Sweetwater Spectrum, Inc.

Financial Statements

For the Years Ended
June 30, 2017 and 2016
Together with Independent Accountants' Review Report

Sweetwater Spectrum, Inc.

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Independent Accountant's Review Report

To the Board of Directors of
Sweetwater Spectrum, Inc.
Sonoma, California

We have reviewed the accompanying financial statements of Sweetwater Spectrum, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We also reviewed the adjustments as described in Note 3 that were applied to restate the June 30, 2016 financial statements. Based on our review, we are not aware of any material modifications that should be made to the adjustments described in Note 3 that were applied to restate the June 30, 2016 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

The financial statements for the year ended June 30, 2016 were audited by other accountants and they expressed an unmodified opinion on those financial statements in their report dated September 29, 2016. They have not performed any auditing procedures on the June 30, 2016 financial statements since that date.

Dillwood Burkel & Millar, LLP

Santa Rosa, California
October 26, 2017

Sweetwater Spectrum, Inc.
Statements of Financial Position
As of June 30, 2017 and 2016

	2017	2016 (Restated)
Assets		
Current assets		
Cash and cash equivalents	$ 753,001	$ 723,995
Accounts receivable	4,014	1,990
Asset limited as to use	310,000	-
Inventory	6,350	-
Total current assets	1,073,365	725,985
Property and equipment		
Land	1,455,048	1,455,048
Buildings and improvements	8,244,833	8,244,833
Accumulated depreciation	(1,276,480)	(986,398)
Property and equipment, net	8,423,401	8,713,483
Investments	8,281	8,468
Total assets	$ 9,505,047	$ 9,447,936
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	$ 68,322	$ 34,446
Deferred rental income	8,721	17,798
Loans payable, current maturities, net of loan net of loan origination fee of $414 and $2,195 at June 30, 2017 and 2016, respectively	34,021	46,316
Current liabilities	111,064	98,560
Tenant security deposits	9,750	9,750
Related party loan	602,290	602,290
Loans payable, net of current maturities and loan origination fee of $9,635 and $56,164 at June 30, 2017 and 2016, respectively	1,246,655	1,219,570
Total liabilities	1,969,759	1,930,170
Net assets		
Unrestricted net assets	7,492,367	7,515,296
Temporarily restricted net assets	42,921	2,470
Total net assets	7,535,288	7,517,766
Total liabilities and net assets	$ 9,505,047	$ 9,447,936

The accompanying notes are an integral part of this statement.
See accompanying Independent Accountants' Review Report.

Sweetwater Spectrum, Inc.
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016

	2017	2016
Revenue and support		
Donations	$ 265,326	$ 317,589
Grants	-	46,855
In-kind contributions	48,024	52,959
Special events	140,732	16,753
Rental income, net of discounts and vacancies	482,937	491,136
Farm income	49,274	48,675
Other income (expenses)	10,336	(519)
Debt forgiven	-	287,250
Net assets released from restrictions	177,124	260,444
Total unrestricted revenue and support	1,173,753	1,521,142
Expenses		
Program services	990,947	957,486
Management and general	94,166	110,574
Fundraising	111,569	92,055
Total expenses	1,196,682	1,160,115
Increase (decrease) in unrestricted net assets	(22,929)	361,027
Changes in temporarily restricted net assets		
Donations	217,575	260,000
Net assets released from restrictions	(177,124)	(260,444)
Increase (decrease) in temporarily restricted net assets	40,451	(444)
Increase in net assets	17,522	360,583
Net assets, beginning of year *(restated)*	7,517,766	7,157,183
Net assets, end of year	$ 7,535,288	$ 7,517,766

The accompanying notes are an integral part of this statement.

See accompanying Independent Accountants' Review Report.

Sweetwater Spectrum, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 224,272	$ 30,309	$ 40,937	$ 295,518
Payroll tax	18,746	2,514	3,414	24,674
Total personnel	243,018	32,823	44,351	320,192
Depreciation	269,776	20,306	-	290,082
Interest expense	78,843	5,934	-	84,777
Partner organization staff incentives	80,282	-	-	80,282
Insurance	57,388	5,659	7,922	70,969
Amortization	54,563	4,107	-	58,670
Outside services	42,571	1,620	6,533	50,724
Utilities	48,411	-	-	48,411
Repairs & maintenance	43,162	-	-	43,162
Professional fees	9,308	14,435	11,159	34,902
Farm	33,261	-	-	33,261
Meals, food & catering	5,241	1,103	14,393	20,737
Materials & supplies	7,738	5,246	5,983	18,967
Miscellaneous	8,259	1,153	5,149	14,561
Telephone & internet	9,126	821	1,148	11,095
Advertising & marketing	-	-	6,837	6,837
Merchant & bank fees	-	738	3,084	3,822
Travel & entertainment	-	100	2,808	2,908
Rental expense	-	-	936	936
Printing & copying	-	-	800	800
Postage	-	121	466	587
Total expenses	$ 990,947	$ 94,166	$ 111,569	$ 1,196,682

The accompanying notes are an integral part of this statement.
See accompanying Independent Accountants' Review Report.

