

FRIENDS OF GUEST HOUSE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019



Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report

To 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, 2020 and 2019, 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, 2020 and 2019, 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
May 17, 2021

Friends of Guest House, Inc.

Statements of Financial Position June 30,

2020

2019

Assets

Current assets

Cash and cash equivalents	\$ 468,574	\$ 343,288
Certificate of deposit, unrestricted	158,752	156,103
Investments, current portion	79,825	75,759
Grants receivable	32,500	20,000
Program service fees receivable	95,698	139,137
Residents' deposits	5,399	11,397
Prepaid expenses	33,582	10,799
	<u>874,330</u>	<u>756,483</u>

Property and equipment, net

1,344,460 138,709

Other assets

Certificates of deposit - restricted to building project	-	240,843
Website, net of accumulated amortization	8,890	22,223
Investments, long term	10,000	10,000
Security deposit	4,100	6,350
Total assets	<u>\$ 2,241,780</u>	<u>\$ 1,174,608</u>

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 64,401	\$ 80,827
Residents' deposits	8,418	13,402
SBA Paycheck Protection Program loan	201,256	-
	<u>274,075</u>	<u>94,229</u>

Long-term liabilities

Notes payable - City of Alexandria	299,400	154,400
Note payable - Old Presbyterian Meeting House	25,000	25,000
Lease incentive liability	60,282	50,000
	<u>384,682</u>	<u>229,400</u>

Net assets

Without donor restrictions	1,513,779	486,995
With donor restrictions	69,244	363,984
Total net assets	<u>1,583,023</u>	<u>850,979</u>
Total liabilities and net assets	<u>\$ 2,241,780</u>	<u>\$ 1,174,608</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, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue			
Contributions	\$ 101,299	\$ 562,439	\$ 663,738
Government grants	151,643	-	151,643
Government reimbursements	867,589	-	867,589
Grants	523,636	32,500	556,136
Rental income	47,574	-	47,574
In-kind donations	240,991	-	240,991
Investment income, net	3,780	521	4,301
Net assets released from restrictions	890,200	(890,200)	-
Total support and revenue	<u>2,826,712</u>	<u>(294,740)</u>	<u>2,531,972</u>
Expenses			
Program expenses	1,409,796	-	1,409,796
Management and general	223,969	-	223,969
Fundraising	166,163	-	166,163
Total expenses	<u>1,799,928</u>	<u>-</u>	<u>1,799,928</u>
Change in net assets	1,026,784	(294,740)	732,044
Net assets, beginning of year	486,995	363,984	850,979
Net assets, end of year	<u>\$ 1,513,779</u>	<u>\$ 69,244</u>	<u>\$ 1,583,023</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, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue			
Contributions	\$ 226,531	\$ 120,900	\$ 347,431
Government grants	141,643	-	141,643
Government reimbursements	786,650	-	786,650
Grants	219,419	36,700	256,119
Rental income	37,303	-	37,303
In-kind donations	17,500	-	17,500
Investment income, net	10,222	536	10,758
Gain from insurance proceeds	7,126	-	7,126
Net assets released from restrictions	34,398	(34,398)	-
Total support and revenue	<u>1,480,792</u>	<u>123,738</u>	<u>1,604,530</u>
Expenses			
Program expenses	1,319,879	-	1,319,879
Management and general	156,706	-	156,706
Fundraising	137,601	-	137,601
Total expenses	<u>1,614,186</u>	<u>-</u>	<u>1,614,186</u>
Change in net assets	(133,394)	123,738	(9,656)
Net assets, beginning of year	620,389	240,246	860,635
Net assets, end of year	<u>\$ 486,995</u>	<u>\$ 363,984</u>	<u>\$ 850,979</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, 2020

