OC GATEWAY TO HOUSING

FINANCIAL STATEMENTS

For The Years Ended June 30, 2016 and 2015

with

INDEPENDENT AUDITORS' REPORT THEREON

INDEX

KMJ | Corbin & Company
Business Advisors Tax and Audit

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
OC Gateway to Housing

Report on the Financial Statements

We have audited the accompanying financial statements of (the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OC Gateway to Housing as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

The predecessor auditor has previously audited the Organization's June 30, 2015 financial statements, and they expressed an unmodified audit opinion on those audited financial statements in their report dated January 18, 2016. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KMJ Corbin & Company LLP

KMJ Corbin & Company LLP

Costa Mesa, California
June 12, 2017

OC GATEWAY TO HOUSING

STATEMENTS OF FINANCIAL POSITION

	June 30, 2016	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 604,554	$ 98,461
Contribution receivable	59,125	37,484
Accrued interest receivable	9,721	-
Short-term investments	1,580,427	3,066,564
Prepaid expenses and other current assets	15,879	14,876
Total current assets	2,269,706	3,217,385
Property and equipment, net	669,977	7,029
Long-term investments	337,937	-
Total assets	$ 3,277,620	$ 3,224,414
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 8,778	$ 3,457
Accrued expenses	8,317	12,106
Total current liabilities	17,095	15,563
Security deposits	8,334	5,584
Total liabilities	25,429	21,147
Net assets:		
Unrestricted	3,252,191	3,203,267
Total liabilities and net assets	$ 3,277,620	$ 3,224,414

STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2016	2015
Support and revenue:		
Contributions	$ 183,082	$ 315,834
Friends of OCGH (FOCUS):		
Contributions	57,953	74,551
Direct revenue	50,498	43,786
Direct expenses	(25,609)	(16,379)
Net support from FOCUS	82,842	101,958
Grants	177,250	125,346
Rental income	35,121	51,207
Interest and dividend income	97,774	78,583
Other income	27,409	6,433
Total support, revenues and gains	603,478	679,361
Expenses:		
Program services	406,233	625,438
Supporting services:		
General and administrative	33,712	38,900
Fundraising	19,836	21,251
Total expenses	459,781	685,589
Changes in net assets from operations	143,697	(6,228)
Non-operating activities:		
Gain on sale of building	-	1,558,645
Net depreciation in the fair value of investments	(94,773)	(20,893)
Total non-operating activities	(94,773)	1,537,752
Increase in net assets	48,924	1,531,524
Net assets at beginning of year	3,203,267	1,674,743
Net assets at end of year	$ 3,252,191	$ 3,203,267

STATEMENTS OF FUNCTIONAL EXPENSES

	For The Year Ended June 30, 2016				For The Year Ended June 30, 2015 Total (Summarized)
	Program Services	**General and Administrative**	**Fundraising**	**Total**	
Salaries	$ 196,006	$ 6,541	$ 13,086	$ 215,633	$ 288,102
Professional services	38,530	2,648	2,162	43,340	75,508
Insurance	31,184	1,641	-	32,825	10,980
Utilities and telephone	5,753	303	-	6,056	6,342
Repairs and maintenance	4,362	369	-	4,731	6,742
Depreciation	6,916	364	-	7,280	17,645
Bad debt	-	-	-	-	7,950
Equipment rental	5,446	287	-	5,733	9,872
Miscellaneous	1,028	18,820	4,588	24,169	48,946
Program supplies	-	-	-	-	11,468
Rent	26,687	-	-	26,687	9,614
Transportation	2,693	112	-	2,805	2,814
Client assistance	75,306	2,480	-	77,786	177,997
Childcare	4,763	-	-	4,763	4,946
Property taxes	6,114	56	-	6,170	3,103
Office supplies	1,445	91	-	1,536	3,578
Total functional expenses	$ 406,233	$ 33,712	$ 19,836	$ 459,781	$ 685,589

STATEMENTS OF CASH FLOWS

	For The Year Ended June 30, 2016	2015
Cash flows from operating activities:		
Increase in net assets	$ 48,924	$ 1,531,524
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	7,280	17,645
Gains from disposition of building	-	(1,558,644)
Net depreciation in the fair value of investments	94,773	20,893
Changes in assets and liabilities:		
Contribution receivable	(21,641)	(1,692)
Accrued interest receivable	(9,721)	-
Prepaid expenses and other current assets	(1,003)	(9,694)
Accounts payable	5,321	(11,178)
Accrued expenses	(3,789)	(2,519)
Security deposits	2,750	(680)
Net cash provided by (used in) operating activities	122,894	(14,345)
Cash flows from investing activities:		
Net change in investments	1,053,427	(2,016,541)
Proceeds from disposal of building	-	1,978,604
Purchases of property and equipment	(670,228)	-
Net cash provided by (used in) investing activities	383,199	(37,937)
Net increase (decrease) in cash and cash equivalents	506,093	(52,282)
Cash and cash equivalents, beginning of year	98,461	150,743
Cash and cash equivalents, end of year	$ 604,554	$ 98,461

NOTE 1 – ORGANIZATION

The OC Gateway to Housing ("OCGH") or the "Organization") has been at the forefront of housing provision, services, and advocacy to Orange County's homeless families since 1981. Our mission is to change the lives of homeless families by providing them with the encouragement and the tools for achieving self-sufficiency.

