

# FRIENDS OF GUEST HOUSE, INC.

## FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

KOSITZKA, WICKS & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS



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*Certified Public Accountants*

### **Independent Auditor's Report**

The Board of Directors  
**Friends of Guest House, Inc.**

We have audited the accompanying financial statements of **Friends of Guest House, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Friends of Guest House, Inc.** as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Kositzka, Wicks and Company*

Alexandria, Virginia  
December 20, 2016

# Friends of Guest House, Inc.

## Statements of Financial Position June 30,

2016

2015

### Assets

#### Current assets

Cash and cash equivalents	\$ 417,996	\$ 325,958
Grants receivable	40,000	30,000
Program service fees receivable	92,820	39,724
Residents' deposits	10,423	4,087
Security deposits	2,200	1,000
Prepaid expenses	10,736	5,748
	<u>574,175</u>	<u>406,517</u>

#### Investments

71,263 59,625

#### Property and equipment, net

96,310 79,691

### Total assets

\$ 741,748 \$ 545,833

### Liabilities and net assets

#### Current liabilities

Accounts payable and accrued expenses	\$ 46,415	\$ 41,046
Residents' deposits	9,636	3,706
	<u>56,051</u>	<u>44,752</u>

#### Long-term liabilities

Note payable - City of Alexandria	55,000	55,000
Note payable - Old Presbyterian Meeting House	25,000	25,000
Note payable - City of Alexandria	99,400	99,400
	<u>179,400</u>	<u>179,400</u>

#### Net assets

Unrestricted	455,880	281,181
Temporarily restricted	40,417	30,500
Permanently restricted	10,000	10,000
	<u>506,297</u>	<u>321,681</u>

### Total liabilities and net assets

\$ 741,748 \$ 545,833

The accompanying independent auditor's report and notes are an integral part of the financial statements.

# Friends of Guest House, Inc.

## Statement of Activities for the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b>Revenue</b>				
<b>Friends of Guest House</b>				
Contributions and grants	\$ 432,882	\$ 62,417	\$ -	\$ 495,299
Government grants	90,000	-	-	90,000
Government reimbursements	499,954	-	-	499,954
In-kind contributions	5,000	-	-	5,000
Investment income	5,384	-	-	5,384
Amounts released from restrictions	52,500	(52,500)	-	-
	<u>1,085,720</u>	<u>9,917</u>	<u>-</u>	<u>1,095,637</u>
<b>Expenses</b>				
Program expenses	798,934	-	-	798,934
Management and general	42,626	-	-	42,626
Fundraising	69,461	-	-	69,461
Total expenses	<u>911,021</u>	<u>-</u>	<u>-</u>	<u>911,021</u>
<b>Change in net assets</b>	174,699	9,917	-	184,616
<b>Net assets, beginning of year</b>	<u>281,181</u>	<u>30,500</u>	<u>10,000</u>	<u>321,681</u>
<b>Net assets, end of year</b>	<u>\$ 455,880</u>	<u>\$ 40,417</u>	<u>\$ 10,000</u>	<u>\$ 506,297</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

# Friends of Guest House, Inc.

## Statement of Activities for the year ended June 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenue</b>				
<b>Friends of Guest House</b>				
Contributions and grants	\$ 371,897	\$ 30,500	\$ -	\$ 402,397
Government grants	94,269	-	-	94,269
Government reimbursements	261,576	-	-	261,576
In-kind contributions	5,000	-	-	5,000
Investment loss	(6,801)	-	-	(6,801)
Amounts released from restrictions	45,000	(45,000)	-	-
	<u>770,941</u>	<u>(14,500)</u>	<u>-</u>	<u>756,441</u>
<b>Together We Bake</b>				
Contributions	79,120	-	-	79,120
Grants	30,180	-	-	30,180
Sales	44,618	-	-	44,618
Less cost of sales	(14,167)	-	-	(14,167)
	<u>139,751</u>	<u>-</u>	<u>-</u>	<u>139,751</u>
Total revenue	<u>910,692</u>	<u>(14,500)</u>	<u>-</u>	<u>896,192</u>
<b>Expenses</b>				
Programs				
Friends of Guest House	668,347	-	-	668,347
Together We Bake	143,926	-	-	143,926
	<u>812,273</u>	<u>-</u>	<u>-</u>	<u>812,273</u>
Management and general	45,185	-	-	45,185
Fundraising	87,576	-	-	87,576
Total expenses	<u>945,034</u>	<u>-</u>	<u>-</u>	<u>945,034</u>
<b>Change in net assets</b>	(34,342)	(14,500)	-	(48,842)
<b>Net assets, beginning of year</b>	<u>315,523</u>	<u>45,000</u>	<u>10,000</u>	<u>370,523</u>
<b>Net assets, end of year</b>	<u>\$ 281,181</u>	<u>\$ 30,500</u>	<u>\$ 10,000</u>	<u>\$ 321,681</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

