



*Solutions for Change*

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**



**Leaf & Cole, LLP**  
*Certified Public Accountants*

**SOLUTIONS FOR CHANGE, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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Certified Public Accountants  
A Partnership of Professional Corporations

## Independent Auditor's Report

To the Board of Directors  
Solutions for Change, Inc.

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Solutions for Change, Inc., which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solutions for Change, Inc. as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP

San Diego, California  
May 9, 2018

**SOLUTIONS FOR CHANGE, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b><u>Current Assets:</u></b> (Notes 2 and 3)		
Cash and cash equivalents	\$ 361,468	\$ 378,328
Grants and other receivables	216,809	420,928
Pledges receivable	8,000	25,000
Prepaid expenses and other assets	11,697	24,775
Tenant trust funds	46,728	49,060
Tenant security deposits	41,460	48,968
Total Current Assets	686,162	947,059
<b><u>Noncurrent Assets:</u></b> (Notes 2, 3, 4, 5, 6, 7 and 8)		
Related party receivables	1,944,392	630,084
Pledges receivable	8,000	-
Restricted reserves	322,111	279,144
Investment in partnerships	144	87
Property and equipment, net	16,335,332	16,716,993
Total Noncurrent Assets	18,609,979	17,626,308
<b>TOTAL ASSETS</b>	<b>\$ 19,296,141</b>	<b>\$ 18,573,367</b>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities:</u></b> (Notes 2 and 8)		
Accounts payable	\$ 214,833	\$ 235,703
Accrued expenses	95,781	102,443
Interest payable	48,284	11,631
Tenant trust funds	47,335	50,277
Tenant security deposits	41,460	48,968
Current portion of notes payable	916,868	810,770
Total Current Liabilities	1,364,561	1,259,792
<b><u>Noncurrent Liabilities:</u></b> (Notes 6 and 8)		
Share of deficiency in partnerships	1,653	84
Notes payable, net	15,356,470	16,234,350
Interest payable	1,972,169	2,062,573
Total Noncurrent Liabilities	17,330,292	18,297,007
Total Liabilities	18,694,853	19,556,799
<b><u>Commitments and Contingencies</u></b> (Notes 10 and 11)		
<b><u>Minority Interest in Subsidiary</u></b>	(5,455)	(3,212)
<b><u>Net Assets (Deficit):</u></b> (Notes 2 and 9)		
Unrestricted	503,446	(1,191,143)
Temporarily restricted	103,297	210,923
Total Net Assets (Deficit)	606,743	(980,220)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 19,296,141</b>	<b>\$ 18,573,367</b>

The accompanying notes are an integral part of the consolidated financial statements.

**SOLUTIONS FOR CHANGE, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Support and Revenue:</u></b>						
Contributions	\$ 1,453,879	\$ 91,880	\$ 1,545,759	\$ 1,362,505	\$ 147,240	\$ 1,509,745
Developer fees	1,289,802	-	1,289,802	53,681	-	53,681
Grants	612,993	-	612,993	763,708	40,508	804,216
In-kind contributions	-	-	-	14,192	-	14,192
Interest and miscellaneous	38,111	-	38,111	21,847	-	21,847
Rental income	683,047	-	683,047	712,431	-	712,431
Social enterprise	59,093	-	59,093	16,092	-	16,092
Net assets released from restriction	199,506	(199,506)	-	450,324	(450,324)	-
Total Support and Revenue	<u>4,336,431</u>	<u>(107,626)</u>	<u>4,228,805</u>	<u>3,394,780</u>	<u>(262,576)</u>	<u>3,132,204</u>
<b><u>Operating Expenses:</u></b>						
Program services	2,560,246	-	2,560,246	2,605,909	-	2,605,909
Fundraising	129,688	-	129,688	163,547	-	163,547
Management and general	391,528	-	391,528	352,521	-	352,521
Total Operating Expenses	<u>3,081,462</u>	<u>-</u>	<u>3,081,462</u>	<u>3,121,977</u>	<u>-</u>	<u>3,121,977</u>
Change in Net Assets Before Nonoperating Revenue and (Expenses)	1,254,969	(107,626)	1,147,343	272,803	(262,576)	10,227
<b><u>Nonoperating Revenue and (Expenses):</u></b>						
Depreciation	(563,512)	-	(563,512)	(492,288)	-	(492,288)
Gain on sale of property and equipment	2,555	-	2,555	161,639	-	161,639
Interest - residual receipts debt	(213,184)	-	(213,184)	(237,070)	-	(237,070)
Loan forgiveness income	1,211,473	-	1,211,473	-	-	-
Minority interest excess of expenses over revenue and support of subsidiary	2,243	-	2,243	2,125	-	2,125
Partnership income	45	-	45	69	-	69
Total Nonoperating Revenue and (Expenses)	<u>439,620</u>	<u>-</u>	<u>439,620</u>	<u>(565,525)</u>	<u>-</u>	<u>(565,525)</u>
Change in Net Assets	1,694,589	(107,626)	1,586,963	(292,722)	(262,576)	(555,298)
Net Assets (Deficit) at Beginning of Year	(1,191,143)	210,923	(980,220)	(898,421)	473,499	(424,922)
<b>NET ASSETS (DEFICIT) AT END OF YEAR</b>	<u>\$ 503,446</u>	<u>\$ 103,297</u>	<u>\$ 606,743</u>	<u>\$ (1,191,143)</u>	<u>\$ 210,923</u>	<u>\$ (980,220)</u>

The accompanying notes are an integral part of the consolidated financial statements.

