Management and general | 4,462,336 | - | 4,462,336 |
| Fundraising | 1,356,467 | - | 1,356,467 |
| | <u>57,802,299</u> | <u>-</u> | <u>57,802,299</u> |
| TOTAL EXPENSES | | | |
| CHANGE IN NET ASSETS | 7,762,421 | (996,131) | 6,766,290 |
| NET ASSETS, beginning of year | <u>14,066,758</u> | <u>9,594,887</u> | <u>23,661,645</u> |
| NET ASSETS, end of year | <u>\$ 21,829,179</u> | <u>\$ 8,598,756</u> | <u>\$ 30,427,935</u> |

See notes to consolidated financial statements.

ABODE SERVICES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|---------------|---------------------------|---------------|
| SUPPORT AND REVENUE: | | | |
| Grant revenue | \$ 40,783,303 | \$ - | \$ 40,783,303 |
| Donations | 188,796 | 8,071,853 | 8,260,649 |
| In kind contributions | 37,536 | - | 37,536 |
| Project Welcome Home | 1,067,161 | - | 1,067,161 |
| Contribution of partnership interest | 6,722,169 | - | 6,722,169 |
| Other income | 117,549 | - | 117,549 |
| Investment income | 405,358 | - | 405,358 |
| Rental income | 1,082,975 | - | 1,082,975 |
| Management fee income | - | - | - |
| Developer fee income | 450,000 | - | 450,000 |
| Net assets released from restrictions | 1,518,247 | (1,518,247) | - |
| TOTAL SUPPORT AND REVENUE | 52,373,094 | 6,553,606 | 58,926,700 |
| OPERATING EXPENSES: | | | |
| Program expenses | 39,931,131 | - | 39,931,131 |
| Supporting services: | | | |
| Management and general | 3,849,778 | - | 3,849,778 |
| Fundraising | 1,056,951 | - | 1,056,951 |
| TOTAL EXPENSES | 44,837,860 | - | 44,837,860 |
| CHANGE IN NET ASSETS | 7,535,234 | 6,553,606 | 14,088,840 |
| NET ASSETS, beginning of year | 6,531,524 | 3,041,281 | 9,572,805 |
| NET ASSETS, end of year | \$ 14,066,758 | \$ 9,594,887 | \$ 23,661,645 |

See notes to consolidated financial statements.

ABODE SERVICES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

| | Program Services | Supporting Services | | Total |
|-----------------------------|----------------------|---------------------------|---------------------|----------------------|
| | | Management and General | Fundraising | |
| Direct client expenses | \$ 27,780,536 | \$ - | \$ - | \$ 27,780,536 |
| Personnel | 15,340,193 | 3,278,017 | 866,227 | 19,484,437 |
| Professional fees | 1,551,081 | 151,457 | 125,760 | 1,828,298 |
| Insurance | 561,111 | 111,704 | 28,196 | 701,011 |
| Rent and facility expense | 647,105 | 179,797 | 47,419 | 874,321 |
| Utilities | 932,835 | 78,202 | 24,242 | 1,035,279 |
| Travel | 474,765 | 100,557 | 27,668 | 602,990 |
| Depreciation | 1,229,484 | 65,859 | - | 1,295,343 |
| Maintenance | 822,814 | 43,398 | - | 866,212 |
| Equipment and furnishing | 289,630 | 54,306 | 18,102 | 362,038 |
| Office supplies | 186,321 | 43,554 | 7,111 | 236,986 |
| Program supplies | 191,592 | - | - | 191,592 |
| Interest expense | 643,926 | 115,138 | - | 759,064 |
| Dues and subscriptions | 40,093 | 7,517 | 2,506 | 50,116 |
| Recruitment | 83,491 | 15,655 | 5,218 | 104,364 |
| Information Technology | 143,350 | 26,878 | 8,959 | 179,187 |
| Equipment rental | 83,491 | 15,655 | 5,218 | 104,364 |
| Postage and delivery | 21,760 | 4,052 | 1,351 | 27,163 |
| Staff and board development | 80,207 | 15,039 | 5,013 | 100,259 |
| Fundraising expenses | - | - | 35,953 | 35,953 |
| Reproduction | 21,417 | 3,895 | 1,298 | 26,610 |
| Bad debts | 123,248 | 112,273 | 88,075 | 323,596 |
| Volunteer expense | 10,300 | - | - | 10,300 |
| Miscellaneous | 124,375 | 7,210 | 2,091 | 133,676 |
| Bank service charges | 12,704 | 19,917 | 1,058 | 33,679 |
| Taxes and licenses | 319,698 | 12,256 | - | 331,954 |
| Advertising and marketing | 3,427 | - | 55,002 | 58,429 |
| Security | 246,239 | - | - | 246,239 |
| Manager's rent free unit | 18,303 | - | - | 18,303 |
| Total expenses | <u>\$ 51,983,496</u> | <u>\$ 4,462,336</u> | <u>\$ 1,356,467</u> | <u>\$ 57,802,299</u> |

See notes to consolidated financial statements.

ABODE SERVICES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

| | Program Services | Supporting Services | | Total |
|-----------------------------|----------------------|---------------------------|---------------------|----------------------|
| | | Management and General | Fundraising | |
| Direct client expenses | \$ 21,632,386 | \$ - | \$ - | \$ 21,632,386 |
| Personnel | 12,142,412 | 2,705,567 | 690,009 | 15,537,988 |
| Professional fees | 977,015 | 368,029 | 68,881 | 1,413,925 |
| Insurance | 567,646 | 95,395 | 22,760 | 685,801 |
| Rent and facility expense | 405,579 | 128,394 | 10,094 | 544,067 |
| Utilities | 627,355 | 93,109 | 15,712 | 736,176 |
| Travel | 251,500 | 53,916 | 5,784 | 311,200 |
| Depreciation | 1,017,307 | 59,552 | - | 1,076,859 |
| Maintenance | 638,419 | 59,586 | - | 698,005 |
| Equipment and furnishing | 131,151 | 11,658 | 2,914 | 145,723 |
| Office supplies | 142,606 | 62,869 | 11,324 | 216,799 |
| Program supplies | 106,058 | - | - | 106,058 |
| Interest expense | 443,598 | 103,870 | - | 547,468 |
| Dues and subscriptions | 55,072 | 13,768 | - | 68,840 |
| Recruitment | 60,339 | 5,363 | 1,341 | 67,043 |
| Information Technology | 48,040 | 12,811 | 3,203 | 64,054 |
| Equipment rental | 44,163 | 8,493 | 3,963 | 56,619 |
| Postage and delivery | 15,251 | 9,379 | 13,131 | 37,761 |
| Staff and board development | 26,628 | 6,145 | 1,366 | 34,139 |
| Fundraising expenses | - | - | 33,195 | 33,195 |
| Reproduction | 11,932 | 5,635 | 11,270 | 28,837 |
| Bad debts | 74,248 | - | 26,660 | 100,908 |
| Volunteer expense | 26,122 | - | - | 26,122 |
| Miscellaneous | 54,388 | 21,659 | 406 | 76,453 |
| Bank service charges | 9,801 | 15,050 | 1,980 | 26,831 |
| Taxes and licenses | 252,980 | 9,530 | - | 262,510 |
| Advertising and marketing | 5,717 | - | 132,958 | 138,675 |
| Security | 147,986 | - | - | 147,986 |
| Manager's rent free unit | 15,432 | - | - | 15,432 |
| Total expenses | \$ 39,931,131 | \$ 3,849,778 | \$ 1,056,951 | \$ 44,837,860 |

See notes to consolidated financial statements.