OCGH offers two housing programs for homeless families with children. In Transitional Housing, families live in one of our scattered-site transitional condominium units and receive supportive services. They build skills and income to increase their self-sufficiency and move into permanent housing. In Rapid Rehousing, OCGH places families in permanent housing with subsidized rents and utilities, plus supportive services, so that parents can pay full rent on the apartment when they exit the program.

The Organization was incorporated as a nonprofit organization with the name of "Orange Coast Interfaith Shelter" under the laws of the State of California on June 25, 1985. The Organization's name has been changed to "OC Gateway to Housing" effective on September 15, 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization's activities and operations at the discretion of the Board of Directors.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Organization and/or the passage of time. At June 30, 2016 and 2015, the Organization did not have temporarily restricted net assets.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income or gains earned on related investments for general (unrestricted) purposes or for other specific donor-restricted purposes (temporarily restricted). Permanently restricted net assets released from restrictions are related to management's analysis of historical donor contributions and changes in requests from donors. At June 30, 2016 and 2015, the Organization did not have permanently restricted net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents

Temporary, short-term and highly liquid investments that mature in less than three months from the date they are acquired are classified as cash equivalents. The Organization maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250,000 and the Securities Investor Protection Corporation (“SIPC”) up to $500,000. At times, deposits held with financial institutions may exceed the amount of insurance provided by the FDIC and SIPC. Management believes that it has invested in high credit, quality institutions for which the Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these accounts.

Investments

Investments consist of fixed income, mutual funds and equity securities which are carried at fair market value.

Net appreciation (depreciation) in the fair value of investments, which consists of the realized and unrealized gains or losses on those investments, is shown in the statements of activities.

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market, or in the absence of a principal market, the most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs in priority that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities;

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Level 2—Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, credit risks, and default rates) or other inputs that are principally derived from or corroborated by observable market data by correlation or by other means; and

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.

The fair value of the Organization's investments in fixed income, mutual funds and equity securities have been classified within Level 1 of the valuation hierarchy because they have quoted prices in active markets for identical assets (see Note 4).

Contributions Receivable

Contributions receivable represent the estimated fair value of cash to be contributed to the Organization within a reasonable period of time. The Organization receives grants, both directly and as a sub-recipient, from the U.S. Department of Housing and Urban Development ("HUD"), the Federal Emergency Management Agency ("FEMA"), various Orange County cities and the County of Orange to provide temporary housing and shelter for the homeless. In addition, the Organization collects rent fees from residents who are under the temporary housing and shelter program. The Organization determines an allowance for uncollectible receivables based on historical experience. At June 30, 2016 and 2015, there was no allowance for uncollectible receivables.

Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at their fair market value when received. The cost of purchased assets or fair market value of donated assets is being depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. The Organization capitalizes all expenditures for and donations of property and equipment with a fair value in excess of $1,000. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the statements of activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Lived Assets

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of the asset group may not be recoverable. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-55, *Impairment or Disposal of Long-Lived Assets*, the evaluations address the estimated recoverability of the assets' carrying value. When the carrying value of an asset exceeds estimated recoverability, an impairment is recorded to reduce the carrying value to fair value. No impairments were required to be recorded as of or during the years ended June 30, 2016 and 2015.

Donated Services and Materials

Donated materials and other noncash contributions, if received, are reflected in the accompanying statements at their estimated market values at 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. The Organization did not receive contributed services for legal services for the years ended June 30, 2016 and 2015. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign, solicitations, and various committee assignments. The Organization receives more than 2,000 volunteer hours per year.

Donated Property and Equipment

Donated property and equipment are recorded as support at their fair market value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulation regarding how long those donated assets must be maintained, the Organizations 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. There was no donated property or equipment for the years ended June 30, 2016 and 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates embodied in these financial statements include the collectibility of contributions receivable, the recoverability of long-lived assets and the allocation of expenses to program services, general and administrative expenses and fundraising expenses. Actual results could differ from those estimates.

Income Taxes

The Organization is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from Federal income taxes pursuant to the applicable sections of the IRC. Accordingly, no provision has been made for Federal or California state income taxes in the accompanying financial statements. The Organization is subject, however, to Federal and California state income taxes on net unrelated business income as stipulated in IRC Section 511 and Regulation Section 1.511. During the years ended June 30, 2016 and 2015, the Organization had no unrelated business income.