**SOLUTIONS FOR CHANGE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services					Supporting Services			
	Solutions For Change, Inc. Programs	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Total Program Services	Management and General	Fundraising	Total
<b>Salaries and Related Expenses:</b>									
Salaries and wages	\$ 1,144,315	\$ 23,000	\$ 105,665	\$ -	\$ -	\$ 1,272,980	\$ 173,377	\$ 82,509	\$ 1,528,866
Payroll taxes	89,610	4,000	8,907	-	-	102,517	21,268	6,960	130,745
Employee benefits	115,718	5,431	14,516	-	-	135,665	29,511	8,988	174,164
Total Salaries and Related Expenses	<u>1,349,643</u>	<u>32,431</u>	<u>129,088</u>	<u>-</u>	<u>-</u>	<u>1,511,162</u>	<u>224,156</u>	<u>98,457</u>	<u>1,833,775</u>
<b>Nonsalary Related Expenses:</b>									
Advertising	24,135	-	1,565	-	-	25,700	182	-	25,882
Automobile and truck	21,705	-	1,091	-	-	22,796	-	-	22,796
Cost of goods sold	-	-	81,077	-	-	81,077	-	-	81,077
Dues and subscriptions	20,122	-	84	-	-	20,206	-	-	20,206
Fundraising expenses	-	-	-	-	-	-	-	25,845	25,845
Insurance	39,901	14,207	6,672	-	5,921	66,701	5,832	4,926	77,459
Interest	181,050	390	247	-	148	181,835	-	-	181,835
Meetings and seminars	11,391	-	9	-	-	11,400	17,100	-	28,500
Miscellaneous	4,920	-	-	-	16	4,936	871	-	5,807
Office expense	42,823	-	-	-	-	42,823	4,778	-	47,601
Other expense	11,735	-	-	-	-	11,735	-	-	11,735
Payroll processing	2,148	-	1,350	-	-	3,498	698	460	4,656
Postage and printing	1,872	-	-	-	23	1,895	-	-	1,895
Professional fees	113,155	-	2,831	-	2,132	118,118	51,119	-	169,237
Property fees	-	-	-	-	-	-	11,251	-	11,251
Rent	46,105	-	-	-	-	46,105	-	-	46,105
Repairs and maintenance	84,064	30,410	5,056	-	22,749	142,279	12,431	-	154,710
Supplies	20,603	1,293	2,897	-	-	24,793	-	-	24,793
Taxes, licenses and fees	-	-	-	-	-	-	45,886	-	45,886
Telephone	50,206	15,409	1,296	-	-	66,911	5,723	-	72,634
Utilities and refuse removal	59,421	72,761	16,528	-	27,566	176,276	11,501	-	187,777
Total Nonsalary Related Expenses	<u>735,356</u>	<u>134,470</u>	<u>120,703</u>	<u>-</u>	<u>58,555</u>	<u>1,049,084</u>	<u>167,372</u>	<u>31,231</u>	<u>1,247,687</u>
<b>Total Operating Expenses</b>	<u>2,084,999</u>	<u>166,901</u>	<u>249,791</u>	<u>-</u>	<u>58,555</u>	<u>2,560,246</u>	<u>391,528</u>	<u>129,688</u>	<u>3,081,462</u>
<b>Nonoperating Expenses:</b>									
Depreciation	295,291	157,951	68,452	-	41,818	563,512	-	-	563,512
Interest - residual receipts debt	105,777	106,545	-	-	862	213,184	-	-	213,184
Total Nonoperating Expenses	<u>401,068</u>	<u>264,496</u>	<u>68,452</u>	<u>-</u>	<u>42,680</u>	<u>776,696</u>	<u>-</u>	<u>-</u>	<u>776,696</u>
<b>TOTAL EXPENSES</b>	<u>\$ 2,486,067</u>	<u>\$ 431,397</u>	<u>\$ 318,243</u>	<u>\$ -</u>	<u>\$ 101,235</u>	<u>\$ 3,336,942</u>	<u>\$ 391,528</u>	<u>\$ 129,688</u>	<u>\$ 3,858,158</u>

The accompanying notes are an integral part of the consolidated financial statements.

**SOLUTIONS FOR CHANGE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services					Supporting Services			
	Solutions For Change, Inc. Programs	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions Escondido Boulevard, LLC	Solutions Chestnut, LLC	Total Program Services	Management and General	Fundraising	Total
<b><u>Salaries and Related Expenses:</u></b>									
Salaries and wages	\$ 1,016,258	\$ 23,000	\$ 81,252	\$ -	\$ -	\$ 1,120,510	\$ 155,831	\$ 80,976	\$ 1,357,317
Payroll taxes	76,798	3,996	7,160	-	-	87,954	19,378	6,616	113,948
Employee benefits	93,838	6,607	11,140	-	-	111,585	25,205	7,702	144,492
Total Salaries and Related Expenses	<u>1,186,894</u>	<u>33,603</u>	<u>99,552</u>	<u>-</u>	<u>-</u>	<u>1,320,049</u>	<u>200,414</u>	<u>95,294</u>	<u>1,615,757</u>
<b><u>Nonsalary Related Expenses:</u></b>									
Advertising	72,655	-	446	-	-	73,101	159	-	73,260
Automobile and truck	22,061	-	1,296	-	-	23,357	-	-	23,357
Cost of goods sold	-	-	22,494	-	-	22,494	-	-	22,494
Dues and subscriptions	21,284	-	350	-	-	21,634	-	-	21,634
Fundraising expenses	-	-	-	-	-	-	-	61,134	61,134
In-kind expense	14,192	-	-	-	-	14,192	-	-	14,192
Insurance	52,571	13,529	5,065	298	5,958	77,421	7,066	6,490	90,977
Interest	163,848	3,481	1,986	2,577	2,811	174,703	-	-	174,703
Meetings and seminars	8,089	-	335	-	-	8,424	12,635	-	21,059
Miscellaneous	1,815	-	-	-	191	2,006	354	-	2,360
Office expense	39,676	-	-	-	-	39,676	4,448	-	44,124
Other expense	188,111	-	-	-	-	188,111	-	-	188,111
Payroll processing	2,291	-	1,513	-	-	3,804	782	629	5,215
Postage and printing	4,780	-	-	-	58	4,838	-	-	4,838
Professional fees	97,188	-	11,590	1,328	2,081	112,187	44,656	-	156,843
Property fees	-	-	-	-	-	-	10,616	-	10,616
Rent	97,312	-	-	-	-	97,312	-	-	97,312
Repairs and maintenance	85,025	22,686	5,181	361	19,173	132,426	12,193	-	144,619
Supplies	23,790	1,196	677	-	197	25,860	-	-	25,860
Taxes, licenses and fees	-	-	-	-	-	-	39,912	-	39,912
Telephone	56,409	12,049	1,104	-	-	69,562	6,391	-	75,953
Utilities and refuse removal	70,363	78,699	16,567	1,102	28,021	194,752	12,895	-	207,647
Total Nonsalary Related Expenses	<u>1,021,460</u>	<u>131,640</u>	<u>68,604</u>	<u>5,666</u>	<u>58,490</u>	<u>1,285,860</u>	<u>152,107</u>	<u>68,253</u>	<u>1,506,220</u>
<b>Total Operating Expenses</b>	<u>2,208,354</u>	<u>165,243</u>	<u>168,156</u>	<u>5,666</u>	<u>58,490</u>	<u>2,605,909</u>	<u>352,521</u>	<u>163,547</u>	<u>3,121,977</u>
<b><u>Nonoperating Expenses:</u></b>									
Depreciation	284,572	157,881	8,017	-	41,818	492,288	-	-	492,288
Interest - residual receipts debt	129,617	106,591	-	-	862	237,070	-	-	237,070
Total Nonoperating Expenses	<u>414,189</u>	<u>264,472</u>	<u>8,017</u>	<u>-</u>	<u>42,680</u>	<u>729,358</u>	<u>-</u>	<u>-</u>	<u>729,358</u>
<b>TOTAL EXPENSES</b>	<u>\$ 2,622,543</u>	<u>\$ 429,715</u>	<u>\$ 176,173</u>	<u>\$ 5,666</u>	<u>\$ 101,170</u>	<u>\$ 3,335,267</u>	<u>\$ 352,521</u>	<u>\$ 163,547</u>	<u>\$ 3,851,335</u>