	<u>Program expenses</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salary	\$ 820,245	\$ 114,200	\$ 91,400	\$ 1,025,845
Payroll taxes	65,853	9,169	7,338	82,360
Employee benefits	50,188	6,988	5,592	62,768
	<u>936,286</u>	<u>130,357</u>	<u>104,330</u>	<u>1,170,973</u>
Other expenses				
Depreciation and amortization	61,128	7,658	-	68,786
Dues and subscriptions	2,727	-	-	2,727
Fundraising	-	-	7,617	7,617
Insurance	36,183	5,038	4,032	45,253
Occupancy	131,335	10,401	-	141,736
Professional fees	1,225	32,167	50,184	83,576
Program expenses	106,436	-	-	106,436
Repairs and maintenance	11,849	-	-	11,849
Supplies and office expense	17,622	17,622	-	35,244
Tax and licenses	17,781	2,227	-	20,008
Telephone and internet	17,599	1,955	-	19,554
Training and conferences	4,794	-	-	4,794
Travel and auto expense	7,683	-	-	7,683
Utilities	24,298	3,044	-	27,342
	<u>440,660</u>	<u>80,112</u>	<u>61,833</u>	<u>582,605</u>
In-kind expenses				
Professional fees	-	13,500	-	13,500
Donated materials	19,350	-	-	19,350
Rent	13,500	-	-	13,500
Total expenses by function	<u>\$ 1,409,796</u>	<u>\$ 223,969</u>	<u>\$ 166,163</u>	<u>\$ 1,799,928</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, 2019

	<u>Program expenses</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salary	\$ 805,239	\$ 110,450	\$ 88,789	\$ 1,004,478
Payroll taxes	64,813	8,890	7,147	80,850
Employee benefits	36,236	4,970	3,996	45,202
	<u>906,288</u>	<u>124,310</u>	<u>99,932</u>	<u>1,130,530</u>
Other expenses				
Depreciation and amortization	28,867	1,176	-	30,043
Dues and subscriptions	1,540	-	-	1,540
Fundraising	-	-	7,719	7,719
Insurance	45,104	2,658	-	47,762
Occupancy	131,350	7,600	-	138,950
Professional fees	28,900	906	29,950	59,756
Program expenses	95,267	-	-	95,267
Repairs and maintenance	12,698	-	-	12,698
Supplies and office expense	10,405	10,405	-	20,810
Tax and licenses	1,593	169	-	1,762
Telephone and internet	14,488	1,610	-	16,098
Training and conferences	7,118	-	-	7,118
Travel and auto expense	7,354	-	-	7,354
Utilities	18,907	372	-	19,279
	<u>403,591</u>	<u>24,896</u>	<u>37,669</u>	<u>466,156</u>
In-kind expenses				
Professional fees	10,000	7,500	-	17,500
Total expenses by function	<u>\$ 1,319,879</u>	<u>\$ 156,706</u>	<u>\$ 137,601</u>	<u>\$ 1,614,186</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,

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 732,044	\$ (9,656)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	68,786	30,043
Unrealized and realized loss (gain) on investments	10,121	(557)
(Increase) decrease in operating assets		
Program service fees receivable	43,439	(17,587)
Grants receivable	(12,500)	-
Residents' deposits	5,998	(2,288)
Security deposits	2,250	2,500
Prepaid expenses	(22,783)	6,024
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(16,426)	17,965
Residents' deposits	(4,984)	4,370
Lease incentive liability	10,282	50,000
Net cash provided by operating activities	<u>816,227</u>	<u>80,814</u>
Cash flows from investing activities		
Purchase of investments and reinvestments	(12,903)	(4,600)
Purchase of investments from donated stock	(25,215)	-
Proceeds from sale of investments	15,838	18,000
Purchase of property and equipment	(1,261,204)	(66,071)
Net cash used in investing activities	<u>(1,283,484)</u>	<u>(52,671)</u>
Cash flows from financing activities		
Purchase and reinvestments of certificates of deposit - restricted	(100,000)	(42,880)
Proceeds from sale of certificates of deposit - restricted	346,287	-
Proceeds from SBA Paycheck Protection Program loan	201,256	-
Proceeds from City of Alexandria notes payable	145,000	-
Net cash provided (used) in financing activities	<u>592,543</u>	<u>(42,880)</u>
Net change in cash and cash equivalents	125,286	(14,737)
Cash and cash equivalents, beginning of year	343,288	358,025
Cash and cash equivalents, end of year	<u>\$ 468,574</u>	<u>\$ 343,288</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ -	\$ -
Income taxes paid	\$ -	\$ -
Receipt of donated stock	\$ 25,215	\$ -
In-kind leasehold improvements capitalized	<u>\$ 194,641</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, 2020 and 2019