ABODE SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | June 30, 2018 | June 30, 2017 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 6,766,290 | \$ 14,088,840 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,295,343 | 1,076,859 |
| Contribution of partnership interest | (1,443,074) | (6,722,169) |
| Accrued interest | 270,971 | 338,880 |
| Loss (gain) on disposal of fixed assets | 4,786 | (101,557) |
| Realized and unrealized gains on investments | (85,234) | (62,883) |
| Increase in allowance for doubtful pledges | 85,000 | - |
| (Increase) decrease in cash surrender value of life insurance | 39,909 | (12,269) |
| Decrease (increase) in: | | |
| Grants receivable | (6,019,541) | (2,906,435) |
| Accounts receivable | (260,691) | (520,046) |
| Pledges receivable | (11,094) | (152,858) |
| Prepaid expenses | (240,037) | 75,490 |
| Funded reserves | 70,185 | (844,854) |
| Deposits | (18,772) | 30,923 |
| Increase (decrease) in: | | |
| Accounts payable | 704,775 | 385,120 |
| Tenant deposits | 11,821 | - |
| Accrued expenses | 492,317 | 280,512 |
| Deferred revenue | 5,200,535 | 851,315 |
| | 6,863,489 | 5,804,868 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of fixed assets | - | 1,083,765 |
| Acquisition of property and equipment | (5,390,704) | (2,341,497) |
| Purchase and transfers of marketable securities | (110,668) | (58,427) |
| Sales and maturities of marketable securities | (53,707) | 4,661 |
| | (5,555,079) | (1,311,498) |

See notes to consolidated financial statements.

ABODE SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | June 30, 2018 | June 30, 2017 |
|--|---------------|----------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long term debt | \$ 1,250,000 | \$ 1,638,829 |
| Repayment of long term debt | (43,618) | (1,557,248) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,206,382 | 81,581 |
| NET INCREASE IN CASH | 2,514,792 | 4,574,951 |
| CASH, beginning of year | 8,917,488 | 4,342,537 |
| CASH, end of year | \$ 11,432,280 | \$ 8,917,488 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest | \$ 462,400 | \$ 297,216 |
| Income taxes | 2,600 | 800 |
| Non-cash transactions: | | |
| Real estate purchased through long term debt financing | \$ 3,863,020 | \$ 8,868,650 |
| Cash | \$ 80,215 | \$ 128,062 |
| Receivables, net | 79,131 | - |
| Property and equipment | 13,563,143 | 4,175,346 |
| Investments | - | 4,249,491 |
| Investment in limited partnership | - | 2,320,040 |
| Funded reserves | 593,182 | - |
| Other assets | 68,319 | - |
| Long term debt | (10,613,857) | (3,693,421) |
| Accrued interest | (2,140,688) | (425,339) |
| Other liabilities | (106,156) | (32,010) |
| Contribution of partnership interest | \$ 1,523,289 | \$ 6,722,169 |

See notes to consolidated financial statements.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 1. NATURE OF BUSINESS:

Nature of activities:

Abode Services ("Abode") was incorporated in November 1988 as a California non-profit public benefit corporation to end local homelessness. Abode Services offers housing programs linked to supportive services for homeless families, single adults and youth. Housing options include permanent supportive housing rental subsidy assistance, transitional housing and emergency shelter. Supportive services consist of case management, job counseling programs, drug and alcohol counseling, mental health counseling and support groups. Each program integrates these two components to help clients establish permanent stability and return to productive lives.

Housing for Independent People, Inc. (the "HIP") is a nonprofit public benefit corporation incorporated in the state of California in 1979. The Organization's mission is to end homelessness and prevent institutionalization of people with special needs in Northern California. Special needs include developmental disabilities, psychiatric disabilities, medical conditions including drug and alcohol dependency, frail elderly, HIV/AIDS and combinations of these disabilities. Effective January 1, 2012, Abode and HIP entered into a strategic alliance.

Housing for Independent People, Inc. fulfills its mission by, not only, preserving the community's current stock of rental housing for very low income special needs individuals, but also providing a high quality of management. The Organization is also expanding the number of units of housing available to this population through partnerships to acquire or develop additional units in the community.

Community Working Group, Inc. (CWG) is a California non-profit public benefit corporation organized to provide housing and services for homeless and low-income individuals and families, as well as those at risk of becoming homeless, in Santa Clara and San Mateo Counties. CWG's mission is to develop and/or acquire housing that is made available to low-income families and individuals and those who are homeless or at risk of becoming homeless. CWG achieves its goals by marshaling community resources and coordinating strategic alliances with community partners for the development and operation of housing and services, and by serving as advocates on their behalf. Effective April 1, 2017, Abode and CWG entered into a strategic alliance.

Allied Housing, Inc. (Allied) is a non-profit public benefit corporation incorporated in March 1994 whose mission is to provide affordable housing linked to support services for low-income individuals and families. Allied is a supportive housing development organization focused on developing projects in Northern California. Allied's purpose is to house extremely and very low-income families and individuals. This purpose is accomplished by developing supportive housing. Effective October 1, 2005, Abode and Allied formed a strategic alliance.

Principles of consolidation:

The consolidated financial statements include the accounts of the following affiliates that are doing business as Abode Services (the "Organization") after the elimination of all significant intercompany accounts and transactions:

Abode Services ("Abode")

Allied Housing, Inc. ("Allied")

Housing for Independent People, Inc. ("HIP")

Community Working Group ("CWG")

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 1. NATURE OF BUSINESS (Continued):

Principles of consolidation (continued):

The organizations have retained separate identities, missions and activities. They all share a common Board of Directors and Executive Director. Abode provides administrative and staffing to support the operations of the other entities.

Allied functions as the development arm on new housing projects.

HIP functions as the property management arm of the Organization on housing and office sites.

CWG functions as the entity assigned to generate and manage new programs and projects in the Peninsula. Abode Services has entered into an agreement with CWG to provide administrative services and staffing to support their operations.

Basis of accounting:

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial statement presentation:

Abode Services reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories follows:

Unrestricted net assets:

Unrestricted net assets represent unrestricted resources available to support its exempt activities and temporarily restricted resources, which became available for use by the organization in accordance with the intentions of donors.

