

Imagine Supported Living Services
(A Nonprofit Corporation)

Financial Statements

For the Year Ended June 30, 2016



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Imagine Supported Living Services
Aptos, California

We have audited the accompanying financial statements of Imagine Supported Living Services, a nonprofit 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Imagine Supported Living Services 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.


Armanino^{LLP}
San Jose, California

June 9, 2017

IMAGINE SUPPORTED LIVING SERVICES
(A Nonprofit Corporation)
Statement of Financial Position
June 30, 2016

ASSETS

	Unrestricted	Temporarily Restricted	Total
Current assets			
Cash and cash equivalents	\$ 247,702	\$ 12,749	\$ 260,451
Accounts receivable, net of allowance	229,371	-	229,371
Prepaid expenses	58,648	-	58,648
Advances	2,823	-	2,823
Total current assets	538,544	12,749	551,293
Property and equipment			
Equipment, furniture and fixtures	18,362	-	18,362
Building	243,880	-	243,880
Building improvements	339,284	-	339,284
Land	494,990	-	494,990
	1,096,516	-	1,096,516
Less: accumulated depreciation	(33,216)	-	(33,216)
Total property and equipment, net	1,063,300	-	1,063,300
Other assets			
Loan origination fees, net of accumulated amortization	4,280	-	4,280
Total assets	\$ 1,606,124	\$ 12,749	\$ 1,618,873

LIABILITIES AND NET ASSETS

Current liabilities			
Current portion of note payable	\$ 12,998	\$ -	\$ 12,998
Accounts payable	43,587	-	43,587
Accrued compensated absences	42,311	-	42,311
Other current liabilities	2,138	-	2,138
Payroll liabilities	106,361	-	106,361
Total current liabilities	207,395	-	207,395
Note payable, less current portion	495,030	-	495,030
Total liabilities	702,425	-	702,425
Net assets	903,699	12,749	916,448
Total liabilities and net assets	\$ 1,606,124	\$ 12,749	\$ 1,618,873

The accompanying notes are an integral part of these financial statements.

IMAGINE SUPPORTED LIVING SERVICES
(A Nonprofit Corporation)
Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Public support and revenue			
Public support			
Contributions and Grants	\$ 65,258	\$ 11,070	\$ 76,328
In-kind contributions	-	-	-
Net assets released from restriction	21,075	(21,075)	-
Total public support	86,333	(10,005)	76,328
Revenue			
Program service fees	2,635,012	-	2,635,012
Investment income	502	-	502
Total revenue	2,635,514	-	2,635,514
Total public support and revenue	2,721,847	(10,005)	2,711,842
Expenses			
Program services	2,512,588	-	2,512,588
General and administrative	213,766	-	213,766
Fundraising	25,166	-	25,166
Total expenses	2,751,520	-	2,751,520
Change in net assets	(29,673)	(10,005)	(39,678)
Net assets, beginning of year	933,372	22,754	956,126
Net assets, end of year	\$ 903,699	\$ 12,749	\$ 916,448

The accompanying notes are an integral part of these financial statements.

IMAGINE SUPPORTED LIVING SERVICES

(A Nonprofit Corporation)

Statement of Functional Expenses

For the Year Ended June 30, 2016

	Program Services	Supporting Services		Total
	Total Program Expenses	General and Administrative	Fundraising	
Salaries	\$ 1,604,048	\$ 158,531	\$ 15,678	\$ 1,778,257
Payroll taxes and employee benefits	460,505	24,498	2,381	487,384
Providers - FHA services	67,703	-	-	67,703
Consumer related expenses	204,682	-	-	204,682
Insurance	54,180	7,359	-	61,539
Rent	7,040	782	20	7,842
Telephone/communications	18,519	2,058	-	20,577
Miscellaneous	33,289	3,699	1,087	38,075
Repairs and maintenance	16,338	1,815	-	18,153
Supplies	12,050	1,339	-	13,389
Hiring and training	9,691	-	-	9,691
Depreciation and amortization expense	16,018	1,780	-	17,798
Professional and contract	462	11,010	6,000	17,472
Utilities	8,063	895	-	8,958
 Total	 <u>\$ 2,512,588</u>	 <u>\$ 213,766</u>	 <u>\$ 25,166</u>	 <u>\$ 2,751,520</u>

The accompanying notes are an integral part of these financial statements.