1. Organization

Friends of Guest House, Inc. (the Organization or Guest House) 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 accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported in two categories described below.

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 amounts.

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.

Receivables

Grants receivable, promises to give and other receivables are measured at net realizable value. All receivables are expected to be collected within one year.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2020 and 2019

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, 2020 and 2019 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.

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 materials and services

The Organization receives donated materials and 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.

Donated materials are recorded at their fair market value as estimated by management or indicated by the donor upon receipt. Management compares the items to the retail value of similar goods and believes their valuation is appropriate.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2020 and 2019

Compensated absences

Full time employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation at June 30, 2020 and 2019 was \$25,854 and \$23,489, respectively. It is included in accounts payable and accrued expenses on the statements of financial position.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supported services benefitted. A portion of general and administrative expenses that benefit multiple functional areas have been allocated across the programs and supporting services based on the proportion of time spent by personnel on each activity. The allocated expenses include salary, payroll taxes, employee benefits, depreciation and amortization, insurance, occupancy, supplies and office expense, telephone and internet, and utilities.

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, grants receivable, program service fees receivable, residents' deposits, and prepaid expenses. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses, residents' deposits and lease incentive liability. 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, 2020 and 2019.

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 2017 through 2020.

Reclassifications

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

Recently adopted accounting pronouncements

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 adopted the standard on its effective date, which for the Organization was July 1, 2019.

New accounting pronouncements

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, 2019. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2020.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2020 and 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, 2021. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2022.

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.

3. Property and equipment

A summary of information relative to property and equipment for 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>	<u>Useful life</u>
Building and improvements	\$ 1,138,628	\$ 292,438	9 - 40 years
Computer equipment	18,855	17,659	5 years
Furniture and equipment	156,076	68,520	5 - 7 years
Land	359,542	33,280	
	<u>1,673,101</u>	<u>411,897</u>	
Accumulated depreciation	(328,641)	(273,188)	
	<u>\$ 1,344,460</u>	<u>\$ 138,709</u>	

On April 30, 2020, the Organization purchased the Gordon Street property, an Alexandria residential single-family home that serves to house 8 women. The purchase price was \$710,000. In addition, during 2020, the Organization renovated the Payne Street residence with assistance in the form of in-kind donations from local contractors. Total improvement costs were \$516,390 of which \$194,641 was donated. In addition, a \$145,000 loan from the City of Alexandria was utilized to pay for the improvements. See Note 8 for additional information. Tenant improvements are depreciated over the life of the lease.

Depreciation expense for the years ended June 30, 2020 and 2019 was \$55,453 and \$16,710, respectively.

4. Website

A summary of information related to website amortization for 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>	<u>Useful life</u>
Capitalized cost	\$ 40,000	\$ 40,000	36 months
Accumulated amortization	(31,110)	(17,777)	
	<u>\$ 8,890</u>	<u>\$ 22,223</u>	

Amortization expense for both years ended June 30, 2020 and 2019 was \$13,333.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2020 and 2019

5. Certificates of deposit

During 2019, the Organization held two certificates with twelve-month terms that matured from May 2020 through June 2020 with interest rates ranging from 1.96 to 2.50 percent. Certificates of deposit – restricted to building project presented on the statements of financial position represent certificates restricted by donor for the purpose of purchasing a new residence to expand the current program capacity. In 2020, the restricted certificates were sold at maturity and used toward the purchase of Gordon House. The Organization continues to hold one certificate at June 30, 2020 with an interest rate of 0.55 percent which will automatically renew for additional twelve-month terms at maturity in May 2021. It is management's intent to hold the certificate through the maturity date and as such, it is recorded at the amortized cost value at June 30, 2020.