Temporarily restricted net assets:

Temporarily restricted net assets represent contributions whose use is limited by donor-imposed stipulations that either expire with the passage of time or may be satisfied and removed by the actions of the organization according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Net assets released from restriction are shown within fund transfers in the accompanying financial statements in order for management to fairly present fund position at fiscal year-end.

Permanently restricted net assets:

Permanently restricted net assets represent contributions with donor-imposed restrictions requiring the gift to be invested in perpetuity. The income from such invested assets, including realized and unrealized gains, is generally available to support the activities of the Organization. Donors may also restrict all or part of the income and/or appreciation from these investments to temporarily or permanently restricted net assets, resulting in increases/decreases to these net assets. There were no permanently restricted net assets as of June 30, 2018 and June 30, 2017.

Cash equivalents:

Cash equivalents are considered to be highly-liquid investment instruments with original maturities of three months or less.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Tenant security deposits:

Tenant security deposits are not available for operating purposes. The Organization maintains funds equal to the related liability and holds the funds in separate, interest bearing accounts in the name of the Organization.

Investment in partnership:

The Organization has investments in several partnerships. In accordance with professional accounting standards the Organization records its investments in partnerships at cost.

Investments:

The Organization reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

The Organization invests in various investments. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Professional accounting standards established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under professional accounting standards are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data, by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments (Continued):

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Equity, securities, debt securities, and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Grants, accounts and pledges receivable:

The Organization established an allowance for uncollectible accounts for accounts receivable and pledges based on periodic review of accounts and historical collections. A accounts receivable allowance of \$45,384 and \$69,071 was deemed necessary at June 30, 2018 and June 30, 2017. A pledge allowance of \$138,300 and \$53,300 was deemed necessary at June 30, 2018 and June 30, 2017. Pledges are recognized when the donor makes a promise to give to Abode Services that is, in substance, unconditional. It is Abode's policy to charge off uncollectible accounts and grants receivable when management determines the receivable will not be collected.

Property and equipment:

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Property and equipment are depreciated using the straight-line method over useful lives ranging from 5 to 39 years. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the improvements.

Property and equipment acquired by the Organization is considered to be owned by the Organization. However, certain governmental agencies may maintain an equitable interest, or may have a reversionary interest, in the property purchased with grant monies, as well as the right to determine the use of any proceeds from the sale of these assets. The Organization agrees to be responsible for the proper care and custody of all grant property and agrees not to sell, transfer, encumber or otherwise dispose of property acquired with grant funds without permission from the governmental agency providing grant funding. The federal government has a reversionary interest in those assets purchased with its funds that have a cost of \$1,000 or more.

Contributions in-kind:

Donated equipment, rent and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization received donated rent of \$37,536 for the years ended June 30, 2018 and June 30, 2017.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Donated property and equipment:

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred revenue:

Revenue related to grants and contracts is recognized as the related expenses are incurred. Deposits received in advance of program services being provided are reflected as deferred revenue. Rental income received in advance of the rental period is recorded as deferred revenue.

Revenue recognition:

Contributions are recorded as revenue at their fair value when the unconditional promise to give is made.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Revenue from grants including those classified as “exchange transactions” and program fees are recognized as revenue in the period in which the service is provided. Rental income is shown at the maximum gross potential, net of vacancy loss and is recognized pro-rata over the rental period.

Prepaid rent is recognized as deferred revenue. Amounts billed or received in advance are recorded as deferred revenue until the related services are performed.

Project Welcome Home - revenue recognition and deferred revenue:

Program Welcome Home is a pay for success grant, and accordingly services are recognized on an expense reimbursement basis and recorded as revenue as the service is provided. The “success” payments are estimated on an annual basis to the best of the organization’s ability. Estimated “success” payments will be adjusted to actual when payment is received from the County. There are some payments that were received early in the program that are intended to cover the tail end of the funding. These early payments are recorded as deferred revenue because the funding has not yet been earned.

Functional allocation of expenses:

Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income tax status:

The Organization is a tax-exempt organization under the provisions of the Internal Revenue Code and related California provisions. The Organization is relying on its tax exempt status and its adherence to all applicable laws and regulations to preserve that status. Accordingly, no provision for income taxes has been reflected in these financial statements.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Beneficial interest in life insurance policy:

Abode Services is the beneficiary of a life insurance policy. Under the terms of the policy, Abode Services will receive the applicable death benefit upon the donor's death. The policy is recorded as an asset measured at the policy cash surrender value at the end of Abode Services' reporting period. Changes in the value of the insurance policy over the premium obligation donated to Abode Services is included in the statement of activities. The policy was liquidated during the fiscal year ending June 30, 2018.

Long-lived assets:

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered.

Use of estimates:

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

Concentrations of credit risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Organization places its cash with high quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Organization has not experienced any losses in such accounts.

Reclassifications:

Certain prior year balances have been reclassified to conform to current year presentation.

Note 3. PLEDGES RECEIVABLE:

Pledges receivable are comprised of the following:

| | June 30, | |
|--|------------|------------|
| | 2018 | 2017 |
| Pledges receivable and discounts | 546,436 | \$ 535,342 |
| Less allowance for uncollectible pledges | (138,300) | (53,300) |
| Balances | \$ 408,136 | \$ 482,042 |
| Classified as: | | |
| Current | \$ 102,034 | \$ 120,510 |
| Long-term | 306,102 | 361,532 |
| | \$ 408,136 | \$ 482,042 |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 4. FAIR VALUE MEASUREMENTS:

The following tables sets forth by level, the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018 and June 30, 2017:

Assets at Fair Value as of June 30, 2018

| | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---------------------------------|--|--|--|---------------------|
| Corporate equities | \$ 1,017,889 | \$ - | \$ - | \$ 1,017,889 |
| Municipal bonds | 847,854 | - | - | 847,854 |
| Mutual funds | 2,659,506 | - | - | 2,659,506 |
| Corporate Bonds | 118,119 | - | - | 118,119 |
| Exchange-traded funds | 125,568 | - | - | 125,568 |
| Limited partnership | - | - | 3,531,692 | 3,531,692 |
| Debt securities | - | 200,449 | - | 200,449 |
| | <u>\$ 4,768,936</u> | <u>\$ 200,449</u> | <u>\$ 3,531,692</u> | 8,501,077 |
| Money market funds | | | | 128,019 |
| Total investments at fair value | | | | <u>\$ 8,629,096</u> |
| Investments | | | | \$ 5,097,404 |
| Investments in partnerships | | | | 3,531,692 |
| | | | | <u>\$ 8,629,096</u> |