**SOLUTIONS FOR CHANGE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ 1,586,963	\$ (555,298)
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Depreciation	563,512	492,288
Amortization of debt issuance costs	1,521	1,522
Gain on sale of property and equipment	(2,555)	(161,639)
Interest - residual receipts debt	213,184	237,070
Loan forgiveness	(1,211,473)	-
Minority interest (excess) deficit of support and revenue over expenses of subsidiary	(2,243)	(2,125)
Partnership income	(45)	(69)
<b>(Increase) Decrease in:</b>		
Grants and other receivables	204,119	(312,883)
Pledges receivable	9,000	500,934
Prepaid expenses and other assets	13,078	2,754
Tenant trust funds	2,332	19,612
Tenant security deposits	7,508	(4,610)
<b>Increase (Decrease) in:</b>		
Accounts payable	106,369	71,410
Accrued expenses	(6,662)	(1,132)
Interest payable	51,922	(6,523)
Tenant trust funds	(2,942)	(20,901)
Tenant security deposits	(7,508)	4,610
Net Cash Provided by Operating Activities	<u>1,526,080</u>	<u>265,020</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Proceeds from sale of property and equipment	12,885	3,189,727
Purchase of property and equipment	(1,166,711)	(1,062,369)
Related party receivables repayment	(1,314,308)	(12,032)
Deposits to restricted reserves, net	(42,967)	(40,333)
Partnership contributions and dispositions, net	(48,031)	-
Net Cash (Used in) Provided by Investing Activities	<u>(2,559,132)</u>	<u>2,074,993</u>

(Continued)

The accompanying notes are an integral part of the consolidated financial statements.

**SOLUTIONS FOR CHANGE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Proceeds from notes payable	1,203,363	980,864
Payments on notes payable	<u>(187,171)</u>	<u>(3,092,312)</u>
Net Cash Provided by (Used in) Financing Activities	<u>1,016,192</u>	<u>(2,111,448)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(16,860)	228,565
Cash and Cash Equivalents at Beginning of Year	<u>378,328</u>	<u>149,763</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ <u>361,468</u></b>	<b>\$ <u>378,328</u></b>
<b><u>Supplemental Disclosure of Cash Flow Information:</u></b>		
Cash paid for interest, net of capitalized interest (Note 2)	<u>\$ 124,425</u>	<u>\$ 181,226</u>
<b><u>Supplemental Disclosure of Noncash Investing Activities:</u></b>		
Disposition of Solutions Escondido Boulevard 33, LP	<u>\$ (48,031)</u>	<u>\$ -</u>

The accompanying notes are an integral part of the consolidated financial statements.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization:**

The consolidated financial statements include the accounts of the following entities which are collectively referred to as the “Organization”.

**Solutions for Change, Inc.**

Solutions for Change, Inc. (“Solutions for Change”), was incorporated in the State of California on November 15, 1999. The mission of Solutions for Change is to solve family homelessness one family, one community at a time. Solutions for Change is supported primarily through donor contributions and grants.

**Solutions Family Center, L.P.**

Solutions Family Center, L.P. (the “Partnership”) was formed as a limited partnership under the laws of the State of California on December 18, 2000. The Partnership was established for the purpose and intent of constructing and operating a rental housing project. The rental housing project was placed into service in November 2004 and is located in Vista, California. The project consists of 33 units. Solutions for Change is the General Partner and owns 99% of the Partnership.

**Solutions Farms, LLC**

Solutions Farms, LLC (“Solutions Farms”) is an integral part of Solutions for Change. It functions as a laboratory for teaching important work values and preparing people for re-entry into the workforce. This is the social enterprise function; accomplishing a worthwhile social purpose while also being a functioning business. Solutions Farms raises hope, as well as produce. Solutions Farms is unique in many ways. It is an aquaponic farm where nutrient-rich water from fish culture is used to nourish produce, which in turn purifies the water so it can be returned to the fish. Everything is done within the controlled environment of a greenhouse. It is currently one of the largest aquaponic facilities in the West. Its sole member is Solutions for Change.

**Solutions Escondido Boulevard, LLC**

Solutions Escondido Boulevard, LLC (“Escondido”) was formed to serve as the managing general partner of one or more limited partnerships that own, operate and manage various multifamily affordable housing projects located in California. Its sole member is Solutions for Change.

Escondido has a .0095% interest in Solutions Escondido Boulevard 33 LP (“EB33”) which has been recorded on the equity method. In addition, Escondido acquired land and incurred predevelopment costs that were acquired by EB33 in March 2017.

**SFC Weitzel, LLC**

SFC Weitzel, LLC (“Weitzel”) had a 99% interest in SFC Weitzel, LP. Weitzel was formed to serve as the managing general partner of one or more limited partnerships that own, operate and manage various multifamily affordable housing projects located in California. Its sole member is Solutions for Change. Effective April 28, 2017, SFC Weitzel, L.P. admitted a new unrelated partner and Weitzel now has a 0.01% interest in SFC Weitzel, L.P. SFC Weitzel, L.P. is in the development phase of construction of a 32-unit apartment complex in Oceanside, CA.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization: (Continued)**

**Solutions Chestnut, LLC**

Solutions Chestnut, LLC (“Chestnut”) was formed to serve as the managing general partner of one or more limited partnerships that own, operate and manage various multifamily affordable housing projects located in California. On December 26, 2014, Chestnut acquired a 16 unit apartment complex in the City of Carlsbad. Its sole member is Solutions for Change.