Sweetwater Spectrum, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 171,804	$ 23,652	$ 26,429	$ 221,885
Payroll tax	15,750	2,358	2,297	20,405
Total personnel	187,554	26,010	28,726	242,290
Depreciation	269,682	20,299	-	289,981
Interest expense	100,235	7,545	-	107,780
Outside services	55,670	23,742	20,857	100,269
Partner organization staff incentives	81,625	-	-	81,625
Farm	67,297	-	-	67,297
Professional fees	37,105	16,390	3,504	56,999
Insurance	46,618	4,769	5,202	56,589
Equipment rental and maintenance	41,622	-	-	41,622
Utilities	38,172	-	-	38,172
Materials & supplies	13,566	1,381	7,295	22,242
Meals, food & catering	2,473	2,293	8,912	13,678
Telephone & internet	8,656	869	949	10,474
Advertising & marketing	-	-	6,502	6,502
Miscellaneous	1,067	4,613	170	5,850
Rental expense	3,176	-	2,500	5,676
Printing & copying	-	167	3,005	3,172
Professional development	927	1,750	-	2,677
Amortization	2,041	154	-	2,195
Travel & entertainment	-	184	1,990	2,174
Merchant & bank fees	-	44	2,018	2,062
Postage	-	364	425	789
Total expenses	$ 957,486	$ 110,574	$ 92,055	$ 1,160,115

The accompanying notes are an integral part of this statement.
See accompanying Independent Accountants' Review Report.

Sweetwater Spectrum
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
	Increase (decrease) in cash	
Cash flows from operating activities		
Changes in net assets	$ 17,522	$ 360,583
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	290,942	292,176
Changes in value of beneficial interest	187	738
Contributed assets	(6,350)	(22,401)
Write off of loan origination fees associated with debt refinanced	57,810	-
Loss on sale of marketable securities	-	(988)
Related party debt forgiven	-	(287,250)
(Increase) decrease in operating assets		
Accounts receivable	(2,024)	(1,157)
Pledges receivable	-	2,914
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	33,876	(6,822)
Deferred rental income	(9,077)	(35,060)
Deferred grant revenue	-	(36,855)
Net cash provided by operating activities	382,886	265,878
Cash flows from investing activities		
Asset limited as to use	(310,000)	-
Proceeds from sale of marketable securities	-	23,389
Purchase of land, buildings and equipment	-	(9,071)
Net cash provided by (used in) investing activities	(310,000)	14,318
Cash flows from financing activities		
Repayments of long-term debt principal balance	(43,880)	(334,797)
Net cash used in financing activities	(43,880)	(334,797)
Net cash and cash equivalents increase (decrease)	29,006	(54,601)
Cash and cash equivalents balance		
Beginning, July 1	723,995	778,596
Ending, June 30	$ 753,001	$ 723,995
Supplemental cash flows information		
Cash paid for interest	$ 48,639	$ 58,893

The accompanying notes are an integral part of this statement.
See accompanying Independent Accountants' Review Report.

Note 1 Nature of Activities

Sweetwater Spectrum, Inc. (hereafter "the Corporation"; formerly Woven Shade, Inc.; a California nonprofit public benefit corporation) was founded in May 2009 to maximize individual development and independence of persons with autism by providing an array of state-of-the-art residential options and exposure to new opportunities. The Corporation's major sources of income are from contributions and rental income.

Note 2 Significant Accounting Policies

Basis of Accounting

The accounts of the Corporation are maintained, and the financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

In accordance with generally accepted accounting principles, the Corporation 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. As of June 30, 2017, there were no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk include cash deposits and investments maintained in excess of Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") limits throughout the year. At June 30, 2017, the Corporation had $228,000 on deposit in excess of federally insured limits.

Accounts Receivable

It is the practice of the Corporation to expense uncollectible accounts only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and, based on subsequent collections, management believes all amounts will be collected in full.

Note 2 Significant Accounting Policies, *continued*

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost; donated assets are capitalized at fair value at the date of receipt. Repairs, maintenance, and minor replacements are expensed as incurred. For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 30 years. The Corporation capitalizes its property and equipment in excess of $5,000.

Impairment of Long-Lived Assets

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Beneficial Interest in Assets Held by Community Foundations

Certain funds are held by a community foundation (the "Foundation") in an expendable trust fund for the benefit of the Corporation. The transactions with the Foundation are deemed to be reciprocal and, therefore, the value of the funds held by the Foundation is recognized as an asset held by the Corporation.

