

GLENWOOD HOUSING FOUNDATION, INC.

FINANCIAL STATEMENTS

December 31, 2012

With Independent Auditors' Report Thereon

GLENNWOOD HOUSING FOUNDATION, INC.

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An Independent CPA Firm

Board of Directors
Glennwood Housing Foundation, Inc.
Irvine, California

INDEPENDENT AUDITORS' REPORT

Report on Financial Statements

We have audited the accompanying financial statements of Glennwood Housing Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 of 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 Glennwood Housing Foundation, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates Inc

Huntington Beach, CA
April 24, 2013

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 23,713
Restricted cash: construction proceeds	815,212
Restricted cash: interest reserve	<u>116,879</u>
Total current assets	955,804

Certificate of deposit	57,500
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Fixed assets:

Property and equipment, net	<u>6,814,771</u>
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Total assets	<u><u>\$ 7,828,075</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 1,980
Accrued liabilities	4,286
Accrued interest	60,547
Line of credit	47,400
Current portion of notes payable	<u>1,839,625</u>
Total current liabilities	1,953,838

Long-term portion of notes payable	<u>5,513,481</u>
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Total liabilities	<u>7,467,319</u>
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Net Assets:

Unrestricted	360,756
Temporarily restricted	-
Permanently restricted	<u>-</u>
Total net assets	<u>360,756</u>

Total liabilities and net assets	<u><u>\$ 7,828,075</u></u>
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GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:				
Contributions	\$ 416,178	500,000	-	916,178
Special events, net of direct expenses of \$7,264	28,037	-	-	28,037
Donated facilities	5,158	-	-	5,158
Other income	1,500	-	-	1,500
Subtotal support and revenues	<u>450,873</u>	<u>500,000</u>	<u>-</u>	<u>950,873</u>
Net assets released from restrictions	<u>500,000</u>	<u>(500,000)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>950,873</u>	<u>-</u>	<u>-</u>	<u>950,873</u>
Expenses:				
Program services	<u>582,412</u>	<u>-</u>	<u>-</u>	<u>582,412</u>
Supporting services:				
Management & General	115,792			115,792
Fundraising	8,379			8,379
Subtotal supporting services	<u>124,171</u>	<u>-</u>	<u>-</u>	<u>124,171</u>
Total expenses	<u>706,583</u>	<u>-</u>	<u>-</u>	<u>706,583</u>
Increase (decrease) in net assets	244,290	-	-	244,290
Net assets (deficit) at beginning of year, as restated	<u>116,466</u>	<u>-</u>	<u>-</u>	<u>116,466</u>
Net assets (deficit) at end of year	<u>\$ 360,756</u>	<u>-</u>	<u>-</u>	<u>360,756</u>

See independent auditors' report and notes to financial statements

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2012

	Program Services	Supporting Services		Subtotal	Total
		Management & General	Fundraising		
Salaries and benefits	\$ 73,449	8,641	4,320	12,961	86,410
Payroll taxes	16,781	-	-	-	16,781
Donated facilities	4,126	774	258	1,032	5,158
Professional services	6,500	10,474	-	10,474	16,974
Insurance	36,298	4,033	-	4,033	40,331
Depreciation	-	-	-	-	-
Utilities	4,199	466	-	466	4,665
Office expenses	1,476	737	737	1,474	2,950
Advertising	-	-	1,951	1,951	1,951
Bank charges	-	2,155	-	2,155	2,155
Equipment rental	3,981	-	-	-	3,981
Dues and fees	106	-	-	-	106
Training and education	2,724	-	-	-	2,724
Taxes and fees	-	40,304	-	40,304	40,304
Interest	423,863	47,095	-	47,095	470,958
Miscellaneous	8,909	1,113	1,113	2,226	11,135
Total expenses	\$ 582,412	115,792	8,379	124,171	706,583

GLENWOOD HOUSING FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$ 244,290
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	-
Prepaid expenses	37,515
Accounts payable	1,787
Accrued liabilities	4,286
Accrued interest	<u>(95,445)</u>
Net cash provided by operating activities	192,433

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(299,723)
Purchase of certificate of deposit	<u>(57,500)</u>
Net cash used in investing activities	<u>(357,223)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Loan proceeds	6,216,131
Repayment of loan	(5,186,034)
Proceeds from line of credit	<u>47,400</u>
Net cash used in financing activities	<u>1,077,497</u>

Net increase in cash	912,707
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Cash and cash equivalents, beginning of year	<u>43,097</u>
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Cash and cash equivalents, end of year	<u><u>\$ 955,804</u></u>
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SUPPLEMENTAL CASH FLOWS DISCLOSURE:

Taxes paid	\$ 40,219
Interest paid	\$ 509,101

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Glennwood Housing Foundation, Inc. (the Foundation) are presented to assist in the understanding of the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization

The Foundation is a spin off of the original Glennwood Foundation, Inc., also known as the Lighthouse Group which began operation in 2003. The Foundation was founded in 2009 by a group of hopeful individuals who have children or friends with physical and developmental disabilities as a private nonprofit organization, exempt under the Internal Revenue Code Section 501(c)(3) and section 23701(d) of the California Revenue and Taxation Code.