Assets at Fair Value as of June 30, 2017

| | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|--|--|--|---------------------|
| Corporate equities | \$ 808,632 | \$ - | \$ - | \$ 808,632 |
| Municipal bonds | 425,777 | - | - | 425,777 |
| Mutual funds | 2,831,970 | - | - | 2,831,970 |
| Corporate Bonds | 151,446 | - | - | 151,446 |
| Exchange-traded funds | 28,580 | - | - | 28,580 |
| Limited partnership | - | - | 3,531,692 | 3,531,692 |
| Debt securities | - | 197,513 | - | 197,513 |
| | <u>\$ 4,246,405</u> | <u>\$ 197,513</u> | <u>\$ 3,531,692</u> | 7,975,610 |
| Money market funds and certificates of deposit | | | | 379,927 |
| Total investments at fair value | | | | <u>\$ 8,355,537</u> |
| Investments | | | | \$ 4,823,845 |
| Investments in partnerships | | | | 3,531,692 |
| | | | | <u>\$ 8,355,537</u> |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 5. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

| | June 30, | |
|-------------------------------|---------------|---------------|
| | 2018 | 2017 |
| Land | \$ 16,593,601 | \$ 10,135,737 |
| Buildings | 54,370,871 | 38,096,715 |
| Improvements | 3,032,905 | 2,473,093 |
| Furniture and equipment | 1,382,070 | 938,897 |
| Construction in progress | 5,820,020 | 1,554,013 |
| Totals | 81,199,467 | 53,198,455 |
| Less accumulated depreciation | 20,423,231 | 13,938,955 |
| Property and equipment, net | \$ 60,776,236 | \$ 39,259,500 |

Note 6. INVESTMENT IN BRIDGEWAY EAST LP:

On February 5, 2004, Abode Services entered into an agreement to transfer and assign its interest in Rotary BridgeWay Apartments to BridgeWay East, L.P. ("BWE, L.P.") for a .005% co-general partnership interest in the limited partnership. The net value of the assets and liabilities, \$71,964 at the date of transfer became the cost basis for the investment. As part of the partnership agreement, Abode Services and the other general partner have guaranteed general partners' obligations to fund operating deficits incurred by BWE, L.P. during the guaranty period in an amount not to exceed \$150,000. No amounts were paid in the years ended June 30, 2018 and June 30, 2017. Both general partners have an option and a right of first refusal to purchase the Rotary BridgeWay Apartments from the partnership after a fifteen-year compliance period. The purchase price is the greater of an amount sufficient to pay all debts of the limited partnership or the fair value of the property.

Abode Services entered into a resident service agreement on behalf of BWE, L.P. to provide support services to tenants residing at Rotary BridgeWay Apartments. Amounts earned were \$10,000 and \$10,000 for the years ended June 30, 2018 and June 30, 2017, respectively. Amounts receivable from the partnership at June 30, 2018 and June 30, 2017 were \$0.

Note 7. INVESTMENT IN HOUSING ALLIANCE L.P.:

On September 4, 2003, Allied entered into an agreement with Resources for Community Development ("RCD"), a California non-profit public benefit corporation, to form the Housing Alliance, L.P. partnership. The purpose of the partnership was to acquire, develop, own and operate a 28-unit rental housing complex located in Castro Valley, California (Lorenzo Creek Apartments). The project was placed in service in February 2006.

As consideration for its general partner interest, Allied transferred the Lorenzo Creek property (subject to all outstanding deeds of trusts, lien, regulatory agreements, subordination agreements and other encumbrances) to the partnership. The net value of the assets and liabilities transferred became the cost basis for the partnership interest. This net value of \$702,667 is Allied's investment in the partnership. The Partnership agreement includes, among others, a development fee agreement dated October 1, 2003, whereby Allied is entitled to compensation for services in connection with the development of the project.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 7. INVESTMENT IN HOUSING ALLIANCE L.P. (Continued):

Allied, as a co-GP, holds a 49% interest in the .01% GP interest in the LLC. Allied could be held responsible for its prorated share of on any excess cost in any year. Allied could also be held responsible for a prorated share of loss of any remaining tax credit on unit(s) that are out of compliance. Allied has not experienced any liabilities in connection with this investment. Management does not anticipate future liabilities in connection with this investment.

Note 8. INVESTMENT IN 2891 CARMEN STREET, L.P.:

Allied purchased property known as Carmen Avenue for the purpose of constructing a complex with 30 units to house formerly homeless, disabled and low-income individuals and families. On October 31, 2006, Allied entered into an agreement with Affordable Housing Associates, a California nonprofit public benefit corporation to assist with the construction and completion of the Carmen Avenue project. The agreement between Allied and Affordable Housing Associates resulted in the formation of 2891 Carmen Street, L.P., a California limited partnership (“Partnership”). Allied Housing, Inc. and Affordable Housing Associates are co-general partners in the Partnership.

On October 31, 2006, Allied transferred the Carmen Avenue property (subject to all outstanding deeds of trust, liens, regulatory agreements, subordination agreements and other encumbrances) to the Partnership. The net value of the assets and liabilities transferred became the cost basis for the partnership interest. This net value of \$436,972 is Allied's investment in the partnership. Effective with the transfer of property, title to the Carmen Avenue property was changed to the Partnership.

Allied received no developer fees from 2891 Carmen Street, L.P. during the years ended June 30, 2018 and June 30, 2017, respectively.

Allied, as a co-GP, holds a 50% interest in the .01% GP interest in the LLC. Allied could be held responsible for its prorated share of on any excess cost in any year. Allied could also be held responsible for a prorated share of loss of any remaining tax credit on unit(s) that are out of compliance. Allied has not experienced any liabilities in connection with this investment. Management does not anticipate future liabilities in connection with this investment.

Note 9. INVESTMENT IN MAIN STREET VILLAGE, L.P.:

On April 29, 2010, Allied entered into an agreement with MP Preservation, Inc. (“MPPI”), a California non-profit public benefit corporation to form the Fremont Main Street Village, L.P. partnership. The purpose of the partnership was to acquire, construct, own, hold for investment, operate, manage, lease or sell a mixed-use development in Fremont, California which will include ground floor commercial space and an affordable rental housing development and related amenities for low-income persons. As consideration for its general partner interest, Allied transferred the Main Street Fremont property (subject to all outstanding deeds of trusts, liens, regulatory agreements, subordination agreements and other encumbrances) to the partnership. The net value of the assets and liabilities transferred became the cost basis for the partnership interest. This net value of \$49 is Allied's investment in the partnership.

Effective with the transfer of property, title to the Main Street property was changed to the Partnership. The Partnership agreement includes, among others, a development fee agreement, whereby Allied is entitled to compensation for services in connection with the development of the project. Allied received no developer fees from the Fremont Main Street Village, L.P. during the years ended June 30, 2018 and June 30, 2017.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 9. INVESTMENT IN MAIN STREET VILLAGE, L.P. (Continued):

Allied, as a co-GP, holds a 49% interest in the .01% GP interest in the LLC. Allied could be held responsible for its prorated share of on any excess cost in any year. Allied could also be held responsible for a prorated share of loss of any remaining tax credit on unit(s) that are out of compliance. Allied has not experienced any liabilities in connection with this investment. Management does not anticipate future liabilities in connection with this investment.