IMAGINE SUPPORTING LIVING SERVICES
 (A Nonprofit Corporation)
 Statement of Cash Flows
 For the Year Ended June 30, 2016

Cash flows from operating activities	
Change in net assets	\$ (39,678)
Adjustments to reconcile decrease in nets assets to net cash used in operating activities	
Depreciation and amortization	17,798
Changes in operating assets and liabilities	
Accounts receivable	(46,225)
Prepaid expenses	(2,173)
Advances	(668)
Deposit, refund of security deposit	3,850
Accrued compensated absences	8,173
Accounts payable	38,475
Other current liabilities	(3,784)
Payroll liabilities	<u>17,342</u>
Net cash used in operating activities	<u>(6,890)</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(128,665)</u>
Net cash flows used in investing activities	<u>(128,665)</u>
Cash flows from financing activities	
Principal paid on note payable	<u>(12,225)</u>
Net cash flows used in financing activities	<u>(12,225)</u>
Net decrease in cash	(147,780)
Beginning cash balance	<u>408,231</u>
Ending cash balance	<u><u>\$ 260,451</u></u>
Supplementary information	
Cash paid for interest	<u><u>\$ 24,077</u></u>

The accompanying notes are an integral part of these financial statements.

IMAGINE SUPPORTED LIVING SERVICES
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2016

1. Description of Organization and Summary of Significant Accounting Policies

Description of operations

Imagine Supported Living Services (the "Organization") is a nonprofit corporation founded June 24, 2002 and located in Aptos, California, whose specific and primary purpose is to provide services to adults with developmental disabilities. These services may include, but are not limited to, finding and securing housing, direct staff support for personal care and tasks, money management, social and recreational facilitation and medical management.

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting.

Net assets and changes therein are classified as follows:

- Unrestricted net assets - net assets not subject to donor-imposed restrictions. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets as of June 30, 2016.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

IMAGINE SUPPORTED LIVING SERVICES
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2016

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Cash equivalents

For the purpose of these financial statements, the Organization considers all certificates of deposit and dollar for dollar money market funds to be cash equivalents. As of June 30, 2016, cash and cash equivalents consisted solely of cash on hand at banks.

Concentration of credit risk

Cash is a financial instrument which potentially subjects the Organization to a concentration of credit risk. The Organization at times during the year may have cash in excess of the amounts insured by the Federal Depository Insurance Corporation. At June 30, 2016 \$3,011 was held in excess of FDIC limits.

Accounts receivable

Accounts receivables consist of amounts due for program services from funding sources, primarily nonprofit organizations established by the State of California under a regional center system ("regional centers").

The Organization reviews the allowance for doubtful accounts based on historical experience and evaluation of outstanding receivables at the end of the year. As of June 30, 2016, management considers and has allowed for, an allowance of \$1,067 for doubtful accounts.

Property and equipment

Property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which may vary from three to seven years for equipment; thirty to forty years for buildings and land/building improvements. It is the current policy of the Organization to capitalize individual property and equipment items with a useful life greater than one year and a cost of \$1,000 or more.

Depreciation expense for the fiscal years ended June 30, 2016 was \$16,728. Building and building improvements were placed in service on September 1, 2015 upon occupancy.

Loan origination fees

Loan origination fees incurred in obtaining debt used to purchase the Organizations office building are amortized over the life of the loan. Amortization expense for the year ended June 30, 2016 was \$1,070.

IMAGINE SUPPORTED LIVING SERVICES
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2016

1. Description of Organization and Summary of Significant Accounting Policies (continued)

In-kind contributions - donated services

Occasionally the Organization receives donated services from unpaid volunteers who assist in fund-raising, program activities, and special events. No amounts have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. For the year ended June 30, 2016, no amount has been recorded for donated services.

Income taxes

The Organization is a tax-exempt corporation under Internal Revenue Code Section 501(c)(3) and California state franchise tax under Section 23701(d) of the Revenue and Taxation Code. Therefore, no provisions for income taxes have been recorded on the financial statements.

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state tax returns are more likely than not to be sustained upon examination.

The Organization files tax returns with the federal government and the State of California. All returns have been filed by the initial or extended due dates. The Organization's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitation for those returns.

Functional expenses

The cost of providing 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 based on management estimates.

