

FRIENDS OF GUEST HOUSE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017



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, 2018 and 2017, 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, 2018 and 2017, 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
April 17, 2019

Friends of Guest House, Inc.

Statements of Financial Position June 30,

2018

2017

Assets

Current assets

Cash and cash equivalents	\$ 358,025	\$ 420,814
Investments, current portion	88,602	64,685
Program service fees receivable	141,550	131,505
Residents' deposits	9,109	5,789
Prepaid expenses	16,823	8,818
	<u>614,109</u>	<u>631,611</u>

Property and equipment, net

89,348 90,712

Intangible asset

Website, net of accumulated amortization	35,556	-
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Other assets

Certificates of deposit - restricted to building project	354,066	152,354
Investments, long term	10,000	10,000
Security deposit	8,850	5,950
Total assets	<u>\$ 1,111,929</u>	<u>\$ 890,627</u>

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 62,862	\$ 74,898
Residents' deposits	9,032	7,040
	<u>71,894</u>	<u>81,938</u>

Long-term liabilities

Notes payable - City of Alexandria	154,400	154,400
Note payable - Old Presbyterian Meeting House	25,000	25,000
	<u>179,400</u>	<u>179,400</u>

Net assets

Unrestricted	576,075	457,891
Temporarily restricted	230,246	117,084
Permanently restricted	10,000	10,000
Total net assets	<u>816,321</u>	<u>584,975</u>
Total liabilities and net assets	<u>\$ 1,067,615</u>	<u>\$ 846,313</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, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue				
Contributions	\$ 207,782	\$ -	\$ -	\$ 207,782
Government grants	144,521	-	-	144,521
Government reimbursements	846,539	-	-	846,539
Grants	87,702	230,246	-	317,948
Fundraising, net of direct benefit costs of \$14,000	80,833	-	-	80,833
Rental income	37,606	-	-	37,606
In-kind donations	45,300	-	-	45,300
Investment income, net	7,890	-	-	7,890
Net assets released from restrictions	117,084	(117,084)	-	-
Total support and revenue	<u>1,575,257</u>	<u>113,162</u>	<u>-</u>	<u>1,688,419</u>
Expenses				
Program expenses	1,110,990	-	-	1,110,990
Management and general	238,712	-	-	238,712
Fundraising	107,371	-	-	107,371
Total expenses	<u>1,457,073</u>	<u>-</u>	<u>-</u>	<u>1,457,073</u>
Change in net assets	118,184	113,162	-	231,346
Net assets, beginning of year	<u>457,891</u>	<u>117,084</u>	<u>10,000</u>	<u>584,975</u>
Net assets, end of year	<u>\$ 576,075</u>	<u>\$ 230,246</u>	<u>\$ 10,000</u>	<u>\$ 816,321</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, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue				
Contributions	\$ 170,001	\$ 30,000	\$ -	\$ 200,001
Government grants	142,820	-	-	142,820
Government reimbursements	745,583	-	-	745,583
Grants	69,250	102,000	-	171,250
Rental income	8,353	-	-	8,353
In-kind donations	5,000	-	-	5,000
Investment income, net	5,780	-	-	5,780
Net assets released from restrictions	55,333	(55,333)	-	-
Total support and revenue	<u>1,202,120</u>	<u>76,667</u>	<u>-</u>	<u>1,278,787</u>
Expenses				
Program expenses	1,088,181	-	-	1,088,181
Management and general	58,420	-	-	58,420
Fundraising	53,508	-	-	53,508
Total expenses	<u>1,200,109</u>	<u>-</u>	<u>-</u>	<u>1,200,109</u>
Change in net assets	2,011	76,667	-	78,678
Net assets, beginning of year	<u>455,880</u>	<u>40,417</u>	<u>10,000</u>	<u>506,297</u>
Net assets, end of year	<u>\$ 457,891</u>	<u>\$ 117,084</u>	<u>\$ 10,000</u>	<u>\$ 584,975</u>

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Friends of Guest House, Inc.

