Friends of Guest House, Inc.

Financial Statements

June 30, 2017 and 2016

KWC 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, 2017 and 2016, 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, 2017 and 2016, 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
November 29, 2017

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Friends of Guest House, Inc.

Statements of Financial Position

June 30,		2017		2016
Assets				
Current assets				
Cash and cash equivalents	$	573,168	$	417,996
Grants receivable		-		40,000
Program service fees receivable		131,505		92,820
Residents' deposits		5,789		10,423
Security deposits		5,950		2,200
Prepaid expenses		8,818		10,736
		725,230		574,175
Investments		74,685		71,263
Property and equipment, net		90,712		96,310
Total assets	$	890,627	$	741,748
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued expenses	$	74,898	$	46,415
Residents' deposits		7,040		9,636
		81,938		56,051
Long-term liabilities				
Notes payable - City of Alexandria		154,400		154,400
Note payable - Old Presbyterian Meeting House		25,000		25,000
		179,400		179,400
Net assets				
Unrestricted		502,205		455,880
Temporarily restricted		117,084		40,417
Permanently restricted		10,000		10,000
		629,289		506,297
Total liabilities and net assets	$	890,627	$	741,748

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue				
Contributions	$ 214,315	$ 30,000	$ -	$ 244,315
Government grants	142,820	-	-	142,820
Government reimbursements	745,583	-	-	745,583
Grants	69,250	102,000	-	171,250
In-kind donations	5,000	-	-	5,000
Investment income, net	5,780	-	-	5,780
Net assets released from restrictions	55,333	(55,333)	-	-
Total revenue	1,238,081	76,667	-	1,314,748
Expenses				
Program expenses	1,079,828	-	-	1,079,828
Management and general	58,420	-	-	58,420
Fundraising	53,508	-	-	53,508
Total expenses	1,191,756	-	-	1,191,756
Change in net assets	46,325	76,667	-	122,992
Net assets, beginning of year	455,880	40,417	10,000	506,297
Net assets, end of year	$ 502,205	$ 117,084	$ 10,000	$ 629,289

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue				
Contributions	$ 358,882	$ 62,417	$ -	$ 421,299
Government grants	90,000	-	-	90,000
Government reimbursements	499,954	-	-	499,954
Grants	74,000	-	-	74,000
In-kind donations	5,000	-	-	5,000
Investment income, net	5,384	-	-	5,384
Net assets released from restrictions	52,500	(52,500)	-	-
Total revenue	1,085,720	9,917	-	1,095,637
Expenses				
Program expenses	798,934	-	-	798,934
Management and general	42,626	-	-	42,626
Fundraising	69,461	-	-	69,461
Total expenses	911,021	-	-	911,021
Change in net assets	174,699	9,917	-	184,616
Net assets, beginning of year	281,181	30,500	10,000	321,681
Net assets, end of year	$ 455,880	$ 40,417	$ 10,000	$ 506,297

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

	Program expenses	Supporting services: Management and general	Supporting services: Fundraising	Total
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
	786,742	27,519	33,927	848,188
Other expenses				
Depreciation	14,173	438	-	14,611
Dues and subscriptions	380	-	-	380
Fundraising	-	-	2,281	2,281
Insurance	47,517	-	-	47,517
Occupancy	80,831	-	-	80,831
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
	293,086	30,901	19,581	343,568
Total expenses	$ 1,079,828	$ 58,420	$ 53,508	$ 1,191,756

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: Management and general	Supporting services: Fundraising	Total
Personnel expenses				
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
	601,370	20,603	25,916	647,889
Other expenses				
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	-	6,550	25,353	31,903
Professional fees - in-kind	-	5,000	-	5,000
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
	197,564	22,023	43,545	263,132
Total expenses	$ 798,934	$ 42,626	$ 69,461	$ 911,021