Revenue Recognition

Contributions are recognized as support when received or unconditionally promised. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor-imposed restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Lease agreements with tenants are renewed on an annual basis. Rental income is recognized when earned. Tenants' rental prepayments are recorded as deferred rental income until the rental income is earned.

Note 2 Significant Accounting Policies, *continued*

Donated Assets and Services

Donated non-cash assets are recorded as contributions at their estimated fair values at the date of donation. As of June 30, 2017, the Corporation reported inventory in the amount of $6,350 on the statement of financial position. This represents the fair value of donated wine received but not yet used as of June 30, 2017.

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.

In addition, many individuals have donated significant amounts of their time in organizational governance, program services and resource development efforts. No amounts have been reflected in the statements for these donated services as they did not meet the accounting principles criteria for recognition.

Functional Allocation of Expenses

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies as well as estimates made by the Corporation's management. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Corporation.

Advertising Cost

The Corporation expenses advertising and promotion costs as incurred. Advertising and promotion expenses were $6,837 and $6,502 for the years ended June 30, 2017 and 2016, respectively.

Income Taxes

The Corporation is exempt from income taxes under Section 501 of the Internal Revenue Code (IRC) and is classified as a public charity as described in section 509(a)1 and 170(b)(1)(A)(vi) of the IRC. The Corporation is not subject to the two percent (one percent if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined by the IRC.

The Corporation determines whether its tax positions are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2017, the Corporation has reviewed its tax positions and has concluded no reserve for uncertain tax positions is required. The Corporation's exempt organization information returns are subject to review through three years after the date of filing for federal and four years after the date of filing for California.

Note 2 Significant Accounting Policies, *continued*

Adoption of New Accounting Pronouncements

During the year ended June 30, 2017, the Corporation adopted FASB Accounting Standards Update 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The adoption of ASU 2014-15 did not have a material impact on the Corporation's financial statements.

During the year ended June 30, 2017, the Corporation adopted FASB Accounting Standards Update 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires debt origination costs to be presented net of related debt, and the annual amortization of the costs to be presented as interest expense on a retroactive basis for all periods presented. There was no material impact on the Corporation's net assets or financial position upon adoption of the new standard. For the year ended June 30, 2016, the new standard required a reduction to the non-current asset in the amount of $58,359, and a reduction to the loans payable in the same amount.

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 based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management's estimates primarily relate to the collectability of accounts receivables, and depreciable lives of buildings and equipment. Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation and adoption of new accounting pronouncements. The reclassifications had no effect on previously reported results of operations or net asset balances.

Note 3 Prior Period Adjustments and Beginning Balance Restatement

During the process of preparing the financial statements for the year ended June 30, 2017, an error in reporting related party loans payable in prior years was discovered. In order to correct this error, a prior period adjustment was recorded to restate the related party loans payable balance at June 30, 2016 as well as the net asset balances as of June 30, 2015 and 2016. The effect of the prior period adjustment on the Corporation's previously issued financial statements as of and for the year ended June 30, 2016 is summarized as the follows:

	Previously Reported	Increase (Decrease)	Restated
Loans payable to related party	$ 566,152	$ 36,138	$ 602,290
Net assets, beginning of year	7,193,321	(36,138)	7,157,183
Net assets, end of year	7,553,904	(36,138)	7,517,766

Note 4 Fair Value Measurements

Generally accepted accounting principles provide 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 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.

Assets and liabilities that are required to be recorded at fair value in the balance sheet are categorized based on the inputs to valuation techniques as follows:

Level 1: Valuations are based on quoted market prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

Level 2: Valuations are based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.

Level 3: Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques.

The carrying value of cash, accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of short and long-term debt approximates fair value based on discounting the projected market rates available for debt instruments with similar maturities.

Note 5 Beneficial Interest in Assets Held at Community Foundation

In December 2012 the Corporation transferred $10,000 to the Community Foundation Sonoma County (the "Foundation") in order to establish The Sweetwater Spectrum Fund (the "Fund"), an expendable Agency fund maintained by the Foundation. The Fund was setup to promote and further the Foundation's charitable purposes and shall be used to support the charitable activities and/or programs of the Corporation. The assets of the Fund will, at all times, be the property of the Foundation and will be administered by the Foundation's Board of Directors who has sole variance power to modify any restrictions or conditions imposed upon the Fund or its assets. The Fund is an expendable fund and therefore the Foundation may make distributions out of the Fund's principal and income in any such amounts as shall be deemed prudent by the Foundation's Board of Directors consistent with applicable law. The Fund is valued at the Corporation's pro-rata share of the community foundation's investment pools and is considered a Level 2 asset. The balance of the Fund at June 30, 2017 and 2016 was $8,281 and $8,468, respectively.