Statement of Functional Expenses for the year ended June 30, 2018

	<u>Program expenses</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salary	\$ 685,928	\$ 127,770	\$ 70,838	\$ 884,536
Payroll taxes	56,193	10,467	5,803	72,463
Employee benefits	26,899	5,011	2,778	34,688
	<u>769,020</u>	<u>143,248</u>	<u>79,419</u>	<u>991,687</u>
Other expenses				
Depreciation and amortization	18,302	1,176	-	19,478
Dues and subscriptions	790	-	-	790
Fundraising	-	-	7,521	7,521
Insurance	22,951	2,658	-	25,609
Occupancy	120,354	7,600	-	127,954
Professional fees	2,012	27,497	20,431	49,940
Professional fees - in-kind	-	45,300	-	45,300
Program expenses	107,019	-	-	107,019
Repairs and maintenance	18,716	-	-	18,716
Supplies and office expense	9,267	9,267	-	18,534
Tax and licenses	-	169	-	169
Telephone and internet	12,827	1,425	-	14,252
Training and conferences	4,166	-	-	4,166
Travel and auto expense	8,803	-	-	8,803
Utilities	16,763	372	-	17,135
	<u>341,970</u>	<u>95,464</u>	<u>27,952</u>	<u>465,386</u>
Total functional expenses	<u>\$ 1,110,990</u>	<u>\$ 238,712</u>	<u>\$ 107,371</u>	<u>\$ 1,457,073</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, 2017

	<u>Program expenses</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salary	\$ 703,997	\$ 22,710	\$ 30,279	\$ 756,986
Payroll taxes	57,279	1,848	2,464	61,591
Employee benefits	25,466	2,961	1,184	29,611
	<u>786,742</u>	<u>27,519</u>	<u>33,927</u>	<u>848,188</u>
Other expenses				
Depreciation	14,173	438	-	14,611
Dues and subscriptions	380	-	-	380
Fundraising	-	-	2,281	2,281
Insurance	47,517	-	-	47,517
Occupancy	89,184	-	-	89,184
Professional fees	-	6,500	17,300	23,800
Professional fees - in-kind	-	5,000	-	5,000
Program expenses	90,754	-	-	90,754
Repairs and maintenance	7,817	-	-	7,817
Supplies and office expense	17,449	17,449	-	34,898
Tax and licenses	1,432	-	-	1,432
Telephone and internet	10,275	1,142	-	11,417
Training and conferences	3,250	-	-	3,250
Travel and auto expense	7,186	-	-	7,186
Utilities	12,022	372	-	12,394
	<u>301,439</u>	<u>30,901</u>	<u>19,581</u>	<u>351,921</u>
Total functional expenses	<u>\$ 1,088,181</u>	<u>\$ 58,420</u>	<u>\$ 53,508</u>	<u>\$ 1,200,109</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,

2018

2017

Cash flows from operating activities

Change in net assets	\$ 231,346	\$ 78,678
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	19,478	14,611
Unrealized and realized gain on investments	(1,780)	(838)
Donated stock	(18,746)	-
(Increase) decrease in operating assets		
Grants receivable	-	40,000
Program service fees receivable	(10,045)	(38,685)
Residents' deposits	(3,320)	4,634
Security deposits	(2,900)	(3,750)
Prepaid expenses	(8,005)	1,918
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(12,036)	28,483
Residents' deposits	1,992	(2,596)
Net cash provided by operating activities	<u>195,984</u>	<u>122,455</u>

Cash flows from investing activities

Purchase of investments and reinvestments	(3,391)	(4,201)
Purchase and reinvestments of certificates of deposit	(201,712)	-
Purchase of website	(40,000)	-
Purchase of property and equipment	(13,670)	(9,013)
Net cash used in investing activities	<u>(258,773)</u>	<u>(13,214)</u>

Net change in cash and cash equivalents

(62,789) 109,241

Cash and cash equivalents, beginning of year

376,500 267,259

Cash and cash equivalents, end of year

\$ 313,711 \$ 376,500

Supplemental disclosure of cash flow information

Cash paid for interest	\$ -	\$ -
Income taxes paid	\$ -	\$ -

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, 2018 and 2017

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. By addressing healthcare, employment, education, housing and family/community reconnection, Friends of Guest House, Inc. makes it possible for clients to break the vicious cycle of crime by fully addressing its root causes. Among the graduates of the program, fewer than 10 percent re-offend.

The Organization is funded by a combination of contributions, grants and government grants and reimbursements.

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, 2018 and 2017, 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 11.

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.

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. 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 and believes it is not exposed to any significant credit risk related to cash. FDIC insurance is \$250,000 per depositor, per insured bank. It is the Organization's policy not to classify certificates of deposit as cash and cash equivalents.

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. There were no grants receivable as of June 30, 2018 and 2017. 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, 2018 and 2017 consists of reimbursements from the Virginia Department of Corrections. No allowance for uncollectible accounts has been provided based upon management's review of the receivable and historical collection experience.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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 are reported at fair value based on publicly available market data obtained from services independent of the Organization.

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.

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.

Office furniture, equipment and other small office items acquired through donation, and whose individual values are considered nominal, have not been recorded on the books of the Organization.

Website

In accordance with generally accepted accounting principles, costs incurred to plan the website are expensed as incurred while costs incurred to develop the infrastructure and graphics of the website are capitalized. All costs to operate the site are expensed as incurred. The capitalized costs are amortized over 36 months.