**Solutions Vista Terrace, LLC**

Solutions Vista Terrace, LLC (“Vista Terrace”) has a 0.005% interest in SFC Vista Terrace, L.P., which has been recorded on the equity method. Its sole member is Solutions for Change.

**Solutions Parkview, LLC**

Solutions Parkview, LLC (“Parkview”) has a .001% interest in Parkview San Marcos II, L.P., which has been recorded on the equity method. Its sole member is Solutions for Change.

**Solutions EV, LLC**

Solutions EV, LLC (“EV”) has a 0.005% interest in EVW. EV was formed to serve as the managing general partner of one or more limited partnerships that own, operate and manage various multifamily affordable housing projects located in California. Its sole member is Solutions for Change.

**Solutions East Vista Way, LP**

Solutions East Vista Way, LP (“EVW”) was formed as a limited partnership under the laws of the State of California on September 21, 2017. The Partnership was established for the purpose and intent of constructing and operating a rental housing project. EVW has a managing general partner, EV which has a .005% interest, a administration general partner, Kingdom EV, LLC which has a .005% interest and a limited partner, Solutions for Change which has a 99.99% interest.

**Solutions for Change - Our Mission and our Model**

The mission of Solutions for Change is to solve family homelessness – one family, one community at a time. With this goal, Solutions has pioneered an innovative and sustainable solution for homeless families in our community – an effort that has led more than 900 families and 2,400 children out of homelessness since 1999. The Solutions model is built on three pillars—Solutions University, Solutions Farms, and Solutions in the Community. Solutions University evaluates each family’s needs, then addresses them through an individualized and holistic personal development engagement intended to permanently end dependency and improve well-being. Solutions Farms is a social enterprise that combines employment training for Solutions University residents while growing certified organic produce using cutting-edge aquaponics technology. The produce is supplied to local school districts where tens of thousands of school children consume the food. Meanwhile, Solutions in the Community is an intentional means to re-connect resident families to their communities of origin. Through opportunities of service and engagement, families develop healthy connections and relationships that provide a sense of belonging. Solutions in the Community is also a partnership to improve distressed areas through the development of affordable rental housing, community revitalization and renewal.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies:**

**Consolidated Financial Statements**

The consolidated financial statements include the accounts of Solutions for Change, Inc., Solutions Family Center, L.P., Solutions Farms, LLC, Solutions Escondido Boulevard, LLC, SFC Weitzel, LLC, Solutions Chestnut, LLC, Solutions Vista Terrace, LLC, Solutions Parkview, LLC and Solutions East Vista Way, LP which are collectively referred to as the “Organization”. All material intercompany transactions have been eliminated in consolidation.

**Accounting Method**

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial Statement Presentation**

The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a 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 restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

**Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements**

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at December 31, 2017 and 2016.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Allowance for Doubtful Accounts**

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all grants and other receivables and pledges receivable were fully collectible; therefore, no allowance for doubtful grants and other receivables and pledges receivable was recorded at December 31, 2017 and 2016.

**Inventory**

Inventory consists of operating supplies related to the operations of Solutions Farms. Inventory is valued at the lower cost (first-in, first-out) or market. Inventory totaling \$3,525 and \$11,270 is included in the prepaid expenses and other assets at December 31, 2017 and 2016, respectively.

**Capitalization and Depreciation**

The Organization capitalizes all expenditures in excess of \$2,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. 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 stipulations regarding how long these donated assets must be maintained, the Organization 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. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Land improvements	20 years
Buildings and improvements	5 - 40 years
Machinery and equipment	5 - 7 years
Furniture and fixtures	7 - 10 years
Vehicles	5 years

Depreciation totaled \$563,512 and \$492,288 for the years ended December 31, 2017 and 2016, respectively.

Interest totaling \$7,011 and \$12,499 has been capitalized and is included in construction-in-progress for the years ended December 31, 2017 and 2016, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Impairment of Real Estate**

The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flows expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2017 and 2016.

**Investments in Limited Partnerships**

Solutions for Change is the sole member of limited liability companies that own a general partner interest in limited partnerships. These ownership interests range from .005% to .01%. and are accounted for on the equity method.

**Compensated Absences**

Accumulated unpaid vacation totaling \$36,063 and \$41,789 at December 31, 2017 and 2016, respectively, is accrued as earned and included in accrued expenses.

**Tenant Trust Funds**

Tenant trust funds represent amounts held on behalf of tenants. In accordance with the funding agreement, the Partnership holds 10% of the tenant rent in trust for tenants as a “set aside” to be used for rental of permanent housing when the tenant successfully completes the program. The Partnership also maintains savings accounts for program participants. Tenant trust funds consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Client savings funds	\$ 46,728	\$ 49,060
Set aside funds	607	1,217
	\$ 47,335	\$ 50,277

**Tenant Security Deposits**

Tenant security deposits are restricted to the extent of the tenant security deposit liability totaling \$41,460 and \$48,968 at December 31, 2017 and 2016, respectively.

**Debt Issuance Costs**

Debt issuance costs are incurred in order to obtain permanent financing. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized deferred financing costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and totaled \$1,521 and \$1,522 for the years ended December 31, 2017 and 2016, respectively.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Revenue Recognition**

Contributions are recognized when the donor makes a promise to give in writing to the Organization that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted net assets. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Grant revenue is recognized in the period in which the related work is performed in accordance with the terms of the grant. Grants receivable are recorded when revenue earned under a grant exceeds the cash received. Deferred revenue is recorded when cash received under a grant exceeds the revenue earned.

Rental income is recognized for apartment rents as it accrues. Advance receipts of rental income are deferred or classified as liabilities until earned.

**Unrestricted Net Assets**

The Organization's unrestricted net assets include depreciation on property and equipment, amortization of capitalized costs and accrued interest on loans for which the interest may only be paid from residual receipts. The amounts included in the unrestricted net assets are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Accumulated depreciation	\$ 4,240,336	\$ 3,692,316
Interest payable – residual receipts (net of capitalized portion)	1,946,817	2,051,015
Accumulated amortization of debt issuance costs	4,801	3,280
	<u>\$ 6,191,954</u>	<u>\$ 5,746,611</u>

**Donated Services and Materials**

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2017 and 2016, did not meet the requirements above, therefore no amounts were recognized in the consolidated financial statements.