The Foundation will provide independent living facility in Laguna Beach, California to 63 young adults from the age ranging from 18-59 years with developmental disabilities. The facility is scheduled to open in the spring of 2013.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Foundation follows the financial statement presentation recommended by the Financial Accounting Standards Boards (FASB) in its Auditing Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Under ASC 958-205, the Foundation 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Certificate of Deposit

As of December 31, 2012, the Company owned a certificate of deposit in the amount of \$57,500. This 12 month time certificate matures in March 26, 2013, at a rate of interest of 0.35% percent per annum. Because the term of the certificate is greater than three months, it is not included by the Company as a cash equivalent for purposes of the statement of cash flows.

Use of Estimates

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

Property and Equipment

Property and equipment are recorded at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets which are as follows: building 39 years; improvements to building 10-39 years; furniture and fixtures 3-7 years; and computer office equipment 3-7 years. Donations of long-lived assets are recorded as contributions at their estimated fair values. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose in which case they are recorded as restricted contributions until such restriction expires. Repairs and maintenance to property, plant and equipment are expensed as incurred. When property, plant and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts, and any gain or loss on such disposition is reflected in income. It is the Foundation's policy to capitalize property and equipment over \$1,000.

Impairment of Long-Lived Assets

The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Restricted and Unrestricted Revenue and Support

The Foundation follows ASC 958-605, *Revenue Recognition*. In accordance with ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Concentration of Credit Risk

The Foundation maintains its cash balances at two financial institutions and evaluates the credit worthiness of them periodically. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2012, there were no cash balances exceeding the insurance limit. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Approximately 52% of the Foundations's total support and revenues (excluding donated services and supplies) were provided by one donor.

Donated Supplies, Facilities and Services

Donated noncash assets, such as use of facilities and supplies, are recorded at their fair values in the period received. Donations of services are recognized in the financial statements if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value. For the year ended December 31, 2012, the Foundation received \$5,158 in donated facilities that was required to be recognized under ASC 958-605.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Fair Value Measurements

The Foundation's financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value because of the short-term nature of these instruments.

Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation uses the allowance method to determine uncollectible promises receivable. The allowance was estimated to be 0% and is based on prior years' experience and management's analysis of specified promises made.

Income Tax Status

The Foundation is a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and files all federal and state information returns required by law. The Foundation's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Accrued Compensated Absences

Employees of the Center are entitled to paid vacation and sick days. The Center's management estimated the amount of compensation for future absences to be immaterial. Accordingly, no liability for compensated absences has been recorded in the accompanying financial statements.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Expense Allocation

The costs of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Foundation's principal program is to provide low income housing for children with special needs.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash as shown on the balance sheet at December 31, 2012 consists of a business checking and savings deposits at Farmers & Merchant Bank. The Foundation also has construction and interest accounts on deposit with Clearinghouse Community Development Financial Institution, associated with the Foundations building and notes payable.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land	\$ 5,141,074
Building	1,358,926
Construction in progress	314,771
Total	<u>6,814,771</u>
Less accumulated depreciation	(0)
Net book value	<u>\$ 6,814,771</u>

Depreciation expense for 2012 was \$0 as the building has not yet placed into service for its intended purpose as of December 31, 2012.

NOTE 4 - LOANS PAYABLE

Loans payable as of December 31, 2012 consisted of the following:

	<u>Loan Balance</u>	<u>Accrued Interest</u>
Related party loans (see note 5)	\$ 1,196,258	45,000
Loans payable, secured by deed	<u>6,156,848</u>	<u>15,547</u>
Total	<u>\$ 7,353,106</u>	<u>60,547</u>

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 4 - LOANS PAYABLE (Continued)

On March 29, 2012, the Foundation obtained a straight note, secured by a deed of trust on the land and building, for acquisition of the Foundations building. The principal amount of the note is \$500,000, due in full, plus unpaid accrued interest, on March 2, 2013. In April 2013, the loan was amended allowing for an extension of the maturity date to October 31, 2013. The note accrues interest at a rate of 3.0% per annum. Principal and accrued interest outstanding as of December 31, 2012 was \$500,000 and \$11,250, respectively.

On May 10, 2012, the Foundation obtained an installment note, secured by a deed of trust on the land and building, the refinancing of a second deed from the acquisition of the Foundations building. The principal amount of the note is \$1,078,000, due in full on May 23, 2013. The note requires monthly interest only payments at a rate of 9.0% per annum on the outstanding loan balance. Principal outstanding as of December 31, 2012 was \$1,078,000.