6. Investment income

Investment income at June 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Realized and unrealized gain (loss)	\$ (10,121)	\$ 557
Interest and dividend income	14,422	10,201
	<u>\$ 4,301</u>	<u>\$ 10,758</u>

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, 2020 and 2019, investments were classified as Level 1 investments and consisted of the following:

	<u>2020</u>	<u>2019</u>
Cash and sweep balances	\$ 835	\$ 427
Mutual funds	-	5,416
Preferred stock securities (direct holdings)	13,302	23,913
Equities		
Small and mid value	53,316	33,618
Exchange traded funds	22,372	22,385
Total assets reported at fair value	<u>\$ 89,825</u>	<u>\$ 85,759</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.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2020 and 2019

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.

In August 2019, the City of Alexandria's Office of Housing signed a loan agreement providing the Organization \$145,000 of funds to use toward tenant improvements at the Payne Street residence. The loan is interest free with repayment due upon termination of the lease. See also Note 14.

9. In-kind contributions

In-kind contributions are recorded as revenues and expenses in the accompanying statements of activities. In-kind contributions consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Professional services	\$ 13,500	\$ 17,500
Donated materials	19,350	-
Rent	13,500	-
Building improvements	194,641	-
	<u>\$ 240,991</u>	<u>\$ 17,500</u>

Donated building improvement costs were capitalized and are being depreciated over the life of the lease.

10. Concentrations

The Organization received \$1,019,232 and \$928,293 in grants and reimbursements from the government during the years ended June 30, 2020 and 2019, respectively. These receipts represented 40 percent and 57 percent of the total revenue for the years ended June 30, 2020 and 2019, respectively. Program service fees receivable is composed entirely of government reimbursements for the years ended June 30, 2020 and 2019.

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 retains in perpetuity (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 retained in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2020 and 2019

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 net assets without donor restrictions annually. The endowment principal is maintained at amounts originally contributed.

Endowment net asset composition by type of fund

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

	2020		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Capacity building fund	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
	2019		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Capacity building fund	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

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Changes in endowment net assets

The endowment net activity consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds as of June 30, 2018	\$ -	\$ 10,000	\$ 10,000
Investment income	-	536	536
Amounts appropriated for expenditure	-	(536)	(536)
Endowment funds as of June 20, 2019	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
Investment income	-	521	521
Amounts appropriated for expenditure	-	(521)	(521)
Endowment funds as of June 20, 2020	<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, 2020 and 2019.

12. Donor-restricted net assets

Net assets with donor restrictions as of June 30, 2020 and 2019 were as follows:

	<u>2019</u>	<u>Additions</u>	<u>Releases</u>	<u>2020</u>
Restricted for future purposes	\$ 353,984	\$ 562,439	\$ (889,679)	\$ 26,744
Restricted to future periods	-	32,500	-	32,500
Endowment restricted in perpetuity	10,000	521	(521)	10,000
	<u>\$ 363,984</u>	<u>\$ 595,460</u>	<u>\$ (890,200)</u>	<u>\$ 69,244</u>
	<u>2018</u>	<u>Additions</u>	<u>Releases</u>	<u>2019</u>
Restricted for future purposes	\$ 200,246	\$ 157,600	\$ (3,862)	\$ 353,984
Restricted to future periods	30,000	-	(30,000)	-
Endowment restricted in perpetuity	10,000	536	(536)	10,000
	<u>\$ 240,246</u>	<u>\$ 158,136</u>	<u>\$ (34,398)</u>	<u>\$ 363,984</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, 2020 and 2019, \$4,800 and \$4,826, respectively, was contributed to the Plan.