The Organization received in-kind contributions totaling \$-0- and \$14,192 for the years ended December 31, 2017 and 2016, respectively, which have been recorded as in-kind contributions revenue and operating expenses in the consolidated statements of activities.



**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Allocated Expenses**

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized and estimates made by the Organization's management.

**Income Taxes**

Solutions for Change is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Solutions for Change believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. Solutions for Change is not a private foundation.

No provision or benefit for income taxes for the Limited Liability Companies and Limited Partnerships have been included in these consolidated financial statements since taxable income (loss) passes through to, and is reportable by, the Member/Partners individually.

Solutions for Change's Return of Organization Exempt from Income Tax, Partnership and LLC tax returns for the years ended December 31, 2017, 2016, 2015, and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

**Concentration of Credit Risk**

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 9, 2018, the date the consolidated financial statements were available to be issued, and concluded that there were no events or transactions that needed to be disclosed.

**Reclassification**

The Organization has reclassified certain prior year information to conform with the current year presentation.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 3 - Pledges Receivable:**

Pledges receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Pledges due in less than one year	\$ 8,000	\$ 25,000
Pledges due in one to five years	8,000	-
Total Pledges Receivable	\$ 16,000	\$ 25,000

**Note 4 - Related Party Receivables:**

Related party receivables consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
The note receivable, which originated on July 1, 2012 and was amended effective April 11, 2013, from SFC Vista Terrace, L.P., in the original amount of \$400,000 bears interest at 3% per annum. Principal and interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal and accrued interest are due July 1, 2067. Secured by a deed of trust. Accrued interest totaled \$53,490 and \$41,490 at December 31, 2017 and 2016, respectively, and is included in the receivable. In addition, \$73,081 was advanced which is noninterest bearing, payable from residual receipts.	\$ 526,571	\$ 514,571
The note receivable, which originated on October 12, 2017, from Solutions Escondido Boulevard 33. L.P., in the original amount of \$80,000. The note is noninterest bearing. Principal and interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal is due October 11, 2072. Secured by a deed of trust.	88,000	-
Developer fee receivable from SFC Vista Terrace, L.P. in the original amount of \$612,000. The developer fee is paid from Limited Partner capital installments with any unpaid amounts payable from available cash flow. Interest is accrued at 4% compounded annually. Accrued interest totaled \$12,506 and \$-0- at December 31, 2017 and 2016, respectively, and is included in the receivable.	128,019	115,513
Developer fee receivable from Solutions Escondido Boulevard 33, L.P. in the original amount of \$1,289,802. The developer fee will be paid from limited partner capital installments with any unpaid amounts payable from available cash flow.	1,201,802	-
Total Related Party Receivables	\$ 1,944,392	\$ 630,084

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 5 - Restricted Reserves:**

According to the partnership, loan and other regulatory agreements, the Partnership and Organization are required to maintain the following reserves:

**Operating Reserve**

The Partnership is required to fund an operating reserve up to the amount of \$89,200. There is no annual funding requirement for this reserve. The operating reserve balance totaled \$89,200 and \$89,200 at December 31, 2017 and 2016, respectively.

**Replacement Reserves**

The Partnership is required to fund a replacement reserve in the initial amount of \$20,000 in accordance with the regulatory agreement with the City of Vista. In accordance with the operating budget approved by the Department of Housing and Community Development, the Partnership was required to fund a replacement reserve of \$16,386 annually from March 24, 2005, through April 8, 2014. Beginning April 8, 2014, the Partnership is required to fund a replacement reserve of \$19,800 annually. The replacement reserve balance totaled \$99,150 and \$79,350 at December 31, 2017 and 2016, respectively.

The Organization is required to maintain replacement reserve accounts for each property obtained through Neighborhood Stabilization Program and HOME Investment Partnership Program funding. These amounts vary by property and must be funded annually beginning two months subsequent to the completion of rehabilitation. The replacement reserve balance totaled \$133,761 and \$110,594 at December 31, 2017 and 2016, respectively.

**Note 6 - Investment in Partnerships:**

Solutions for Change is the sole member of three limited liability companies. The limited liability companies own general partner interests in partnerships that they account for on the equity method, which are their entire assets and liabilities. The following are the balances in the limited liability companies' partnership capital accounts of the partnerships at December 31:

	<u>2017</u>	<u>2016</u>
<b><u>Investment in Partnerships</u></b>		
Parkview San Marcos II, L.P. (.001%)	\$ 82	\$ 87
Solutions Escondido Boulevard 33, L.P. (.0095%)	62	-
Total Investment in Partnerships	<u>\$ 144</u>	<u>\$ 87</u>
 <b><u>Share of Deficiency in Partnerships</u></b>		
SFC Vista Terrace, L.P. (.005%)	\$ (96)	\$ (84)
SFC Weitzel, L.P. (.01%)	(1,557)	-
Total Share of Deficiency in Partnerships	<u>\$ (1,653)</u>	<u>\$ (84)</u>

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 6 - Investment in Partnerships: (Continued)**

Solutions for Change provided development and management services to the partnerships for which it earned the following amounts for the years ended December 31:

	<u>2017</u>		
	<u>Management Fees</u>	<u>Other Services</u>	<u>Developer Fees</u>
SFC Vista Terrace, L.P.	\$ 23,040	\$ 71,964	\$ -
Parkview San Marcos II, L.P.	4,235	3,827	-
Solutions Escondido Boulevard 33, L.P.	-	-	1,289,802
	<u>\$ 27,275</u>	<u>\$ 75,791</u>	<u>\$ 1,289,802</u>
	<u>2016</u>		
	<u>Management Fees</u>	<u>Other Services</u>	<u>Developer Fees</u>
SFC Vista Terrace, L.P.	\$ 23,040	\$ 90,912	\$ -
Parkview San Marcos II, L.P.	12,296	-	53,681
	<u>\$ 35,336</u>	<u>\$ 90,912</u>	<u>\$ 53,681</u>

**Note 7 - Property and Equipment:**

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 5,040,017	\$ 4,633,853
Land improvements	356,395	356,395
Buildings and improvements	14,619,371	14,109,644
Construction-in-progress	57,207	838,712
Machinery and equipment	122,742	87,782
Furniture and fixtures	264,722	264,722
Vehicles	115,214	118,201
Subtotal	<u>20,575,668</u>	<u>20,409,309</u>
Less: Accumulated depreciation	<u>(4,240,336)</u>	<u>(3,692,316)</u>
Property and Equipment, Net	<u>\$ 16,335,332</u>	<u>\$ 16,716,993</u>