Donated services

In addition to cash, the Organization receives donated services from individuals and organizations. Donated services that directly benefit the Organization are recognized at the estimated fair market value when the goods are received or the services are rendered. Donated services that require specialized skills, as defined by U.S. generally accepted accounting principles, are recognized in the financial statements. A substantial number of volunteers donate time to the Organization's program services that do not meet the criteria for recognition in the financial statements.

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.

Contributions and grants

Contributions and grants are measured at their fair values and are reported as an increase in net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When restrictions are met in the same period of the donation, the donation is reported as an unrestricted contribution.

Compensated absences

Full time employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation at June 30, 2018 and 2017 was \$14,337 and \$26,166, respectively. It is included in accounts payable and accrued expenses on the statements of financial position.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2018 and 2017

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, program service fees receivable, residents' 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.

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, 2018 and 2017.

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 2014.

Reclassifications

Certain amounts reported in prior years have been reclassified to conform to the current-year presentation.

New accounting pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information on liquidity, retains the option to present the cash flow statement on a direct or indirect method, and includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for Friends of Guest House, Inc. for the year ending June 30, 2019.

The FASB has issued ASU 2014-09 (as amended by ASU 2015-14), which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2019.

The FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies how entities will determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2019.

The FASB has issued ASU 2016-02, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2020.

Guest House will evaluate the impact of these pronouncements by the effective dates in accordance with accounting principles generally accepted in the United States of America.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2018 and 2017

3. Property and equipment

A summary of information relative to property and equipment for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>	<u>Useful life</u>
Building and improvements	\$ 258,451	\$ 244,781	15 - 39 years
Computer equipment	15,894	15,894	5 years
Furniture and equipment	38,201	38,201	5 - 7 years
Land	33,280	33,280	
	<u>345,826</u>	<u>332,156</u>	
Accumulated depreciation	(256,478)	(241,444)	
	<u>\$ 89,348</u>	<u>\$ 90,712</u>	

Depreciation expense for the years ended June 30, 2018 and 2017 was \$15,034 and \$14,611, respectively.

4. Website

A summary of information related to website amortization for 2018 is as follows:

	<u>2018</u>	<u>Useful life</u>
Capitalized cost	\$ 40,000	36 months
Accumulated amortization	(4,444)	
	<u>\$ 35,556</u>	

Amortization expense for the year ended June 30, 2018 was \$4,444.

5. Certificates of deposit

The Organization holds three certificates with twelve-month terms that mature from May 2019 through June 2019 with interest rates at 1.45 percent. The certificates are restricted by donor for the purpose of purchasing a new residence to expand the current program capacity. The certificates automatically renew for additional twelve-month terms at maturity. It is management's intent to hold the certificates through the original maturity date and as such, they are recorded at the amortized cost value at June 30, 2018 and 2017.

6. Investment income

Investment income at June 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Realized and unrealized gain	\$ 1,780	838
Interest and dividend income	6,110	4,942
	<u>\$ 7,890</u>	<u>\$ 5,780</u>

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2018 and 2017

7. 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.

For the years ended June 30, 2018 and 2017, investments were classified as Level 1 investments and consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash and sweep balances	\$ 4,364	\$ 15,960
Mutual funds	19,971	5,623
Fixed rate capital security	18,893	-
Equities		
Small and Mid Value	20,908	17,390
Exchange Traded Funds	<u>34,466</u>	<u>35,712</u>
Total assets reported at fair value	<u>\$ 98,602</u>	<u>\$ 74,685</u>

8. Notes payable

The City of Alexandria provided the Organization two deeds of trust. The first deed of trust placed \$55,000 on the property in February 1982. In April 2004, a second deed of trust from the City of Alexandria was placed on the property for \$99,400 as a 99-year deferred loan payment. Interest and principal payments are currently not required on the notes unless 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 deed of trust was placed on the property in September 1982. No interest or principal payments are required on the note unless the Organization should sell, convey, transfer or otherwise dispose of the property.

9. In-kind contributions

For the year ended June 30, 2018, the Organization received donated professional accounting and consulting services valued at \$45,300. For the year ended June 30, 2017, 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.

For the year ended June 30, 2018, the Organization received raffle prizes with a fair market value of \$14,000 which is included as a direct benefit cost on the statement of activities.

10. Concentrations

The Organization received \$991,060 and \$888,403 in grants and reimbursements from the government during the years ended June 30, 2018 and 2017, respectively. These receipts represented 58 percent and 68 percent of the total revenue for the years ended June 30, 2018 and 2017, respectively. Program service fees receivable is composed entirely of government reimbursements for the years ended June 30, 2018 and 2017.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2018 and 2017

11. 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.

