

Sweetwater Spectrum, Inc.
Financial Statements

For the Years Ended
June 30, 2018 and 2017
Together with Independent Accountants' Review Report

	<u>Page</u>
Independent Accountants' Review Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8



175 Concourse Blvd, Suite A
Santa Rosa, CA 95403
t: (707) 577-8806
f: (707) 577-1417
www.dbmcpa.com

Independent Accountants' 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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 engagements 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 reviews, 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.

Dillwood Burkel & Millar, LLP

Santa Rosa, California
September 21, 2018

Sweetwater Spectrum, Inc.
Statements of Financial Position

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 614,541	\$ 710,080
Accounts receivable	4,673	4,014
Asset limited as to use	-	310,000
Restricted cash	82,314	42,921
Prepaid expenses and other current assets	<u>21,076</u>	<u>6,350</u>
Total current assets	722,604	1,073,365
Property and equipment		
Land	1,455,048	1,455,048
Buildings and improvements	8,258,620	8,244,833
Accumulated depreciation	<u>(1,561,701)</u>	<u>(1,276,480)</u>
Property and equipment, net	8,151,967	8,423,401
Investments	<u>-</u>	<u>8,281</u>
Total assets	<u><u>\$ 8,874,571</u></u>	<u><u>\$ 9,505,047</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 31,986	\$ 68,322
Deferred rental income	54,711	8,721
Deferred grant revenue	35,000	-
Loans payable, current maturities	<u>35,560</u>	<u>34,021</u>
Current liabilities	157,257	111,064
Tenant security deposits	10,700	9,750
Related party loan	-	602,290
Loans payable, net of current maturities	<u>1,213,937</u>	<u>1,246,655</u>
Total liabilities	1,381,894	1,969,759
Net assets		
Unrestricted net assets	7,410,362	7,492,367
Temporarily restricted net assets	<u>82,315</u>	<u>42,921</u>
Total net assets	<u>7,492,677</u>	<u>7,535,288</u>
Total liabilities and net assets	<u><u>\$ 8,874,571</u></u>	<u><u>\$ 9,505,047</u></u>

*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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue and support		
Donations	\$ 404,468	\$ 265,326
In-kind contributions	-	48,024
Special events	10,985	140,732
Rental income, net of discounts and vacancies	528,757	482,937
Farm income	68,479	49,274
Other income	960	10,336
Net assets released from restrictions	<u>37,986</u>	<u>177,124</u>
 Total unrestricted revenue and support	 1,051,635	 1,173,753
Expenses		
Program services	924,607	990,947
Management and general	100,627	94,166
Fundraising	<u>108,406</u>	<u>111,569</u>
 Total expenses	 <u>1,133,640</u>	 <u>1,196,682</u>
 Decrease in unrestricted net assets	 (82,005)	 (22,929)
Changes in temporarily restricted net assets		
Donations	77,380	217,575
Net assets released from restrictions	<u>(37,986)</u>	<u>(177,124)</u>
 Increase (decrease) in temporarily restricted net assets	 <u>39,394</u>	 <u>40,451</u>
 Increase (decrease) in net assets	 (42,611)	 17,522
 Net assets, beginning of year	 <u>7,535,288</u>	 <u>7,517,766</u>
 Net assets, end of year	 <u>\$ 7,492,677</u>	 <u>\$ 7,535,288</u>

*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, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 243,394	\$ 37,124	\$ 53,972	\$ 334,490
Payroll tax	19,988	2,909	4,314	27,211
Total personnel	263,382	40,033	58,286	361,701
Depreciation	265,256	19,965	-	285,221
Partner organization staff incentives	82,670	-	-	82,670
Insurance	44,850	4,167	6,061	55,078
Outside services	49,336	277	2,270	51,883
Utilities	51,614	-	-	51,614
Interest expense	46,910	3,531	-	50,441
Repairs and maintenance	41,208	-	-	41,208
Farm	33,466	-	-	33,466
Professional fees	7,619	16,385	4,966	28,970
Materials and supplies	13,929	1,511	5,470	20,910
Meals, food and catering	3,020	6,080	8,471	17,571
Miscellaneous	8,294	5,070	1,461	14,825
Software license fees	-	-	10,071	10,071
Telephone and internet	7,950	698	1,015	9,663
Advertising and marketing	-	-	5,278	5,278
Travel and entertainment	3,370	85	541	3,996
Rental expense	757	-	2,182	2,939
Merchant and bank fees	-	273	1,572	1,845
Property taxes	-	1,634	-	1,634
Printing and copying	-	726	265	991
Professional development	976	-	-	976
Postage	-	192	497	689
Total expenses	\$ 924,607	\$ 100,627	\$ 108,406	\$ 1,133,640

*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 and maintenance	43,162	-	-	43,162
Professional fees	9,308	14,435	11,159	34,902
Farm	33,261	-	-	33,261
Meals, food and catering	5,241	1,103	14,393	20,737
Materials and supplies	7,738	5,246	5,983	18,967
Miscellaneous	8,259	1,153	5,149	14,561
Telephone and internet	9,126	821	1,148	11,095
Advertising and marketing	-	-	6,837	6,837
Merchant and bank fees	-	738	3,084	3,822
Travel and entertainment	-	100	2,808	2,908
Rental expense	-	-	936	936
Printing and 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