Note 10. INVESTMENT IN LAGUNA COMMONS, LLC:

On October 10, 2012, Allied entered into an agreement with Laguna Commons, LLC, a California non-profit public benefit corporation and an affiliate of MidPen Housing Corporation to form Laguna Commons Associates, L.P., limited partnership. The purpose of the partnership was to acquire, construct, own, hold for investment, operate, manage, lease or sell a residential development in Fremont, California which will include an affordable rental housing development and related amenities for low-income persons. Allied is the co-general partner in Laguna Commons Associates, LP and invested \$49 in the partnership and Laguna Commons, LLC invested \$51 in the partnership as the managing general partner. The Partnership agreement includes, among others, a development fee agreement, whereby Allied is entitled to compensation for services in connection with the development of the project. Allied received no developer fees from the Laguna Commons Associates, L.P. during the years ended June 30, 2018 and received the last remaining developer fee of \$200,000 in the fiscal year ending June 30, 2017.

Allied, as a co-GP, holds a 50% interest in the .01% GP interest in the LLC. Allied could be held responsible for its prorated share of on any excess cost in any year. Allied could also be held responsible for a prorated share of loss of any remaining tax credit on unit(s) that are out of compliance. Allied has not experienced any liabilities in connection with this investment. Management does not anticipate future liabilities in connection with this investment.

Note 11. INVESTMENT IN 801 ALMA:

CWG is the partner in 801 ALMA a single member LLC organized to hold a partnership interest in Palo Alto Family, L.P. 801 Alma entered into an agreement with Eden Investment, Inc, a California non-profit public benefit corporation and an affiliate of Eden Housing to form Palo Alto Family, L.P., limited partnership. The purpose of the partnership is to own and operate a 50-unit affordable housing property in Palo Alto, California. This investment was made for programmatic goals and not for an investment return.

801 Alma, LLC is the co-general partner for Palo Alto Family, L.P. and holds a 50% interest in the .01% GP interest in the LP. CWG could be held responsible for its prorated share of on any excess cost in any year. CWG could also be held responsible for a prorated share of loss of any remaining tax credit on unit(s) that are out of compliance. CWG has not experienced any liabilities in connection with this investment. Management does not anticipate future liabilities in connection with this investment.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 12. NOTES PAYABLE:

Notes payable are summarized as follows:

| | June 30, | |
|--|------------|------------|
| | 2018 | 2017 |
| Note payable to Fremont Bank dated May 1, 2006, payable in monthly payments of \$2,832 which include interest of 4.72% per annum with final payment and accrued interest due December 3, 2025. The note is secured by a deed of trust on the Mission Bell property located in San Leandro with a book value of \$3,078,307 at June 30, 2018. (Allied) | \$ 449,235 | \$ 459,782 |
| Note payable to the County of Alameda dated May 9, 2009 bearing interest at 3% per annum. Unpaid principal and interest due May 9, 2067. The note is secured by a deed of trust on the Mission Bell property located in San Leandro and is subject to a regulatory agreement. Book value of this property was \$3,078,307 at June 30, 2018. (Allied) | 1,795,976 | 1,795,976 |
| Note payable to the City of San Leandro dated April 26, 2006, payable in annual payments from residual receipts commencing May 1, 2011. Unpaid principal and interest at 3% on the outstanding balance due April 2061. The note is secured by a deed of trust on the Mission Bell property located in San Leandro and is subject to a regulatory agreement. Book value of this property was \$3,078,307 at June 30, 2018. (Allied) | 1,500,001 | 1,500,001 |
| Note payable to the City of San Leandro dated April 26, 2006, bearing interest of 3% per annum. Unpaid principal and accrued interest due April 26, 2031. The note is secured by a deed of trust on the Mission Bell property located in San Leandro and is subject to a regulatory agreement. Book value of this property was \$3,078,307 at June 30, 2018. (Allied) | 538,067 | 538,067 |
| Note payable to the County of Santa Clara dated March 1, 2016, bearing interest of 0% per annum. Unpaid principal is due March 1, 2026. The note is secured by a deed of trust on the Casa de Novo property located in San Jose and is subject to a regulatory agreement. Book value of this property was \$8,655,942 at June 30, 2018. (Allied) | 8,650,000 | 8,650,000 |
| Note payable to the Housing Trust of Silicon Valley dated September 16, 2016, bearing interest of 0% per annum. Unpaid principal is due September 16, 2017. The note is secured by a deed of trust on the Bluebell property located in San Jose and is subject to a regulatory agreement. Book value of this property was \$757,275 at June 30, 2018. (Allied) | - | 640,000 |
| Note payable to the County of Santa Clara dated January 26, 2018, bearing interest of 0% per annum. Unpaid principal is due January 26, 2027. The note is secured by a deed of trust on the Bluebell property located in San Jose and is subject to a regulatory agreement. Book value of this property was \$757,275 at June 30, 2018. (Allied) | 875,039 | - |
| Note payable to the Northern California Community Loan Fund dated February 28, 2017, bearing interest of 3.56% per annum. Unpaid principal is due February 28, 2020. The note is secured by a deed of trust on the Fruitvale property located in Oakland. Book value of this property was \$ 3,793,619 at June 30, 2018. (Allied) | 3,303,000 | 3,303,000 |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 12. NOTES PAYABLE (Continued):

| | June 30, | |
|---|--------------|--------------|
| | 2018 | 2017 |
| Note payable to the Bay Area Transit Oriented Affordable Housing Fund, LLC dated February 10, 2017, bearing interest of 4.9275% per annum. Unpaid principal is due February 10, 2020. The note is secured by a deed of trust on the Irvington property located in Fremont. Book value of this property was \$5,677,591 at June 30, 2018. (Allied) | \$ 5,280,000 | \$ 5,280,000 |
| Note payable to the City of Fremont dated February 6, 2018, bearing interest of 0% per annum. Unpaid principal is due February 6, 2073. The note is secured by a deed of trust on the City Center property located in Fremont. Book value of this property was \$3,593,259 at June 30, 2018. (Allied) | 3,300,000 | - |
| Note payable to the County of Santa Clara, bearing interest of 0% per annum. Unpaid principal is due March 1, 2026. The note is secured by a deed of trust on the Casa de Novo property located in San Jose and is subject to a regulatory agreement. Book value of this property was \$8,655,942 at June 30, 2018. (Allied) | 694,026 | 495,282 |
| Note payable for predevelopment costs to the City of San Jose, bearing interest of 0% per annum. Unpaid principal is due February 21, 2019 or sooner in the case of subsequent financing. The note is secured by a deed of trust on the Evans Lane property located in San Jose and is subject to a regulatory agreement. Book value of this property was \$202,490 at June 30, 2018. (Allied) | 94,833 | - |
| Note payable for predevelopment costs to NCCLF, bearing interest of 0% per annum. Unpaid principal is due September 23, 2018 or sooner in the case of subsequent financing. The note is secured by a deed of trust on the Evans Lane property located in San Jose and is subject to a regulatory agreement. Book value of this property was \$202,490 at June 30, 2018. (Allied) | 34,404 | - |
| Note payable to the Development Multifamily Housing loan on the Opportunity Center property, consisting of a loan for MHP assisted units of \$7,000,000 (Assisted Units Portion) and a loan for nonresidential space for supportive services of \$500,000 (NSSS Portion), bears simple interest at 3% per annum, with annual payment of .42% of the unpaid Assisted Units Portion principal amount commencing on the last day of the initial operating year. Additional payment is to be made from excess/distributable cash, with the entire principal and accrued interest due by April 2062. Book value of this property was \$13,563,143 at June 30, 2018. (Allied) | 7,500,000 | - |
| Note payable to the County of San Mateo on the Opportunity Center property, bears contingent interest at a rate up to 3% depending on the Project's available excess/distributable cash, due in full in April 2062. Book value of this property was \$13,563,143 at June 30, 2018. (Allied) | 434,822 | - |
| Note payable to the City of Palo Alto on the Opportunity Center property, bears contingent interest at a rate up to 3% depending on the Project's available excess/distributable cash, due in full in April 2062. Book value of this property was \$13,563,143 at June 30, 2018. (Allied) | 724,969 | - |
| Note payable to the Housing Trust Silicon Valley on the Opportunity Center property (assigned from Opportunity Fund Northern California), bears no interest, due in full in April 2062. Book value of this property was \$13,563,143 at June 30, 2018. (Allied) | 500,000 | - |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 12. NOTES PAYABLE (Continued):