# Friends of Guest House, Inc.

## Statement of Functional Expenses for the year ended June 30, 2016

	Program expenses	Supporting services		Total
		Management and general	Fundraising	
<b>Personnel expenses</b>				
Salary	\$ 544,718	\$ 17,572	\$ 23,429	\$ 585,719
Payroll taxes	42,335	1,366	1,821	45,522
Employee benefits	14,317	1,665	666	16,648
	<u>601,370</u>	<u>20,603</u>	<u>25,916</u>	<u>647,889</u>
<b>Other expenses</b>				
Depreciation	13,972	300	-	14,272
Dues and subscriptions	364	-	-	364
Fundraising	-	-	18,192	18,192
Grant to Together We Bake	24,893	-	-	24,893
Insurance	21,131	654	-	21,785
Occupancy	36,728	-	-	36,728
Professional fees	-	11,550	25,353	36,903
Program expenses	59,248	-	-	59,248
Repairs and maintenance	7,325	-	-	7,325
Supplies and office expense	7,811	7,811	-	15,622
Tax and licenses	752	-	-	752
Telephone and internet	8,439	938	-	9,377
Training and conferences	1,539	-	-	1,539
Travel and auto expense	6,400	-	-	6,400
Utilities	8,962	770	-	9,732
	<u>197,564</u>	<u>22,023</u>	<u>43,545</u>	<u>263,132</u>
<b>Total expenses</b>	<u>\$ 798,934</u>	<u>\$ 42,626</u>	<u>\$ 69,461</u>	<u>\$ 911,021</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

## Friends of Guest House, Inc.

### Statement of Functional Expenses for the year ended June 30, 2015

	Programs			Supporting services		
	Friends of Guest House	Together We Bake	Total programs	Management and general	Fundraising	Total
<b>Personnel expenses</b>						
Salary	\$ 470,386	\$ 94,796	\$ 565,182	\$ 15,105	\$ 18,000	\$ 598,287
Payroll taxes	37,731	7,011	44,742	1,210	1,377	47,329
Employee benefits	11,518	-	11,518	1,440	1,440	14,398
	<u>519,635</u>	<u>101,807</u>	<u>621,442</u>	<u>17,755</u>	<u>20,817</u>	<u>660,014</u>
<b>Other expenses</b>						
Advertising	-	770	770	-	-	770
Depreciation	9,680	-	9,680	300	-	9,980
Dues and subscriptions	725	-	725	-	-	725
Fundraising	-	511	511	-	10,931	11,442
Insurance	23,245	-	23,245	150	-	23,395
Occupancy	30,989	-	30,989	-	-	30,989
Professional fees	-	4,936	4,936	18,500	55,828	79,264
Program expenses	34,994	4,718	39,712	-	-	39,712
Repairs and maintenance	10,757	-	10,757	-	-	10,757
Supplies and office expense	6,525	27,481	34,006	6,526	-	40,532
Tax and licenses	529	2,441	2,970	-	-	2,970
Telephone and internet	10,659	-	10,659	1,184	-	11,843
Training and conferences	5,132	437	5,569	-	-	5,569
Travel and auto expense	4,774	825	5,599	-	-	5,599
Utilities	10,703	-	10,703	770.00	-	11,473
	<u>148,712</u>	<u>42,119</u>	<u>190,831</u>	<u>27,430</u>	<u>66,759</u>	<u>285,020</u>
Total expenses	<u>\$ 668,347</u>	<u>\$ 143,926</u>	<u>\$ 812,273</u>	<u>\$ 45,185</u>	<u>\$ 87,576</u>	<u>\$ 945,034</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.