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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:

Commerce Street

The Organization leases two rooms for office space in Alexandria, Virginia. Monthly payments of \$800 include rent and utilities. During 2019 and 2020, Guest House held one year renewing leases under these terms until terminating on June 30, 2020. Total expense for both years ended June 30, 2020 and 2019 was \$9,600.

Sheffield Apartments

Four apartments housing 16 women were rented with payments that ranged from \$1,710 to \$2,027 under month to month leases. Total expense for the years ended June 30, 2020 and 2019 was \$23,606 and \$85,580, respectively. The leases were terminated in October 2019 with the completion of Payne Street renovations.

Gordon Street

During 2019 and 2020, the Organization leased a single family home in Alexandria, Virginia. Rental payments were \$3,750 monthly through February 2018 and increased to \$3,780 through the remainder lease term. Total rental expense for the years ended June 30, 2020 and 2019 was \$37,801 and \$48,870, respectively. On April 30, 2020, the Organization purchased Gordon Street. See Note 3 for additional information. Gordon Street houses a maximum of eight women in the Aftercare Program, which assists 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 \$47,574 and \$37,303 in rental income for the years ended June 30, 2020 and 2019, respectively.

Payne Street

The Organization signed a lease 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 beginning September 1, 2019 and expires in August 2024. The lease includes the option for a five year renewal through August 2029. The lease also allowed a tenant improvement allowance up to \$70,000. The Organization received \$50,000 of this allowance during fiscal year 2019 and the remaining \$20,000 during 2020. This amount is recorded as a lease incentive liability on the accompany statements of financial position and is amortized over the life of the lease. The Organization began renovating the property in fiscal year 2020. The Organization began occupancy in October of 2019 housing 16 residents from the Sheffield Apartments location and opening an additional 5 beds for new residents in the program.

No rental expense was incurred for the year ended June 30, 2019. Rental expense totaled \$76,001 for the year ended June 30, 2020.

Seay Street

In April 2020, the Organization signed a one-year lease for an apartment unit in Alexandria, Virginia to house three women. The lease requires monthly payments of \$1,565. Rental expense for the year ended June 30, 2020 was \$4,433.

Royal Street

The Organization signed a lease for office space in Alexandria to commence July 1, 2020 through June 30, 2021. Monthly payments of \$800 include rent and utilities. The lease renews yearly with a 3 to 5 percent base increase. No rental expense was incurred for the year ended June 30, 2020.

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Future minimum rental payments for leases extending greater than one year as of June 30, 2020 are:

2021	\$	91,200
2022		91,200
2023		91,200
2024		91,200
2025		15,200
	\$	<u>380,000</u>

15. Liquidity and availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds, and other short-term investments.

The following table reflects the Organization's financial assets as of June 30, 2020 and 2019 **June 30, 2020**, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor or contractual restrictions.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 468,574	\$ 343,288
Investments	89,825	85,759
Certificates of deposit	158,752	396,946
Grants receivable	32,500	20,000
Program service fees receivable	95,698	139,137
	<u>845,349</u>	<u>985,130</u>
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	69,244	363,984
	<u>\$ 776,105</u>	<u>\$ 621,146</u>

16. SBA Paycheck Protection Program grant

Under the "Coronavirus Aid, Relief, and Economic Security (CARES) Act" funds were appropriated for the SBA Paycheck Protection Program (PPP) loans that are forgivable in certain situations to promote continued employment. The Organization obtained a PPP loan in May 2020 in the amount of \$201,256. The Organization intends to comply with the loan requirements so that the loan is fully forgiven. As of the date that the financial statements were available to be issued, the Organization had not yet submitted the loan forgiveness application.

17. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2020 through May 17, 2021, 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.