| | June 30, | |
|---|------------|-----------|
| | 2018 | 2017 |
| <p>Note payable to County of Santa Clara Affordable Funds Loan on the Opportunity Center property, bears contingent interest at a rate up to 3% depending on the Project's available excess/distributable cash, due in full in April 2062. Book value of this property was \$13,563,143 at June 30, 2018. Annual payments for an administrative fee of \$3,000 are required. (Allied)</p> | \$ 966,351 | \$ - |
| <p>Note payable to County of Santa Clara HOME Loan program on the Opportunity Center property, bears contingent interest at a rate up to 3% depending on the Project's available excess/distributable cash, due in full in April 2062. Book value of this property was \$13,563,143 at June 30, 2018. (Allied)</p> | 487,715 | - |
| <p>Department of Housing and Community Development (HCD) CalHFA a public agency of the State of California, various notes dated 1991 and 1992, bearing interest at 3% per annum, payable or deferred, with unpaid principal and interest due 30 to 50 years from the date of the respective notes. Notes are subject to the regulatory agreement under the California Housing Rehabilitation Program Rental Component (CHRP-R). They are secured by first and second deeds of trust on real property. The lender has placed affordability restrictions on each property, running the term of the respective loans. Units are restricted to households whose income is at 50% of area median income. The combined net book values of the properties at June 30, 2018 is \$1,861,613. (HIP)</p> | 4,385,203 | 4,385,203 |
| <p>City of San Jose consolidated note dated August 20, 1990 in the amount of \$1,197,000 originally carried a 4% interest rate. The note was later amended to 0% interest on November 1, 2005. Commencing on September 30, 2006, and annually thereafter, payments equal to 60% of the Net Cash Flow, as defined by the note, shall be due and payable, with the entire unpaid balance of interest and principal due and payable on the maturity date of January 28, 2034. The lender has placed a 30-year affordability restriction on the properties. Units are restricted to households whose income is at or below 50% or 80% of area median income. Rent is limited to 25% of the maximum income for each category of income. The combined net book value of the properties at June 30, 2018 is \$1,391,204. (HIP)</p> | 806,510 | 806,510 |
| <p>City of San Jose notes dated October 26, 1992 in the amount of \$1,045,279, secured by second deeds of trust on the three properties, bearing 0% interest. Payments are due annually of 80% of Net Cash Flow, as defined by the note. Outstanding principal and interest are due at maturity on October 26, 2022. The lender has placed a 30 year affordability restriction on the properties. Units are restricted to households whose income is at or below 50% of area median income. Rents are limited to 30% of 50% of area median income. The combined net book value of the 3 properties at June 30, 2018 is \$554,020. (HIP)</p> | 997,704 | 997,704 |
| <p>City of San Jose note dated June 1, 2003 in the amount of \$382,500 secured by second deed of trust on the Roewill property, bearing 0% interest. Annual payment of 70% of Net Cash Flow, as defined by the note, began May 1, 2004. The note is due April 30, 2043. The lender has placed a 55 year affordability restriction on the property. Units restricted to households whose income is at or below 30% of area median income. Rents are limited to 30% of area median income. The net book value of the property at June 30, 2018 is \$726,326. (HIP)</p> | 369,249 | 369,249 |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 12. NOTES PAYABLE (Continued):

| | June 30, | |
|--|-----------|-----------|
| | 2018 | 2017 |
| <p>Opportunity Fund (formerly Lenders for Community Development) note dated June 5, 2003 in the amount of \$60,000, secured by third deed of trust on the Roewill property, bearing 0% interest. Monthly payments are not required. The principal is due June 5, 2043. The net book value of the property at June 30, 2018 is \$726,326. (HIP)</p> | \$ 60,000 | \$ 60,000 |
| <p>City of San Jose note dated October 6, 2004 in the amount of \$297,154 secured by a first deed of trust on the Burning Tree property, bearing 0% interest. Annual payment of 60% of Net Cash Flow, as defined by the note, began September 1, 2005. The note is due April 1, 2030. The lender has placed a 31 year affordability restriction on the property. Units restricted to households whose income is at or below 60% of area median income. Rents are limited to 30% of 60% of area median income. The net book value on the property at June 30, 2018 is \$378,986. (HIP)</p> | 290,673 | 290,673 |
| <p>Heritage Bank note dated October 6, 2004 in the amount of \$297,154 secured by a first deed of trust on the Papazian property, bearing 5.5% interest. Monthly payments of principal and interest of \$8,672 began on March 5, 2014. The net book value on the property at June 30, 2018 is \$1,888,791. (HIP)</p> | 1,267,899 | 1,300,969 |
| <p>County of Santa Clara note dated October 11, 2004 in the amount of \$75,000 secured by a second deed of trust on the Burning Tree property, bearing 3% simple interest. Minimum interest payments are due annually at .3% of the outstanding principal with the remainder payable from residual receipts, as defined by the note. Principal and accrued interest are due November 1, 2059. The net book value of the property at June 30, 2018 is \$378,986. (HIP)</p> | 75,000 | 75,000 |
| <p>Opportunity Fund (formerly Lenders for Community Development) note dated September, 2004 in the amount of \$100,000, secured by the third deed of trust on the Burning Tree property, bearing 0% interest. No monthly payments are required. The principal is due on September 30, 2034. The net book value of the property at June 30, 2018 is \$378,986. (HIP)</p> | 100,000 | 100,000 |
| <p>Alameda County note in the amount of \$600,000. The note is secured by a deed of trust on a three-unit apartment complex located on 13th Street in Union City, California. The note accrues interest at the rate of 3 percent per annum until paid. Principal payments are deferred until August 31, 2027. Beginning September 1, 2027 until August 31, 2042 principal payments will be made annually. The amount of annual payment shall be sufficient to amortize the unpaid principal and accrued interest during the remaining term of the note. The note is secured by a deed of trust on the property, with a book value of \$276,686 and is subject to a regulatory agreement. (Abode)</p> | 600,000 | 600,000 |
| <p>HUD CDBG loan through the City of Palo Alto, secured by a first deed of trust on real property at 3% simple interest per annum. No principal or interest payments due until July 1, 2066 (or sooner if property is sold). Agreement includes forgiveness of loan and unpaid interest at maturity if certain conditions are met. (CWG)</p> | 263,421 | 263,421 |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 12. NOTES PAYABLE (Continued):