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,

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 122,992	$ 184,616
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	14,611	14,272
Unrealized and realized gain on investments	(838)	(2,003)
Donated stock received	-	(7,692)
(Increase) decrease in operating assets		
Grants receivable	40,000	(10,000)
Program service fees receivable	(38,685)	(53,096)
Residents' deposits	4,634	(6,336)
Security deposits	(3,750)	(1,200)
Prepaid expenses	1,918	(4,988)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	28,483	5,369
Residents' deposits	(2,596)	5,930
Net cash provided by operating activities	166,769	124,872
Cash flows from investing activities		
Purchase of investments and reinvestments	(2,584)	(1,943)
Purchase of property and equipment	(9,013)	(30,891)
Net cash used in financing activities	(11,597)	(32,834)
Net change in cash and cash equivalents	155,172	92,038
Cash and cash equivalents, beginning of year	417,996	325,958
Cash and cash equivalents, end of year	$ 573,168	$ 417,996
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.

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.

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, 2017 and 2016, 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.

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. FDIC insurance is $250,000 per depositor, per insured bank. 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. On June 30, 2017 and 2016 Guest House's cash accounts exceeded the federally insured limits by $143,173 and $17,401, respectively.

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 consists of grants from various funders. There were no grants receivable at June 30, 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, 2017 and 2016 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.

2. Summary of significant accounting policies (continued)

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.

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.

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, 2017 and 2016 was $26,166 and $14,686, respectively. It is included in accounts payable and accrued expenses on the statements of financial position.

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.

2. Summary of significant accounting policies (continued)

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, 2017 and 2016.

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.

Reclassifications

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

3. Property and equipment

A summary of information relative to property and equipment for 2017 and 2016 was as follows:

	2017	2016	Useful life
Building and improvements	$ 244,781	$ 239,256	15 - 39 years
Computer equipment	15,894	12,406	5 years
Furniture and equipment	38,201	38,201	5 - 7 years
Land	33,280	33,280	
	332,156	323,143	
Accumulated depreciation and amoritization	(241,444)	(226,833)	
	$ 90,712	$ 96,310	

Depreciation expense for the years ended June 30, 2017 and 2016 was $14,611 and $14,272, respectively.

4. Investment income

Investment income at June 30, 2017 and 2016 was as follows:

	2017	2016
Realized and unrealized gain	$ 838	$ 2,003
Interest and dividend income	4,951	3,411
Fees and taxes	(9)	(30)
	$ 5,780	$ 5,384

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.

For the years ended June 30, 2017 and 2016, investments were classified as Level 1 investments and consisted of the following:

	2017	2016
Cash and sweep balances	$ 15,960	$ 38,357
Mutual funds	5,623	5,405
Equities		
Small and Mid Value	17,390	17,293
Exchange Traded Funds	35,712	10,208
Total assets reported at fair value	$ 74,685	$ 71,263

6. 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.

7. In-kind contributions

For the years ended June 30, 2017 and 2016, 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 $888,403 and $589,954 in grants and reimbursements from the government during the years ended June 30, 2017 and 2016, respectively. These receipts represented 68% and 54% of the total revenue for the years ended June 30, 2017 and 2016, respectively. Program service fees receivable is all government reimbursements for the years ended June 30, 2017 and 2016.

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.

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.

9. Endowment funds (continued)

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.

9. Endowment funds (continued)

Endowment net asset composition by type of fund
The endowment net assets consisted of the following as of June 30:

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

	2016			
	Unrestricted	Temporarily	Permanently	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	Permanently	Total
Endowment funds as of June 30, 2015	$ -	$ -	$ 10,000	$ 10,000
Investment income	-	432	-	432
Amounts appropriated for expenditure	-	(432)	-	(432)
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

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, 2017 and 2016.

10. 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, 2017 and 2016, $2,765 and $2,507, 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, 2017 and 2016 were as follows:

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

	2015	Additions	Releases	2016
Restricted for future purposes	$ 500	$ 22,000	$ (22,500)	$ -
Restricted to future periods	30,000	40,417	(30,000)	40,417
	$ 30,500	$ 62,417	$ (52,500)	$ 40,417

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. During fiscal year 2017, Guest House increased the number of locations rented due to the expansion in the number of clients served. Total rent expense for the years ended June 30, 2017 and 2016 was $80,831 and $36,728, respectively.

13. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2017 through November 29, 2017, 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.