Note 6 Land, Buildings and Equipment

In 2009, the Corporation began the planning of a residential community for adults with autism. On December 27, 2010, the Corporation purchased a nearly three-acre property in Sonoma, California, and began construction of homes and a community center. During the year ended June 30, 2013, construction was completed and assets were placed in service.

Land, buildings and equipment consisted of the following at June 30:

	2017	2016
Land	$ 1,455,048	$ 1,455,048
Buildings and improvements	8,158,921	8,158,921
Furniture and equipment	85,912	85,912
	$ 9,699,881	$ 9,699,881

Depreciation expense totaled $290,082 and $292,176 for the years ended June 30, 2017 and 2016, respectively.

Note 7 Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses represent the following as of June 30:

	2017	2016
Accounts payable	$ 52,106	$ 19,579
Accrued payroll	12,362	12,367
Accrued vacation	3,854	2,500
	$ 68,322	$ 34,446

Note 8 Loans Payable

On May 1, 2013, the bank accepted the construction/improvements and converted a construction loan to a commercial real estate loan, secured by the deed of trust, fixture filings, assignment of rents and security agreement.

On September 20, 2016, the loan was refinanced with a commercial bank. As a part of the refinancing process, the old loan was paid off and the loan original fees associated with the old load were written off. The new loan bears interest at 3.47% per annum, expiring on September 10, 2041. The loan requires monthly principal and interest payments of $6,608. The loan is collateralized by the real property.

The future minimum liabilities for the loan, after giving effect to the above refinancing, are as follows:

	Principal	Loan Origination Fees	Interest	Net Future Maturities
2018	$ 34,435	$ (414)	$ 44,861	$ 78,882
2019	35,666	(414)	43,629	78,882
2020	36,942	(414)	42,354	78,882
2021	38,262	(414)	41,033	78,882
2022	39,630	(414)	39,665	78,882
Thereafter	1,105,790	(7,979)	417,168	1,514,976
	$ 1,290,725	$ (10,049)	$ 628,710	$ 1,909,386

Loan origination fees are amortized using the straight-line method over the term of the loan, which approximates the amortization using the effective interest rate method.

Note 9 Related Party Loans Payable

Since inception, the Corporation (Borrower) entered into various loan agreements with Board members (Lenders) and other related parties to assist with the construction, development, repair, maintenance, and operation of the residential care facility in Sonoma, California for individuals with autism. As of June 30, 2017 and 2016, there was only one such loan payable outstanding. The loan was entered into on December 20, 2010, with conditional loan payments up to $602,290. Provided the Lenders' dependent signs a lease with a Borrower, the Lenders agreed to discharge each tranche of the loan at the anniversary of the move-in date. In the event the Lenders or Lenders' dependent do not enter into a lease or Lender terminates the lease, upon written notice, Lender shall be entitled to call the loan, and the loan shall be due and payable within 18 months of applicable notice. If the Lenders or Lenders' dependent sign a lease, but prior to lease maturity the Borrower terminates the lease, the loan, less amounts already forgive, shall be due and payable within 12 months of the lease termination date.

Note 9 Related Party Loans Payable, *continued*

The loan bears no interest; as a result, a discount of 6% per annum has been applied against the loan. The forgiveness of the interest on such loans payable was recorded as an in-kind contribution in the amount of $36,138 for both years ended June 30, 2017 and 2016.

The loan balance of $602,290 was paid off subsequent to year-end in August 2017. In connection with the loan payoff, the Corporation increased its borrowing balance under the loan payable agreement as described in Note 8. According to the agreement with the bank, the increase in loan balance subsequent to year-end is considered a recordable subsequent event, thus has been reflected on the Statement of Financial Position as of June 30, 2017. The increase in loan balance at year-end resulted in an asset balance of $310,000 reported as asset limited as to use. The asset was exhausted in the payoff of the related party loan in August 2017.

Note 10 Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for specific purposes or until specific events occur. Net assets are released from restrictions when expenses are incurred or specific events occur. Net assets released from time restrictions amounted to $20,317 for the year ended June 30, 2017. Net assets released from program restrictions amounted to $156,807 and $260,444 for the years ended June 30, 2017 and 2016, respectively.

The following schedule summarizes temporarily restricted net assets as of June 30:

	2017	2016
Time-restricted	$ 29,683	$ -
Program-restricted	13,238	2,470
Total	$ 42,921	$ 2,470

Note 11 Subsequent Events

The Corporation evaluated subsequent events from July 1, 2017 through October 26, 2017, the date which the financial statements were available to be issued, and determined that other than the payoff of the related party loan payable subsequent to year-end as discussed in Note 9, there are no material subsequent events that required recognition or additional disclosure in these financial statements.