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable:**

Notes payable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
<b><u>Solutions for Change, Inc.</u></b>		
The promissory note, which was originated on March 29, 2006, held by the California Department of Housing and Community Development in the original amount of \$924,850. Of this amount, \$864,542 and \$47,584 were provided for the purchase of the East Vista Way property. The note bears interest at 3% per annum. Repayment of principal and accrued interest are deferred as long as the Organization operates the facility as an emergency shelter or transition housing in compliance the terms of the agreement. In the event that the compliance standards are met, the loan and accrued interest will be forgiven at the maturity date of March 29, 2016 for the first draw and August 25, 2016 for the second draw. Secured by a deed of trust. Accrued interest totaled \$-0- and \$295,823 at December 31, 2017 and 2016, respectively. The note and accrued interest were forgiven on February 12, 2017.	\$ -	\$ 912,126
The loan payable, which originated September 24, 2009, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$357,762. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of September 24, 2024. Secured by a deed of trust.	350,795	351,356
The loan payable, which originated November 16, 2009, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$79,156. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of November 16, 2024. Secured by a deed of trust.	78,914	78,914
The loan payable, which originated September 3, 2009, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$301,084. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of September 3, 2024. Secured by a deed of trust.	292,961	299,712

(Continued)

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

**Solutions for Change, Inc.**

	<u>2017</u>	<u>2016</u>
<p>The loan payable, which originated February 3, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$461,369. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of February 3, 2025. Secured by a deed of trust.</p>	\$ 456,518	\$ 456,518
<p>The loan payable, which originated February 26, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$132,704. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of February 26, 2025. Secured by a deed of trust.</p>	129,342	129,342
<p>The loan payable, which originated January 7, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$286,010. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of January 7, 2025. Secured by a deed of trust.</p>	277,736	278,724
<p>The loan payable, which originated August 4, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$332,847. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of August 4, 2025. Secured by a deed of trust.</p>	323,095	323,095
<p>The loan payable, which originated July 22, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$392,272. The loan is noninterest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of July 22, 2025. Secured by a deed of trust.</p>	374,031	375,310

(Continued)

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

**Solutions for Change, Inc. (Continued)**

	<u>2017</u>	<u>2016</u>
<p>The loan payable, which originated April 13, 2011, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$3,421,452. The loan bears interest at 3% per annum. Principal and accrued interest are payable from residual receipts (50%) from the Primrose property with the remaining residual receipts (50%) to be held in a segregated operating reserve account. Principal and accrued interest are due April 1, 2066. Secured by a deed of trust. Accrued interest totaled \$638,082 and \$535,829 at December 31, 2017 and 2016, respectively.</p>	\$ 3,408,032	\$ 3,408,032
<p>The loan payable, which originated April 1, 2011, is held by the Clearinghouse Community Development Financial Institution in the original amount of \$1,100,000. Principal and accrued interest are payable in monthly installments of \$6,419 including interest at 5.75% beginning March 1, 2012. Principal and accrued interest are due May 1, 2021. Secured by a deed of trust. Accrued interest totaled \$3,090 and \$1,824 at December 31, 2017 and 2016, respectively.</p>	934,142	964,678
<p>The loan payable, which originated on October 23, 2012, is held by Veritas Services LLC in the original amount of \$120,000. Payable in monthly interest only payments at 8.5%. Principal and accrued interest were due November 1, 2014, but payment has not been required. Secured by a deed of trust. Accrued interest totaled \$-0- and \$850 at December 31, 2017 and 2016, respectively.</p>	120,000	120,000
<p>The loan payable, which originated November 1, 2014, is held by Veritas Service in the original amount of \$185,000. Interest is accrued at 10.5% per annum, and payable in monthly installments of \$1,619. Principal and accrued interest are due October 1, 2019. Secured by a deed of trust. Accrued interest totaled \$-0- and \$1,619 at December 31, 2017 and 2016, respectively.</p>	185,000	185,000
<p>The loan payable, which originated September 10, 2014, is held by Silvergate Bank in the original amount of \$185,000. Principal and accrued interest are payable in monthly installments of \$966 including interest at 4.69%. Principal and accrued interest are due October 5, 2019. Secured by a deed of trust. Accrued interest totaled \$569 and \$372 at December 31, 2017 and 2016, respectively.</p>	174,659	178,266

(Continued)

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

**Solutions for Change, Inc. (Continued)**

The loan payable, which originated October 23, 2015, is held by Local Initiatives Support Corporation in the original amount of \$600,000. Interest is accrued at 6.0% per annum, and payable in monthly installments of \$3,000. Principal of \$150,000 is due December 1, 2016 and 2017, with the balance of the principal and accrued interest due November 1, 2018. Secured by a deed of trust. Accrued interest totaled \$42,000 and \$6,000 at December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
	\$ 600,000	\$ 600,000

The note payable, which originated January 29, 2015, is held by North County Ford in the original amount of \$25,822. Principal and accrued interest are payable in monthly installments of \$551 including interest at 9.99%. Secured by a vehicle. Accrued interest totaled \$-0- and \$25 at December 31, 2017 and 2016, respectively.

	-	18,449
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The loan payable, which was assumed January 30, 2017, originated March 23, 2010, is held by the City of Oceanside in the original amount of \$154,000. Interest is accrued at 3.0% per annum, payments deferred for 15 years and then amortized over 35 years. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven at January 30, 2032. Secured by a deed of trust. Accrued interest totaled \$4,620 and \$-0- at December 31, 2017 and 2016, respectively.

	154,000	-
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The loan payable, which was assumed January 30, 2017, originated May 11, 2010, is held by the City of Oceanside in the original amount of \$70,708. Interest is accrued at 3.0% per annum, payments deferred for 15 years. Thereafter, payment of principal and interest is due and payable in full on June 1, 2050. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven. Secured by a deed of trust. Accrued interest totaled \$1,944 and \$-0- at December 31, 2017 and 2016, respectively.

	70,708	-
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The loan payable, which was assumed January 30, 2017, originated March 23, 2010, is held by the City of Oceanside in the original amount of \$309,000. Interest is accrued at 3.0% per annum, payments deferred for 15 years and then amortized over 35 years. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven at January 30, 2032. Secured by a deed of trust. Accrued interest totaled \$8,498 and \$-0- at December 31, 2017 and 2016, respectively.