## Friends of Guest House, Inc.

### Statements of Cash Flows for the years ended June 30,

2016

2015

#### Cash flows from operating activities:

Change in net assets	\$ 184,616	\$ (48,842)
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities-		
Depreciation	14,272	9,980
Unrealized and realized (gain) loss on investments	(2,003)	10,049
Donated stock received	(7,692)	(13,554)
(Increase) decrease in operating assets		
Grants receivable	(10,000)	4,499
Program service fees receivable	(53,096)	3,585
Residents' deposits	(6,336)	7,517
Security deposits	(1,200)	-
Prepaid expenses	(4,988)	(3,188)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	5,369	11,872
Residents' deposits	5,930	(7,805)
Net cash (used in) provided by operating activities	<u>124,872</u>	<u>(25,887)</u>

#### Cash flows from investing activities:

Purchase of investments and reinvestments	(1,943)	(2,629)
Purchase of property and equipment	(30,891)	-
Net cash used in financing activities	<u>(32,834)</u>	<u>(2,629)</u>

Net change in cash and cash equivalents	92,038	(28,516)
Cash and cash equivalents, beginning of year	325,958	354,474
Cash and cash equivalents, end of year	<u>\$ 417,996</u>	<u>\$ 325,958</u>

#### Supplemental disclosure of cash flow information:

Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 1. Organization

Friends of Guest House, Inc. (a nonprofit organization) was founded in 1975 to provide quality rehabilitative services to female offenders, either as an alternative to incarceration or as a vehicle to assist women returning to the community from jails or prisons. As of June 30, 2016, the Organization has a total of 16 women enrolled in the program at one time. Total women served in the residential program for the year was 65, although approximately 900 women applied to be part of the program throughout the year.

Friends of Guest House, Inc. was the fiscal sponsor for a program called Together We Bake, which provides comprehensive workforce training and personal development for the women at Friends of Guest House. As of July 1, 2015, Together We Bake incorporated as an independent nonprofit organization and is no longer a program of Friends of Guest House. The transfer of Together We Bake's assets are included as program expenses on the accompanying statement of functional expenses for the year ended June 30, 2016.

### 2. Summary of significant accounting policies

#### Basis of accounting

The financial statements of Friends of Guest House, Inc. (the Organization or Guest House) are prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

#### Financial statement presentation

Guest House is required to report 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. Permanently restricted net assets generally result from assets donated for a specific purpose with a donor stipulation that the assets be preserved and not be sold, or from assets donated with donor stipulations that they be invested to provide a permanent source of income, such as endowment funds. As of June 30, 2016 and 2015, Guest House had \$10,000 in permanently restricted net assets. Accumulated earnings from the fund will be used for current operations. See additional disclosures in Note 9.

#### Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See independent auditor's report.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 2. Summary of significant accounting policies (continued)

#### Cash and cash equivalents

For the purposes of the statements of cash flows, Guest House considers all cash and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Guest House maintains cash in bank accounts which may, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. FDIC insurance is \$250,000 per depositor, per insured bank.

#### Grants receivable

Grants receivable consists of unconditional promises to give that are expected to be collected within one year and are recorded at net realizable value. Grants receivable at June 30, 2016 and 2015 consists of grants from various funders. No allowance for uncollectible accounts has been provided based upon management's review of the grants receivable and historical collection experience.

#### Program service fees receivable

Program service fees receivable consists of reimbursements that are expected to be collected within one year and are recorded at net realizable value. Program services fees receivable at June 30, 2016 and 2015 consists of reimbursements from the Department of Corrections. No allowance for uncollectible accounts has been provided based upon management's review of the receivable and historical collection experience.

#### Residents' deposits

Residents' deposits represent cash earnings by residents during their stay at Guest House. These funds are held in a separate checking account on the residents' behalf and are returned when a resident leaves the Guest House. These funds are shown as an asset and liability on the statements of financial position and are not included as cash and cash equivalents for the purposes of the statements of cash flows.