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	<i>Increase (decrease) in cash</i>	
Cash flows from operating activities		
Changes in net assets	\$ (42,611)	\$ 17,522
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	285,221	290,942
Changes in value of beneficial interest	-	187
Contributed assets	-	(6,350)
Use of contributed assets	3,704	-
Write off of loan origination fees associated with debt refinanced	-	57,810
Increase in operating assets		
Accounts receivable	(659)	(2,024)
Prepaid expenses	(18,430)	-
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(36,336)	33,876
Deferred rental income	45,990	(9,077)
Deferred grant revenue	35,000	-
Tenant security deposits	950	-
Net cash provided by operating activities	<u>272,829</u>	<u>382,886</u>
Cash flows from investing activities		
Asset limited as to use	-	(310,000)
Proceeds from sale of marketable securities	8,281	-
Purchase of property and equipment	(13,787)	-
Net cash used in investing activities	<u>(5,506)</u>	<u>(310,000)</u>
Cash flows from financing activities		
Repayment of related party debt	(292,290)	-
Repayments of long-term debt principal balance	(31,179)	(43,880)
Net cash used in financing activities	<u>(323,469)</u>	<u>(43,880)</u>
Net increase in cash and cash equivalents	(56,146)	29,006
Cash and cash equivalents balance		
At beginning of year	753,001	723,995
At end of year	<u>\$ 696,855</u>	<u>\$ 753,001</u>
Unrestricted cash and cash equivalents	\$ 614,541	\$ 710,080
Restricted cash and cash equivalents	82,314	42,921
Total cash and cash equivalents	<u>\$ 696,855</u>	<u>\$ 753,001</u>
Supplemental cash flows information		
Cash paid for interest	\$ 50,441	\$ 48,639

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

Sweetwater Spectrum, Inc.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

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, or other intellectual / developmental disabilities, 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, 2018 and 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, 2018, the Corporation had \$156,000 on deposit in excess of FDIC or SIPC insurance limits.

Restricted Cash

Restricted cash represents cash balances restricted by donors. As of June 30, 2018 and 2017, the Corporation had \$82,314 and \$42,921, respectively, included in its bank accounts that were considered restricted by donor stipulations.

Sweetwater Spectrum, Inc.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 2 Significant Accounting Policies, *continued*

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.

Property 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.

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.

Sweetwater Spectrum, Inc.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

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.

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 \$5,278 and \$6,837 for the years ended June 30, 2018 and 2017, 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, 2018, 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.

Sweetwater Spectrum, Inc.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 2 Significant Accounting Policies, *continued*

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. The reclassifications had no effect on previously reported results of operations or net asset balances.

Note 3 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:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,455,048	\$ 1,455,048
Buildings and improvements	8,158,921	8,158,921
Furniture and equipment	85,912	85,912
Vehicles	<u>13,787</u>	<u>-</u>
	9,713,668	9,699,881
Accumulated depreciation	<u>(1,561,701)</u>	<u>(1,276,480)</u>
	<u>\$ 8,151,967</u>	<u>\$ 9,699,881</u>

Depreciation expense totaled \$285,221 and \$290,082 for the years ended June 30, 2018 and 2017, respectively.

Sweetwater Spectrum, Inc.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 4 Accounts Payable and Accrued Expenses

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

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 10,538	\$ 52,106
Accrued payroll	13,272	12,362
Accrued vacation	8,176	3,854
	<u>\$ 31,986</u>	<u>\$ 68,322</u>

Note 5 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, maturing 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:

	<u>Principal</u>	<u>Loan Origination Fees</u>	<u>Principal, Net of Loan Origination Fees</u>	<u>Interest</u>	<u>Net Future Maturities</u>
2019	\$ 35,560	\$ (414)	\$ 35,146	\$ 43,736	\$ 78,882
2020	36,832	(414)	36,418	42,464	78,882
2021	38,148	(414)	37,734	41,148	78,882
2022	39,512	(414)	39,098	39,784	78,882
2023	40,925	(414)	40,511	38,371	78,882
Thereafter	1,068,155	(7,565)	1,060,590	382,110	1,442,700
	<u>\$ 1,259,132</u>	<u>\$ (9,635)</u>	<u>\$ 1,249,497</u>	<u>\$ 587,613</u>	<u>\$ 1,837,110</u>

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.

Sweetwater Spectrum, Inc.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 6 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, 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.

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 the year ended June 30, 2017. The loan balance of \$602,290 was paid off during the year ended June 30, 2018.

Note 7 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 \$29,683 and \$20,317 for the years ended June 30, 2018 and 2017, respectively. Net assets released from program restrictions amounted to \$8,303 and \$156,807 for the years ended June 30, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Time-restricted	\$ -	\$ 29,683
Program-restricted	82,315	13,238
Total	<u>\$ 82,315</u>	<u>\$ 42,921</u>

Sweetwater Spectrum, Inc.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

Note 8 Licensing Agreement with Sweetwater Spectrum South

During the year ended June 30, 2017, the Corporation entered into a Business Material Licensing Agreement and a Fiscal Sponsorship Grant Agreement with an unrelated entity named Sweetwater Spectrum South (collectively the "Agreements"). According to the agreements, Sweetwater Spectrum South will replicate certain features of the Corporation's operating model by using certain licensed materials owned by the Corporation under certain agreed upon terms, including a licensing fees and royalty payment schedule.

In addition, the Corporation agrees to be the fiscal sponsor of Sweetwater Spectrum South (the "Organization") during the period when the Organization applies for its own tax exempt status under Section 501(c)(3) of the Internal Revenue Code. Until the Organization obtains its tax-exempt status, the Corporation will receive contributions on behalf of the Organization. During the year ended June 30, 2018, \$77,380 of such donations were included in the Corporation's financial statements as restricted contributions, and were included in the temporarily restricted net asset balance at year-end.

Note 9 Subsequent Events

The Corporation evaluated subsequent events from July 1, 2018 through September 21, 2018, the date which the financial statements were available to be issued, and determined that there are no material subsequent events that required recognition or additional disclosure in these financial statements.