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, 2018 and 2017

Endowment net asset composition by type of fund

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

	2018			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds				
Capacity Building fund	\$ -	\$ -	\$ 10,000	\$ 10,000
	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds				
Capacity Building fund	\$ -	\$ -	\$ 10,000	\$ 10,000

Changes in endowment net assets

The endowment net activity consisted of the following:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds as of June 30, 2016	\$ -	\$ -	\$ 10,000	\$ 10,000
Investment income	-	367	-	367
Amounts appropriated for expenditure	-	(367)	-	(367)
Endowment funds as of June 30, 2017	\$ -	\$ -	\$ 10,000	\$ 10,000
Investment income	\$ -	\$ 344	\$ -	\$ 344
Amounts appropriated for expenditure	-	(344)	-	(344)
Endowment funds as of June 30, 2018	\$ -	\$ -	\$ 10,000	\$ 10,000

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, 2018 and 2017.

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Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2018 and 2017

12. Temporarily restricted net assets

Net assets are temporarily restricted for future purposes and periods. Temporarily restricted net assets as of June 30, 2018 and 2017 were as follows:

	<u>2017</u>	<u>Additions</u>	<u>Releases</u>	<u>2018</u>
Restricted for future purposes	\$ 87,084	\$ 200,246	\$ (87,084)	\$ 200,246
Restricted to future periods	30,000	30,000	(30,000)	30,000
	<u>\$ 117,084</u>	<u>\$ 230,246</u>	<u>\$ (117,084)</u>	<u>\$ 230,246</u>

	<u>2016</u>	<u>Additions</u>	<u>Releases</u>	<u>2017</u>
Restricted for future purposes	\$ -	\$ 102,000	\$ (14,916)	\$ 87,084
Restricted to future periods	40,417	30,000	(40,417)	30,000
	<u>\$ 40,417</u>	<u>\$ 132,000</u>	<u>\$ (55,333)</u>	<u>\$ 117,084</u>

13. Employee benefits

The Organization maintains a SIMPLE IRA savings program for full-time employees. The program allows the Organization to match 100 percent of employees' contributions, up to three percent of their salary. For the years ended June 30, 2018 and 2017, \$3,200 and \$2,765, respectively, was contributed to the Plan.

14. Lease commitments

Guest House leases office space and residential apartments and single family homes for clients during their enrollment in the program. The various lease terms are as follows:

Sheffield Apartments

Four apartments housing 16 women were rented with payments that ranged from \$1,525 to \$1,781 under eight-month leases expiring in December 2018. Total rental expense for the year ended June 30, 2018 was \$73,845. The Organization extended the four leases in December for an additional five-month term to end in May 2019 with a two percent increase in base payments. Total expense for the year ended June 30, 2017 was \$65,844.

Commerce Street

The Organization leases office space in Alexandria, Virginia. During 2017, one room was rented at a monthly rate of \$400 totaling \$4,400 for the year ended June 30, 2017. During 2018, Guest House signed an agreement for an additional room resulting in monthly payments of \$800 with lease terms ending December 2019. Total expense for the year ended June 30, 2018 was \$7,600.

Gordon Street

The Organization signed a one-year lease beginning February 2017 for a single family home in Alexandria, Virginia. Rental payments are \$3,750 monthly. Total rental expense for the years ended June 30, 2018 and 2017 was \$45,000 and \$15,000, respectively. Gordon Street houses a maximum of eight women in the Aftercare Program, which helps residents for up to two years after they leave the Residential Program and transition into responsible members of their communities. Residents are required to pay rent to Guest House at rates that range from \$300 to \$500 per month. Guest House received a total of \$37,606 and \$8,353 in rental income for the years ended June 30, 2018 and 2017, respectively.

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Guest House is in currently negotiating to purchase this house from the owner and is actively raising funds towards the purchase price. \$200,246 of the temporarily restricted balance at June 30, 2018 is held for the purchase of the house.

Payne Street

The Organization signed a lease in January 2019 for their third residential property allowing an additional 21 women to be served in the program. The lease calls for monthly payments of \$7,600 and expires in August 2024. No expense was incurred for the year ended June 30, 2018.

15. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2018 through April 17, 2019, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. The following events have been disclosed:

Note 14 – The Organization signed a 10-year lease in January 2019 for an additional residential property. In addition, lease agreements for Sheffield Apartments were extended through May 2019.

Future minimum rental payments for the year ended June 30, 2018 are:

2019	\$	144,871
2020		91,200
2021		91,200
2022		91,200
2023		91,200
Thereafter		106,400
	\$	<u>616,071</u>

No other events have occurred that would require adjustment to or disclosure in the financial statements.