	309,000	-
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(Continued)



**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

**Solutions for Change, Inc. (Continued)**

The loan payable, which was assumed January 30, 2017, originated May 11, 2010, is held by the City of Oceanside in the original amount of \$50,684. Interest is accrued at 3.0% per annum, payments deferred for 15 years. Thereafter, payment of principal and interest is due and payable in full on June 1, 2050. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven. Secured by a deed of trust. Accrued interest totaled \$1,394 and \$-0- at December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
	\$ 50,684	\$ -

The loan payable, which was assumed January 30, 2017, originated October 21, 2009, is held by the City of Oceanside in the original amount of \$203,571. Interest is accrued at 3.0% per annum, payments deferred for 15 years and then amortized over 35 years. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven at January 30, 2032. Secured by a deed of trust. Accrued interest totaled \$5,598 and \$-0- at December 31, 2017 and 2016, respectively.

	203,571	-
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The loan payable, which was assumed January 30, 2017, originated January 14, 2010, is held by the City of Oceanside in the original amount of \$58,650. Interest is accrued at 3.0% per annum, payments deferred for 15 years. Thereafter, payment of principal and interest is due and payable in full on February 1, 2050. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven. Secured by a deed of trust. Accrued interest totaled \$1,613 and \$-0- at December 31, 2017 and 2016, respectively.

	58,650	-
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The note payable, which originated on May 15, 2017, is held by Kingdom Development, Inc. in the original amount of \$75,000. Interest is accrued at 7.0% per annum. Principal and interest are due January 15, 2019. Unsecured. Accrued interest totaled \$1,685 and \$-0- at December 31, 2017 and 2016, respectively.

	75,000	-
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The note payable, which originated on October 31, 2017, is held by Kingdom Development, Inc. in the original amount of \$144,423. Interest is accrued at 7.0% per annum. Principal and interest are due March 1, 2018. Secured by a deed of trust. Accrued interest totaled \$2,625 and \$-0- at December 31, 2017 and 2016, respectively.

	144,423	-
Total Solutions for Change, Inc.	8,771,261	8,679,522
Less: Unamortized debt issuance costs	(1,154)	(1,813)
Total Solutions for Change, Net	<u>8,770,107</u>	<u>8,677,709</u>

(Continued)

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

**Solutions Family Center, L.P.**

The mortgage note, which was originated on March 8, 2005, is held by the California Department of Housing and Community Development in the original amount of \$2,044,512. The note bears interest at 3% per annum. Payments in the amount of forty-two hundredths of one percent (.42%) per annum on the unpaid principal balance of the loan are payable beginning December 31, 2005 and continuing annually thereafter up to the twenty-ninth anniversary of the interest payment date. Commencing on the thirtieth (30th) anniversary of the interest payment date and continuing annually thereafter, payments shall equal the lesser of (1) the full amount of interest accruing on the unpaid principal balance during the year, or (2) the amount determined by the lender as to be necessary to cover the costs of continued monitoring of the compliance requirements under the loan. In addition, the note may require additional payments from net cash flow under the terms of the regulatory agreement. The note is due March 2060. Secured by a deed of trust. Accrued interest totaled \$674,157 and \$629,996 at December 31, 2017 and 2016, respectively, and the required interest payments totaled \$8,587 for each of the years ended December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
	\$ 2,044,512	\$ 2,044,512

The mortgage note, which was originated on July 30, 2003, is held by the San Diego County Department of Housing and Community Development in the original amount of \$957,000. The note bears interest at 3% per annum. Principal and accrued interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal and accrued interest are due July 2058. Secured by a deed of trust. Accrued interest totaled \$403,501 and \$374,791 at December 31, 2017 and 2016, respectively.

	957,000	957,000
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The mortgage note, which was originated on July 28, 2003, is held by the City of Vista in the original amount of \$550,000. The note bears interest at 3% per annum. Principal and accrued interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal and accrued interest are due July 2058. Secured by a deed of trust. Accrued interest totaled \$231,077 and \$214,576 at December 31, 2017 and 2016, respectively.

	550,000	550,000
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The mortgage note, which was originated on July 31, 2003, is held by the City of Escondido in the original amount of \$375,100. The note is non-interest bearing. Principal is due July 2058. Secured by a deed of trust.

	375,100	375,100
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(Continued)

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

**Solutions Family Center, L.P. (Continued)**

The mortgage note, which was originated on July 24, 2003, is held by the Bank of America for the Affordable Housing Program (AHP) in the original amount of \$176,700. The note is non-interest bearing provided that all compliance requirements of the loan are met. Principal is due July 2021. Secured by a deed of trust.

	<u>2017</u>	<u>2016</u>
	\$ 176,700	\$ 176,700
Total Solutions Family Center, L.P.	<u>4,103,312</u>	<u>4,103,312</u>

**Solutions Farms, LLC**

The loan payable, which was originated on June 30, 2015, is held by Alliance Healthcare Foundation in the original amount of \$500,000. The loan is noninterest bearing until July 1, 2018 after which interest will accrue at 4.0% per annum. Payments of monthly principal and interest of \$4,378 are due beginning August 1, 2018. Principal and accrued interest are due August 1, 2030. Secured by a deed of trust.

	500,000	500,000
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The loan payable, which was originated on December 2, 2016, is held by Alliance Healthcare Foundation in the original amount of \$255,572. The loan is noninterest bearing until July 1, 2018 after which interest accrues at 4.0% per annum. Payments of monthly principal and interest of \$2,238 are due beginning August 1, 2018. Principal and accrued interest are due August 1, 2030. Secured by the assets of Solutions Farms.

	<u>255,572</u>	<u>255,572</u>
Total Solutions Farms, LLC	<u>755,572</u>	<u>755,572</u>

**SFC Weitzel, LLC**

The predevelopment loan payable, which originated June 27, 2012, is held the City of Oceanside in the original amount of \$326,000 (\$318,315 advanced as of December 31, 2016). The loan is noninterest bearing until June 3, 2015, after which interest will accrue at 3.0% per annum. The loan and accrued interest are due upon the earlier of the development closing in December 31, 2018. The loan is unsecured. Accrued interest totaled \$-0- and \$8,960 at December 31, 2017 and 2016, respectively. This loan was assumed by SFC Weitzel, L.P. in April 2017.