2. Accounts Receivable

As of June 30, 2016, substantially all of the accounts receivable balance of \$229,371 was due from regional centers for client services. Concentrations of year end receivables amounted to approximately 90% from San Andreas Regional Center and 10% from Golden Gate Regional Center. (See Note 7)

IMAGINE SUPPORTED LIVING SERVICES
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2016

3. Compensated Absences

Full-time employees of the Organization are entitled to paid time off ("PTO") which accrues as a dollar value at 5% of the employee's gross pay for the pay period. When PTO is taken, the employee's accrued balance is adjusted by the number of PTO hours taken times the employee's hourly rate.

As of June 30, 2016, the accrual for compensated absences was \$42,311.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2016:

Restricted for client support	\$ 8,917
Restricted for Community Center Development	<u>3,832</u>
	<u>\$ 12,749</u>

5. Note Payable

At June 30, 2016, the Organization had a note payable totaling \$508,028. The original note was for \$535,000 and is secured by a deed of trust and is currently payable in monthly installments of \$3,071, including interest. Interest currently accrues at 4.75% per annum.

Maturities as of June 30, 2016, consisted of the following:

2017	\$ 12,998
2018	13,629
2019 (balloon payment due February 19, 2019)	<u>481,401</u>
	508,028
Less current portion	<u>(12,998)</u>
	<u>\$ 495,030</u>

Interest expense for the year June 30, 2016 was \$24,077.

6. Line of Credit

The Organization obtained a line of credit for \$50,000 in January 2016. The line of credit closed in January 2017 without having been used.

IMAGINE SUPPORTED LIVING SERVICES
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2016

7. Concentration of Risk

Imagine Supported Living Services main source of program service fee revenue is from nonprofit organizations established by the State of California under a regional center system. Concentrations of program service fee revenue for the fiscal year ended June 30, 2016 amounted to approximately 90% from San Andreas Regional Center and 10% from Golden Gate Regional Center (see Note 2 for concentration in accounts receivable). The regional centers are funded through the State Department of Developmental Services. The operations of Imagine Supported Living Services are subject to provisions and requirements of regional centers. California State budget changes may affect funds allocated by the State for the provision of these services to the regional centers.

8. Lease Commitments

The Organization leased office space under a month to month lease until the Organization moved into its owned office building in fiscal year ended June 30, 2016. Total rent expense for the year ended June 30, 2016 was \$7,842.

9. Contingency - Self-Insured State Unemployment Fund and Employee Health Insurance

The Organization has elected to be a reimbursing employer for the purpose of state unemployment taxes and in lieu of quarterly tax contributions will be required to reimburse the state for any employment claims made. For the fiscal year ended June 30, 2016, the Organization made reimbursing payments of \$18,613.

The Organization has elected for the purpose of employee medical insurance to self-insure for the difference between bronze and gold level health insurance coverage. The maximum annual liability is \$3,500 per employee and \$7,000 per family. The Organization uses Employee Benefits Administration & Management Corporation (EBA&M) to administer the program. For the fiscal year ended June 30, 2016 the Organization incurred reimbursing expenses, including administration fees, of \$81,607.

10. Subsequent Events

The Organization's management has evaluated events and transactions subsequent to June 30, 2016 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2016. Subsequent events have been evaluated through June 9, 2017, the date the financial statements became available to be issued.

Imagine Supported Living Services

Required Communications

For the Year Ended June 30, 2016



June 9, 2017

To those Charged with Governance
Imagine Supported Living Services
Aptos, California

We have audited the financial statements of Imagine Supported Living Services for the year ended June 30, 2016, and have issued our report thereon dated June 9, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information at our fieldwork date of December 14, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Imagine Supported Living Services are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2016. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of depreciable assets and estimate of uncollectable accounts receivable. Management's estimate of useful lives is based on common industry standards. Management's estimate of uncollectable accounts receivable is based on history and subsequent collections. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were:

The disclosure of concentration of credit risk for cash in banks and money markets in Note 1 to the financial statements, and concentration of revenue as described in Note 7.

To those Charged with Governance
Imagine Supported Living Services
June 9, 2017
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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 9, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To those Charged with Governance
Imagine Supported Living Services
June 9, 2017
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This information is intended solely for the use of management and those charged with governance of Imagine Supported Living Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino^{LLP}
San Jose, California

June 9, 2017