On May 14, 2012, the Foundation obtained a promissory note, secured by a deed of trust on the land and building, for the refinancing of a first deed and financing of construction costs associated with the building. The principal amount of the note is \$4,500,000, due on May 1, 2022. From June 1, 2012 through February 1, 2013, the note requires interest only payments at a rate of 7.5% per annum on the outstanding balance. Commencing on March 1, 2013, the note is amortized requiring monthly principal and interest payments of \$25,551 at a rate of 5.5% per annum. The note is due in full on May 1, 2022 with a lump sum payment of \$3,814,433. As of December 31, 2012, the outstanding balance of the note was \$4,500,000.

The following are the future obligations per the note agreement:

Year ended December 31,	Interest	Principal	Total
2013	\$ 261,709	51,125	312,834
2014	243,093	63,513	306,606
2015	239,510	67,096	306,606
2016	236,402	70,204	306,606
2017	231,765	74,841	306,606
Thereafter	969,838	4,173,221	5,143,059
Total	<u>\$2,182,317</u>	<u>4,500,000</u>	<u>6,682,317</u>

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 4 - LOANS PAYABLE, (Continued)

On May 21, 2012, the Foundation obtained a straight note, secured by a deed of trust on the land and building, for the payment of commission fees to Surterre Properties, Inc. from the acquisition of the Foundations building. The principal amount of the note is \$78,848, due in full, with no interest rate, and is due on demand. Principal and accrued interest outstanding as of December 31, 2012 was \$78,848 and \$0, respectively.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Foundation has obtained three loans from related parties in the amounts of \$34,000, \$30,000, and \$30,000. These loans have no repayment terms, are interest free, and are due when the Foundation is able to repay them. As of December 31, 2012, these related party loans totaled \$94,000 and have been classified as current liabilities.

On May 21, 2012, the Foundation obtained a straight note, secured by a deed of trust on the land and building, for the payment of commission fees to a related party from the acquisition of the Foundations building. The principal amount of the note is \$26,283, due in full, plus unpaid accrued interest, and was due on April 23, 2013. On April 23, 2013, the note was amended and is now due on demand. The note accrues interest at a rate of 9.0% per annum. Principal and accrued interest outstanding as of December 31, 2012 was \$26,283 and \$4,297, respectively.

The Foundations also obtained a related party loan in the amount of \$500,000 that accrues interest at a rate of 4.0%. In April 2013, the loan was amended allowing for an extension of the maturity date to October 31, 2013. Accrued interest as of December 31, 2012 on this loan was \$45,000 and the loan balance outstanding was \$500,000.

In 2011, the Foundation was obligated to repay a 2nd mortgage note on a personal residence of a related party in the amount of \$600,000. The note is due in 30 years and has a fixed interest rate of 3.0% per annum until September 2015, and then interest converts to variable rate to be adjusted to LIBOR. As of December 31, 2012, the outstanding balance of the note was \$575,975.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 5 – RELATED PARTY TRANSACTIONS (Continued)

The following are the estimated future obligations per the note agreement:

<u>Year ended December 31,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	\$ 17,123	11,369	28,492
2014	16,777	11,715	28,492
2015	16,421	12,071	28,492
2016	16,099	12,393	28,492
2017	15,677	12,816	28,493
Thereafter	<u>229,140</u>	<u>515,611</u>	<u>744,751</u>
Total	<u>\$ 311,237</u>	<u>575,975</u>	<u>887,212</u>

NOTE 6 – LINE OF CREDIT

The Foundation obtained a line of credit in the amount of \$50,000 from Farmers and Merchant Bank. The interest rate on the line of credit is 5.0% per annum and the line is due on March 26, 2013. A related party secured the line of credit by utilizing personal property as collateral for the line of credit. The amount outstanding as of December 31, 2012 was \$47,400. In March 2013, the line was paid off in full using the matured certificate of deposit.

NOTE 7 – NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended December 31, 2012, \$500,000 of temporarily restricted net assets were released to unrestricted net assets as a result of the satisfaction of donor imposed restrictions. There were no permanently restricted net assets during the year ended December 31, 2012.

<u>Restriction</u>	<u>Temporarily Restricted Net Assets- Beginning of Year</u>	<u>Temporarily Restricted Revenues</u>	<u>Released From Restriction</u>	<u>Temporarily Restricted Net Assets- End of Year</u>
Paydown of 3 rd Trust Deed	<u>\$ 0</u>	<u>500,000</u>	<u>(500,000)</u>	<u>0</u>

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 8 – RESTATEMENT OF BEGINNING NET ASSETS

The beginning net assets at January 1, 2012 have been adjusted to reflect the overstatement of accumulated depreciation for the prior year ended December 31, 2011. The following schedule summarized the effects of the prior period adjustment to the beginning net assets for the year ended December 31, 2012:

Net assets at January 1, 2012, as previously reported	\$ 81,622
Overstatement of accumulated depreciation	<u>34,844</u>
Net assets at January 1, 2012, as restated	<u>\$116,466</u>

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued or are available to be issued.

Management has evaluated subsequent events through April 24, 2013, the date on which the financial statements were available to be issued.