| | June 30, | |
|--|------------|------------|
| | 2018 | 2017 |
| <p>Note payable to the City of Fremont outstanding principal and accrued interest on the mortgage will be amortized over ninety-nine years of the term such that the equal payments of principal and interest will be due and payable on July 1 of each calendar year, commencing July 1, 1998. The amortized annual payment of interest and principal are due and payable only to the extent of surplus cash generated by the development in the previous year. Over the life of the loan there has not been surplus cash with which to make the annual payments. The note is secured by a deed of trust on the Bridgeway property and is subject to a regulatory agreement. Book value of the secured property at June 30, 2018 was \$810,381. (Abode)</p> | \$ 480,000 | \$ 480,000 |
| <p>Note payable to the Redevelopment Agency of the City of Fremont outstanding principal and accrued interest on the mortgage will be amortized over ninety-nine years of the term such that the equal payments of principal and interest will be due and payable on July 1 of each calendar year, commencing July 1, 1998. The amortized annual payment of interest and principal are due and payable only to the extent of surplus cash generated by the development in the previous year. Over the life of the loan there has not been surplus cash with which to make the annual payments. The note is secured by a deed of trust on the Bridgeway property and is subject to a regulatory agreement. Book value of the secured property at June 30, 2018 was \$810,381. (Abode)</p> | 111,298 | 111,298 |
| <p>Note payable to Alameda County, outstanding principal and accrued interest on the mortgage will be amortized over ninety-nine years of the term such that the equal payments of principal and interest will be due and payable on July 1 of each calendar year, commencing July 1, 1998. The amortized annual payment of interest and principal are due and payable only to the extent of surplus cash generated by the development in the previous year. Over the life of the loan there has not been surplus cash with which to make the annual payments. The note is secured by a deed of trust on the Bridgeway property and is subject to a regulatory agreement. Book value of the secured property at June 30, 2018 was \$810,381. (Abode)</p> | 798,362 | 798,362 |
| <p>HUD CDBG loan through the City of Palo Alto, secured by a deed of trust on real property and assignment of rents. No principal payments due until eighty-nine years after the recording of the Regulatory Agreement, which approximates July 1, 2093. Loan is interest-free and will be forgiven at maturity if restrictive loan covenants are met in accordance with the governing Regulatory Agreement to operate the property as low income housing or be considered in default. The loan is subordinated to the loan with the County of Santa Clara loan below. (CWG)</p> | 1,280,000 | 1,280,000 |
| <p>Note payable to the County of Santa Clara, secured by a deed of trust on the Opportunity Center development. No principal payments due until November 1, 2061 (or sooner if property is sold), Loan is interest-free and will be forgiven at maturity if restrictive loan covenants are met in accordance with the governing Regulatory Agreement to operate the property as low income housing or be considered in default. (CWG)</p> | 1,000,000 | 1,000,000 |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 12. NOTES PAYABLE (Continued):

| | June 30, | |
|--|----------------------|----------------------|
| | 2018 | 2017 |
| HUD CDBG loan through the City of Palo Alto, secured by a first deed of trust on real property and assignment of rents, with 3% simple interest per annum. Principal and interest payments are deferred for 30 years from the date of the agreement until April 6, 2036 (or sooner if property is sold). Debt covenants require that the property be operated as affordable housing or be considered in default. (CWG) | <u>\$ 1,150,000</u> | <u>\$ 1,150,000</u> |
| Total notes payable | 51,163,757 | 36,730,497 |
| Less current portion | (176,061) | (684,386) |
| Less unamortized debt issuance costs | <u>(32,070)</u> | <u>-</u> |
| | <u>\$ 50,955,626</u> | <u>\$ 36,046,111</u> |

The Organization is required to meet certain covenants. Covenants were met at June 30, 2018 and June 30, 2017.

Annual maturities of long-term debt for the next five years and thereafter are as follows:

| Years Ending June 30, | |
|--------------------------|----------------------|
| 2019 | \$ 176,061 |
| 2020 | 8,632,396 |
| 2021 | 52,110 |
| 2022 | 369,313 |
| 2023 | 1,055,702 |
| Thereafter | <u>40,878,175</u> |
| Total | <u>\$ 51,163,757</u> |

Note 13. LOANS PAYABLE:

In order to fund the Project Welcome Home Pay for Success Grant, six entities provided long term loans to the project. The funding of the loans is staggered over the next four years and are all payable in full on October 10, 2021. Several of the loans have annual loan payments due. The payments due are based on a percentage of success payments received. Since the amounts of these payments are unknown all loan balances are shown as long term. Several of the loans accrue interest. Interest is paid quarterly, one quarter in arrears. The stated rate of interest on these loans varies from 0% - 5%.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 13. LOANS PAYABLE (Continued):

| | 2018 | 2017 |
|---|--------------|--------------|
| Sobrato Family Foundation, maximum loan \$1,200,000, funding in July 2015 and July 2016, interest paid at 2% | \$ 681,056 | \$ 681,056 |
| The Health Trust, maximum loan \$1,000,000, funding in July 2015 and July 2016, interest paid at 0% | 1,000,000 | 1,000,000 |
| James Irvine Foundation, maximum loan \$277,658, funding in July 2015 and July 2016, interest paid at 0% | 277,658 | 277,658 |
| The Reinvestment Fund, maximum loan \$500,000, funding in July 2017 and July 2018 interest paid at 5% | 250,000 | - |
| The California Endowment, maximum loan \$1,000,000, funding in July 2016 and July 2017 interest paid at 2% | 798,434 | 48,434 |
| Corporation for Supportive Housing, maximum loan \$500,000, funding in July 2017 and July 2018, interest paid at 5% | 250,000 | - |
| Totals | \$ 3,257,148 | \$ 2,007,148 |