#### Investments

Investments in equity securities, with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect amounts reported in future statements of activities. Management believes that Guest House's investments do not represent significant concentrations of market risk in as much as Guest House's investment portfolio is adequately diversified among issuers.

See independent auditor's report.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 2. Summary of significant accounting policies (continued)

#### Property and equipment

It is the Organization's policy to capitalize property and equipment with a cost of over \$500. Depreciation of property and equipment is computed on the straight-line basis over the estimated useful life of the asset. When assets are sold or disposed of, the cost and related allowance for depreciation are removed from the accounts, and any gain or loss on disposition is recognized in the period in which the disposition occurred.

Various items of office furniture, equipment and small office items acquired in prior years through donation or purchase, and whose individual values are considered nominal, have not been recorded on the books of the Organization.

#### Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Compensated absences

Full time employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation at June 30, 2016 and 2015 was \$14,686 and \$8,102, respectively. It is included in accounts payable and accrued expenses on the statements of financial position.

#### Income taxes

The Organization is exempt from federal income tax as a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation. The Organization did not have a liability for unrelated business income for the years ended June 30, 2016 and 2015.

The Organization is subject to taxation in the U.S. and a small number of state and local jurisdictions. The material jurisdictions subject to potential examination by taxing authorities are the U.S. and Virginia. The Board does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the Organization's results of operations. Tax years that remain subject to examination by the IRS are fiscal years after 2013.

#### Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, grant receivable, program service fees receivable, residents' deposits, security deposits, and prepaid expenses. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses, and residents' deposits. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

See independent auditor's report.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 2. Summary of significant accounting policies (continued)

#### Reclassifications

Certain amounts reported in prior years are reclassified to conform to the current year presentation.

### 3. Property and equipment

A summary of information relative to property and depreciation for 2016 and 2015 was as follows:

As of June 30, 2016:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Depreciation expense</u>	<u>Useful life</u>
Building and improvements	\$ 239,256	\$ 203,561	\$ 8,544	15-39 years
Furniture and equipment	38,201	13,538	5,461	5-7 years
Computer equipment	12,406	9,734	267	5 years
Land	33,280	-	-	
	<u>\$ 323,143</u>	<u>\$ 226,833</u>	<u>\$ 14,272</u>	

As of June 30, 2015:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Depreciation expense</u>	<u>Useful life</u>
Building and improvements	\$ 239,256	\$ 195,018	\$ 8,929	15-39 years
Furniture and equipment	9,701	8,077	735	5-7 years
Computer equipment	10,016	9,467	316	5 years
Land	33,280	-	-	
	<u>\$ 292,253</u>	<u>\$ 212,562</u>	<u>\$ 9,980</u>	

See independent auditor's report.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 4. Investment income (loss)

Investment income (loss) at June 30, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Realized and unrealized gain (loss)	\$ 2,003	\$ (10,049)
Fees and taxes	(30)	(79)
Interest and dividend income	3,411	3,327
	<u>\$ 5,384</u>	<u>\$ (6,801)</u>

### 5. Fair value measurements

The Organization classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Investments for the year ended June 30, 2016 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	\$ 38,357	\$ -	\$ -	\$ 38,357
Mutual funds				
Open ended	4	-	-	4
Close ended	5,400	-	-	5,400
Stocks, options and ETFs	27,502	-	-	27,502
Total assets reported at fair value	<u>\$ 71,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,263</u>

Investments for the year ended June 30, 2015 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	\$ 18,726	\$ -	\$ -	\$ 18,726
Mutual funds				
Open ended	4	-	-	4
Close ended	5,540	-	-	5,540
Stocks, options and ETFs	35,355	-	-	35,355
Total assets reported at fair value	<u>\$ 59,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,625</u>

See independent auditor's report.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 6. Notes payable

The City of Alexandria provided \$55,000 in funds for which a first deed of trust was placed on the property on February 1, 1982. No interest or principal payments are required on the note until the Organization should sell, convey, transfer or otherwise dispose of the property.

The Trustees of the Old Presbyterian Meeting House provided \$25,000 in funds for which a second deed of trust was placed on the property on September 13, 1982. No interest or principal payments are required on the note until the Organization should sell, convey, transfer or otherwise dispose of the property.