The Organization annually evaluates tax positions as part of the preparation of its exempt tax return. This process includes an analysis of whether tax positions the Organization takes with regard to a particular item of income or deduction would meet the definition of an uncertain tax position under current accounting guidance. The Organization believes its tax positions are appropriate based on current facts and circumstances. The Organization's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. At June 30, 2016 and 2015, the Organization did not have any unrecognized tax benefits. The Organization is no longer subject to U.S. Federal, state or local income tax examinations by tax authorities for years before 2012.

Restricted and Unrestricted Revenue and Support

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

Unconditional written promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Conditional written promises to give are recognized when the conditions on which they depend are substantially met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when the stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Grants

The Organization receives a portion of its operating funds from federal grants that are awarded on an annual basis. These funds are deemed to be earned as reimbursable expenses are incurred. The Organization's continued existence in its present form is contingent upon continued funding under these or similar grant programs. Grant funding recognized as revenues in the accompanying financial statements are subject to the results of periodic audits performed by the funding agencies.

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services, general and administrative expenses and fundraising expenses based upon estimated usage.

Fund Raising

Friends of Orange Coast Interfaith Shelter ("FOCUS") is a volunteer auxiliary which was formed to raise funds for the agency in 1983. The funds raised are transferred to the Organization's bank account after taking consideration of all of incurred expenses in regard to the money raised. FOCUS is under the Organization's FEIN, however FOCUS maintains a separate bank account and their own Board of Directors and members. The president of FOCUS is on the Organization's board. Effective January 1, 2017, FOCUS has been dissolved and merged with the Organization.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2016	2015
Land	$ 360,805	$ -
Building and improvements	293,203	-
Furniture, fixtures, and equipment	38,308	22,087
	692,316	22,087
Less accumulated depreciation	(22,339)	(15,058)
Total fixed assets, net	$ 669,977	$ 7,029

NOTE 4 – INVESTMENTS

The Organization has adopted an investment policy with the primary investment objective to manage investment risk and to optimize investment returns within acceptable risk parameters. The Organization has created and held the following funds as a separate investment pool: operating fund, operating long-term reserve fund, short-term reserve fund, and long-term reserve fund. The goal is to have the long-term reserve fund realize a total return in excess of the rate of inflation as measured by the Consumer Price Index.

As explained in the "Fair Value Measurement" section (Note 2), investments measured at fair value in the financial statements are summarized in the following table by the type of inputs applicable to the fair value measurements.

	As of June 30, 2016			
	Total Fair Value	Quote Prices Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Bond funds	$ 641,938	$ 641,938	$ -	$ -
Mutual funds	835,753	835,753	-	-
Other investments	440,673	440,673	-	-
	$ 1,918,364	$ 1,918,364	$ -	$ -

NOTE 4 – INVESTMENTS, continued

	As of June 30, 2015			
	Total Fair Value	Quote Prices Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash and money market funds	$ 224,204	$ 224,204	$ -	$ -
Fixed income	1,211,813	1,211,813	-	-
Bond funds	673,166	673,166	-	-
Equity funds	540,525	540,525	-	-
Other investments	416,856	416,856	-	-
	$ 3,066,564	$ 3,066,564	$ -	$ -

Investment earnings detail is as follows at June 30:

	2016	2015
Depreciation in the fair value of investments	$ (94,773)	$ (20,893)
Interest and dividends	121,568	78,583
Investment expense	(23,794)	-
	$ 3,001	$ 57,690

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Lease Commitment

The Organization leases a facility and certain equipment pursuant to non-cancelable operating leases that expire through 2020. Terms of the non-cancelable leases call for monthly payments for rent ranging from $196 to $2,562. During the years ended June 30, 2016 and 2015, the Organization incurred rent expense totaling $32,420 and $19,486, respectively, which is included in the accompanying statements of functional expenses.

NOTE 5 – COMMITMENTS AND CONTINGENCIES, continued

Future minimum payments under non-cancelable operating leases are as follows:

Years Ending June 30:		
2017	$	34,300
2018		32,900
2019		2,400
2020		2,200
	$	71,800

Contingencies

The Organization is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its activities. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the Organization's financial position.

Guarantees and Indemnities

The Organization has made certain indemnities, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The Organization indemnifies its directors, officers, employees and agents, as permitted under the laws of the State of California. In connection with its land lease, the Organization has indemnified its lessor for certain claims arising from the use of the land. The duration of the indemnities varies, and is generally tied to the life of the respective agreement. These indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. Historically, the Organization has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities in the accompanying statements of financial position.

NOTE 6 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events that may have occurred for potential recognition and disclosure in the financial statements after the balance sheet date through June 12, 2017, the date of financial statements are issued. The Organization believes no events have occurred subsequent to the balance sheet through the date the financial statements are issued that would require adjustment to or disclosure in the Organization's financial statements, except as disclosed herein.