During the year ended June 30, 2018, loan advances and payments were as follows:

| | Balance 6/30/2017 | New Loans | Loan Payments | Balance 6/30/2018 |
|------------------------------------|----------------------|--------------|------------------|----------------------|
| Sobrato Family Foundation | \$ 681,056 | \$ - | \$ - | \$ 681,056 |
| The Health Trust | 1,000,000 | - | - | 1,000,000 |
| James Irvine Foundation | 277,658 | - | - | 277,658 |
| The Reinvestment Fund | - | 250,000 | - | 250,000 |
| Corporation for Supportive Housing | - | 250,000 | - | 250,000 |
| The California Endowment | 48,434 | 750,000 | - | 798,434 |
| Totals | \$ 2,007,148 | \$ 1,250,000 | \$ - | \$ 3,257,148 |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 14. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consisted of the following for the year ended June 30, 2018:

| | Beginning Balance | Contributions | Released from Restriction | Ending Balance |
|--|----------------------|-------------------|------------------------------|---------------------|
| CSV of life insurance | \$ 39,818 | \$ - | \$ 39,818 | \$ - |
| Housing/Service Fund | 333,334 | - | 333,334 | - |
| Main Street, capital campaign | 224,648 | - | - | 224,648 |
| BridgeWay, capital campaign | - | - | - | - |
| Project Independence | 173,288 | - | 7,251 | 166,037 |
| 4165 Bay Street, Fremont, reserves | 82,102 | - | - | 82,102 |
| 13th Street, Union City, reserves | 11,564 | - | - | 11,564 |
| BridgeWay replacement reserves | 46,000 | - | - | 46,000 |
| Laguna Commons | 125,000 | - | - | 125,000 |
| Sunlight Giving | 1,500,000 | - | 500,000 | 1,000,000 |
| Sisters-Opportunity Fund | 6,000,000 | - | - | 6,000,000 |
| Tides-Google Grant | 497,137 | - | 133,634 | 363,503 |
| Kaiser Permanente Grant | 30,000 | - | 22,604 | 7,396 |
| Project Hope | - | 22,569 | 19,509 | 3,060 |
| Sunrise Village | - | 40,000 | 40,000 | - |
| Client service | - | 90,000 | 44,639 | 45,361 |
| Children's programs | - | 15,000 | 15,000 | - |
| Napa | - | 78,430 | 78,430 | - |
| General support | - | 114,000 | 2,258 | 111,742 |
| Vehicles | - | 40,000 | 13,421 | 26,579 |
| CWG - opportunity center | 531,996 | - | 146,232 | 385,764 |
| Pay for Success | - | 235,000 | 235,000 | - |
| | <u>\$ 9,594,887</u> | <u>\$ 634,999</u> | <u>\$ 1,631,130</u> | <u>\$ 8,598,756</u> |
| Total temporarily restricted net assets | <u>\$ 9,594,887</u> | <u>\$ 634,999</u> | <u>\$ 1,631,130</u> | <u>\$ 8,598,756</u> |

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 14. TEMPORARILY RESTRICTED NET ASSETS (Continued):

Temporarily restricted net assets consisted of the following for the year ended June 30, 2017:

| | Beginning Balance | Contributions | Released from Restriction | Ending Balance |
|------------------------------------|----------------------|---------------------|------------------------------|---------------------|
| CSV of life insurance | \$ 2,890 | \$ 36,928 | \$ - | \$ 39,818 |
| Housing/Service Fund | 666,668 | - | 333,334 | 333,334 |
| Main Street, capital campaign | 224,648 | - | - | 224,648 |
| BridgeWay, capital campaign | 540,466 | - | 540,466 | - |
| Project Independence | 253,879 | - | 80,591 | 173,288 |
| 4165 Bay Street, Fremont, reserves | 82,102 | - | - | 82,102 |
| 13th Street, Union City, reserves | 11,564 | - | - | 11,564 |
| BridgeWay replacement reserves | 46,000 | - | - | 46,000 |
| Laguna Commons | 125,000 | - | - | 125,000 |
| CWG - opportunity center | 588,064 | 4,925 | 60,993 | 531,996 |
| Sunlight Giving | 500,000 | 1,500,000 | 500,000 | 1,500,000 |
| Sisters-Opportunity Fund | - | 6,000,000 | - | 6,000,000 |
| Tides-Google Grant | - | 500,000 | 2,863 | 497,137 |
| Kaiser Permanente Grant | - | 30,000 | - | 30,000 |
| | \$ 3,041,281 | \$ 8,071,853 | \$ 1,518,247 | \$ 9,594,887 |

Note 15. BOARD DESIGNATED NET ASSETS:

Board designated net assets are comprised of the following at June 30, 2018 and June 30, 2017:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Building maintenance fund | \$ 350,000 | \$ 350,000 |
| BridgeWay Apartments fund | 93,665 | 96,727 |
| Project Welcome Home | 249,999 | 166,666 |
| Resident Deficit Reserve Fund | 1,808,548 | 2,711,167 |
| Affordable Housing Development Fund | 997,211 | 989,911 |
| Opportunity Services Center Support Fund | 2,548,894 | 2,548,894 |
| Programs Reserve - general | 222,000 | 222,000 |
| | \$ 6,270,317 | \$ 7,085,365 |

Note 16. RETIREMENT PLAN:

Abode Services has a non-contributory tax-deferred retirement plan under Section 403(b) of the Internal Revenue Code, covering substantially all employees. Employees may make contributions to the plan up to the maximum allowed by the Internal Revenue Code.

ABODE SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2018 AND JUNE 30, 2017

Note 16. RETIREMENT PLAN (Continued):

On January 1, 2018 the board approved a decision to pay 1% of gross wages on behalf of all employees, employed by Abode on December 31, 2018 that had worked a minimum of 1000 hours during the year. Benefits in the amount of \$87,194 were accrued at June 30, 2018.

Note 17. LEASE COMMITMENTS

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018.

| Years Ending June 30, | Real Property | Equipment | Total |
|--------------------------|---------------------|-----------------|---------------------|
| 2019 | \$ 359,560 | \$ 3,342 | \$ 362,902 |
| 2020 | 298,527 | 2,224 | 300,751 |
| 2021 | 213,336 | - | 213,336 |
| 2022 | 154,534 | - | 154,534 |
| 2023 | 159,170 | - | 159,170 |
| Thereafter | 291,417 | - | 291,417 |
| | <u>\$ 1,476,544</u> | <u>\$ 5,566</u> | <u>\$ 1,482,110</u> |

Rent expense amounted to \$62,079 in 2018 and \$449,519 in 2017.

Note 18. COMMITMENTS AND CONTINGENCIES:

Grant award and bequests require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms it has accommodated the objectives of the Organization to the provisions of the grants. Abode Services' management is of the opinion that the Organization has complied with the terms of all grants.

The Organization has borrowed funds from various governmental agencies. The some of the loans are subject to various regulatory and affordability restrictions.

Note 19. SUBSEQUENT EVENTS:

Subsequent to year end, the Organization is in negotiations to acquire several properties in in Fremont and San Jose. These acquisitions include:

Corvin closed September 6, 2018 for a value of \$9.5 million dollars and a debt of up to \$10.3 million dollars.

Irvington acquired new debt on August 31, 2018 through the city of Fremont of up to \$6.2 million dollars and paid of an old loan of \$4.9 million dollars.

Management has evaluated events through January 11, 2019, the date which the financial statements were available for issue. No additional significant events were identified that require any additional disclosure.