The City of Alexandria provided \$140,400 in funds for which a third deed of trust was placed on the property in April of 2004. The total loan was allocated as \$41,000 in grant funds and \$99,400 as a 99-year deferred loan payment. The grant funds were restricted in purpose and allocated as \$23,000 for materials used in renovations and \$18,000 for a new security system. Interest and principal payments are not required on the note until the Organization should sell, convey, transfer or otherwise dispose of the property.

### 7. In-kind contributions

For the years ended June 30, 2016 and 2015, the Organization received donated professional accounting services valued at \$5,000. These in-kind contributions are recorded as revenues and expenses in the accompanying statements of activities.

### 8. Concentrations

The Organization received \$589,954 and \$355,845 in grants and reimbursements from the government during the years ended June 30, 2016 and 2015, respectively. These receipts represented 54% and 47% of the total revenue for the years ended June 30, 2016 and 2015, respectively.

### 9. Endowment funds

The Organization's endowment consists of one fund established for the purpose of funding operations and specified programs. The endowment fund includes donor-restricted funds only. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

See independent auditor's report.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 9. Endowment funds (continued)

#### Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

#### Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under the policy, as approved by the Board of Directors, the endowment assets primary investment objective is to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. The secondary investment objective is to achieve returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power of endowment assets. Actual returns in any given year may vary from this amount.

#### Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

#### Spending policy and how the investment objectives relate to spending policy

Income, generated by assets held in endowment funds, is appropriated for distribution and spent from unrestricted net assets annually. The endowment principal is maintained at amounts originally contributed.

See independent auditor's report.



# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

### 9. Endowment funds (continued)

#### Endowment net asset composition by type of fund

The endowment net assets consisted of the following as of June 30:

	2016			Total
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Donor-restricted endowment funds				
Capacity Building fund	\$ -	\$ -	\$ 10,000	\$ 10,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	2015			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Capacity Building fund	\$ -	\$ -	\$ 10,000	\$ 10,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### Changes in endowment net assets

The endowment net activity consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b>Endowment funds as of June 30, 2014</b>	\$ -	\$ -	\$ 10,000	\$ 10,000
Investment income	-	454	-	454
Amounts appropriated for expenditure	-	(454)	-	(454)
<b>Endowment funds as of June 30, 2015</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
Investment income	\$ -	\$ 432	\$ -	\$ 432
Amounts appropriated for expenditure	-	(432)	-	(432)
<b>Endowment funds as of June 30, 2016</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

#### Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016 and 2015.

See independent auditor's report.

# Friends of Guest House, Inc.

## Notes to Financial Statements June 30, 2016 and 2015

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### 10. Employee benefits

The Organization maintains a SIMPLE IRA savings program for full-time employees. The program allows the Organization to match 100 % of employees' contributions, up to 3% of their salary. For the years ended June 30, 2016 and 2015, \$2,507 and \$2,292, respectively, was contributed to the plan.

### 11. Temporarily restricted net assets

Net assets are temporarily restricted for future periods. Temporarily restricted net assets as of June 30, 2016 and 2015 were as follows:

	<u>2015</u>	<u>Additions</u>	<u>Satisfactions</u>	<u>2016</u>
Restricted for future purposes	\$ 500	\$ 22,000	\$ (22,500)	\$ -
Restricted to future periods	30,000	40,417	(30,000)	40,417
	<u>\$ 30,500</u>	<u>\$ 62,417</u>	<u>\$ (52,500)</u>	<u>\$ 40,417</u>
	<u>2014</u>	<u>Additions</u>	<u>Satisfactions</u>	<u>2015</u>
Restricted for future purposes	\$ -	\$ 500	\$ -	\$ 500
Restricted to future periods	45,000	30,000	(45,000)	30,000
	<u>\$ 45,000</u>	<u>\$ 30,500</u>	<u>\$ (45,000)</u>	<u>\$ 30,500</u>

### 12. Lease commitments

Guest House leases residential apartments for clients during their enrollment in the program. The lease terms are eleven months. Rent payments range from \$1,290 to \$1,525 per month. Total rent expense for the years ended June 30, 2016 and 2015 was \$36,728 and \$30,989, respectively.

### 13. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2016 through December 20, 2016, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.

See independent auditor's report.