	-	318,315
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(Continued)

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

**SFC Weitzel, LLC (Continued)**

The loan payable, which originated September 20, 2016, is held the City of Oceanside in the original amount of \$900,000 (\$486,727 advanced as of December 31, 2016). The loan bears interest at 3.0% per annum. Principal and accrued interest are due in 55 years. Secured by a deed of trust. Accrued interest totaled \$-0- and \$2,598 at December 31, 2017 and 2016, respectively. this loan was assumed by SFC Weitzel, L.P. in April 2017.

	<u>2017</u>	<u>2016</u>
	-	486,727
\$	-	\$ 486,727

The loan payable, which originated October 16, 2016, is held by Kingdom Development, Inc. in the original amount of \$60,000. The loan bears interest at 7.0% per annum. Principal and accrued interest are due on the earlier of (a) May 1, 2017 and (b) construction loan closing. The loan is unsecured. Accrued interest totaled \$-0- and \$941 at December 31, 2017 and 2016, respectively. this loan was paid off in April 2017.

Total SFC Weitzel, LLC

	<u>-</u>	<u>60,000</u>
	<u>-</u>	<u>865,042</u>

**Solutions Chestnut, LLC**

The loan payable, which originated December 24, 2014, is held by the City of Carlsbad in the original amount of \$2,646,000. The loan is noninterest bearing for the first five years, after which interest will accrue at 3.0% per annum. Beginning on January 1, 2020 and annually thereafter, payments equal to 70% of residual receipts. Principal and accrued interest are due on December 24, 2074. Secured by a deed of trust.

Total Solutions Chestnut, LLC  
Less: Unamortized debt issuance costs  
Total Solutions Chestnut, LLC, Net  
Total Notes Payable, Net  
Less: Current Portion  
Notes Payable, Long-Term, Net

	<u>2,646,000</u>	<u>2,646,000</u>
	<u>2,646,000</u>	<u>2,646,000</u>
	<u>(1,653)</u>	<u>(2,515)</u>
	<u>2,644,347</u>	<u>2,643,485</u>
	<u>16,273,338</u>	<u>17,045,120</u>
	<u>(916,868)</u>	<u>(810,770)</u>
\$	<u>15,356,470</u>	<u>\$ 16,234,350</u>

Debt issuance costs total \$7,608, less accumulated amortization of \$4,801 and \$3,280 at December 31, 2017 and 2016, respectively.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 8 - Notes Payable: (Continued)**

The future principal payments on the notes payable are as follows:

Years Ended December 31	Solutions for Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions Chestnut, LLC	Total
2018	\$ 896,248	\$ -	\$ 20,620	\$ -	\$ 916,868
2019	456,801	-	50,912	-	507,713
2020	27,129	-	52,986	-	80,115
2021	853,044	176,700	55,144	-	1,084,888
2022	-	-	57,391	-	57,391
Thereafter	6,538,039	3,926,612	518,519	2,646,000	13,629,170
Total	<u>\$ 8,771,261</u>	<u>\$ 4,103,312</u>	<u>\$ 755,572</u>	<u>\$ 2,646,000</u>	<u>\$ 16,276,145</u>

**Note 9 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Solutions for Change - Program services	\$ 87,297	\$ 147,240
Solutions Farms - Operations	-	40,508
Building improvements for Vista Terrace	-	23,175
Pledges receivable - Operations	16,000	-
	<u>\$ 103,297</u>	<u>\$ 210,923</u>

Net assets in the amount of \$199,506 and \$450,324 were released from donor restrictions by incurring expenses and events satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2017 and 2016, respectively.

**Note 10 - Contingencies:**

**Loan Agreements**

The Partnership entered into loan agreements with several agencies for the purpose of building and maintaining the tenant housing facilities. These agreements specify requirements for the building maintenance. The loans will be forgiven at the end of the loan term if all requirements have been met. In the event that the Partnership does not comply with the agreement, sells the property, or desists using the facility for its original intended purposes, these notes may be called.

**Grant Agreement**

Chestnut received a grant totaling \$454,000 from the City of Carlsbad on December 24, 2014. Funds were used for the acquisition the property located at 945 Chestnut Avenue. The grant requires that seven (7) low income restricted units for affordable housing purposes for homeless families be maintained for no less than fifty-five (55) years from the date of acquisition. The grant funds shall be reimbursed to the City of Carlsbad in full upon (1) the date the property is first sold or transferred without prior written approval of the City Council, or, (2) upon failure of Chestnut to operate affordable housing for low income households on the property as stated above.

**SOLUTIONS FOR CHANGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 11 - Commitments:**

**403(b) Pension Plan**

The Organization sponsors a 403(b) pension plan covering substantially all of its employees. Each employee's total contribution may not exceed the maximum allowable under current regulations. The Organization matches the first 2% of eligible compensation contributed by the employee. The Organization also pays all administrative costs of this plan. All beneficiaries of the 403(b) plan are responsible for their own plan investment decisions. Matching contributions under this plan totaled \$4,348 and \$5,262 for the years ended December 31, 2017 and 2016, respectively.

**Leases**

**Office Space**

In 2004, the Organization began occupying approximately 7,200 square feet of donated office space at the Center's facility located at 702 West California Avenue, Vista, California. Estimated fair market value of the donated facilities in 2017 and 2016 was \$129,600. Due to the elimination of intercompany transactions during the consolidation process, the rent accrual and expense are not reflected in the consolidated financial statements.

**Vehicle**

The Organization leases a vehicle under a three year lease agreement beginning April 2016, with a monthly payment of \$331. Rent expense totaled \$3,962 and \$2,979 for the years ended December 31, 2017 and 2016, respectively.

The Organization entered into a lease for a vehicle under a three year lease agreement beginning December 31, 2017, with a monthly payment of \$468. Rent expense totaled \$-0- for the years ended December 31, 2017 and 2016, respectively.

The following is a schedule of future minimum payments related to the leases:

<u>Years Ended</u> <u>December 31</u>	
2018	\$ 9,577
2019	6,606
2020	<u>5,580</u>
Total	<u>\$ 21,763</u>

**Contracts**

The Organization has an employment contract with the President, which provides a base salary plus an annual bonus based on performance and not to exceed 20% of the current salary. The contract is renewable annually.

The Organization has an employment contract with the Vice President, which provides a base salary plus an annual bonus based on performance and not to exceed 15% of the current salary through August 2018.