

GLENWOOD HOUSING FOUNDATION, INC.

FINANCIAL STATEMENTS

December 31, 2015

With Independent Auditors' Report Thereon



An Independent CPA Firm

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, 2015, 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, 2015, 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.

Gruber and Associates, Inc.

Gruber and Associates, Inc

Newport Beach, CA
April 30, 2016

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$ 228,509
Accounts receivable	9,035
Prepaid rent	103,105
Due from related party	3,800
Total current assets	<u>344,449</u>

Restricted cash - debt service reserve 240,110

Fixed assets:

Property and equipment, net	<u>8,173,805</u>
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Total assets \$ 8,758,364

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 23,225
Deposits payable - resident's final month's rent	122,844
Unearned rent	120,751
Line of credit	163,360
Current portion of notes payable	1,174,577
Total current liabilities	<u>1,604,757</u>

Long-term portion of notes payable 6,323,591

Total liabilities 7,928,348

Net Assets:

Unrestricted	<u>830,016</u>
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Total net assets 830,016

Total liabilities and net assets \$ 8,758,364

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:				
Contributions	\$ 99,116	-	-	99,116
Gratitude -special event, (gross \$199,534 less \$52,945 direct expenses)	146,589	-	-	146,589
Room and board income	1,412,567	-	-	1,412,567
Forgiveness of debt	129,583	-	-	129,583
Miscellaneous income	2,907	-	-	2,907
Interest income	-	-	-	-
Subtotal support and revenues	<u>1,790,762</u>	<u>-</u>	<u>-</u>	<u>1,790,762</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,790,762</u>	<u>-</u>	<u>-</u>	<u>1,790,762</u>
Expenses:				
Program services	<u>1,301,927</u>	<u>-</u>	<u>-</u>	<u>1,301,927</u>
Supporting services:				
Management & General	203,786	-	-	203,786
Fundraising	35,645	-	-	35,645
Subtotal supporting services	<u>239,432</u>	<u>-</u>	<u>-</u>	<u>239,432</u>
Total expenses	<u>1,541,359</u>	<u>-</u>	<u>-</u>	<u>1,541,359</u>
Increase (decrease) in net assets	249,403	-	-	249,403
Net assets (deficit) at beginning of year, as restated	<u>580,613</u>	<u>-</u>	<u>-</u>	<u>580,613</u>
Net assets (deficit) at end of year	<u>\$ 830,016</u>	<u>-</u>	<u>-</u>	<u>830,016</u>

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2015

	Program Services	Supporting Services			Total
		Management & General	Fundraising	Subtotal	
Salaries and wages	\$ 459,426	70,265	10,810	81,075	540,501
Employee benefits	197,047	30,137	4,636	34,773	231,820
Payroll taxes	38,462	5,882	905	6,787	45,249
Resident food, care and services	105,487	-	-	-	105,487
Professional services- accounting	18,350	10,322	-	10,322	28,672
Professional services- legal	717	403	-	403	1,120
Professional services- other	1,661	935	-	935	2,596
Insurance	26,338	17,558	-	17,558	43,896
Depreciation and amortization	80,135	12,256	1,886	14,141	94,276
Utilities, cable, internet, phone	43,534	6,658	1,024	7,682	51,216
Travel and transportation	1,771	1,771	394	2,164	3,935
Training	1,003	1,003	223	1,226	2,229
Office expenses	12,045	1,842	283	2,126	14,170
Licenses and dues	1,434	478	-	478	1,912
Rent write off and refunds	5,627	-	-	-	5,627
Advertising	-	-	1,571	1,571	1,571
Repairs and maintenance	37,746	5,773	888	6,661	44,407
Property taxes	5,641	863	133	996	6,637
Interest	252,112	35,592	8,898	44,490	296,602
Miscellaneous fundraising	-	-	3,679	3,679	3,679
Fees-bank, loan, payroll	13,393	2,048	315	2,364	15,757
Total expenses	<u>\$ 1,301,927</u>	<u>203,786</u>	<u>35,645</u>	<u>239,432</u>	<u>1,541,359</u>

GLENWOOD HOUSING FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$ 249,403
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	94,276
(Increase) decrease in accounts receivable	(7,161)
(Increase) decrease in prepaid rent	(103,105)
(Increase) decrease in due from related party	(3,800)
(Decrease) Increase in accounts payable	11,125
(Decrease) Increase in deposits payable	3,344
(Decrease) Increase in unearned rent	92,491
(Decrease) Increase in accrued interest	(149,472)
Net cash provided by operating activities	187,101

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(55,019)
Purchase of reserve for debt service	(240,110)
Net cash used in investing activities	(295,129)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of notes payable	6,600,000
Issuance of line of credit	165,000
Repayment of notes payable	(6,566,647)
Repayment on line of credit	(1,640)
Net cash used in financing activities	196,713

Net increase in cash	88,685
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Cash and cash equivalents, beginning of year	139,824
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Cash and cash equivalents, end of year	\$ 228,509
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SUPPLEMENTAL CASH FLOWS DISCLOSURE:

Taxes paid	\$ 6,637
Interest paid	\$ 296,602

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL RELATED FINANCING ACTIVITIES:

The Company had no noncash investing or capital related financing transactions in fiscal year December 31, 2015.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

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 California State Licensed, Adult Residential Facility (ARF). The Facility can house up to 64 young adults ages 18-59 with intellectual, physical, and or developmental disabilities and is exempt under the Internal Revenue Code Section 501(c)(3) and section 23701(d) of the California Revenue and Taxation Code..

The Foundation was founded in 2009 by a group of hopeful individuals who have children or friends with physical and developmental disabilities and wanted to create affordable housing that fosters independence.

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.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

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. Cash as shown on the balance sheet at December 31, 2015 consists of a business checking and savings deposits.

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, 2015

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. Cash deposits may exceed federally insured limits at times during the year. 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.

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, 2015, the Foundation received various donated equipment and supplies which were deemed immaterial and were not required to be recognized.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense was \$1,571 for the year ended December 31, 2015.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

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 2015, 2014, and 2012 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, 2015

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 young adults with special needs.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2015 consisted of the following:

Land	\$ 5,141,074
Building	1,407,518
Building improvements	1,748,265
Furniture and fixtures	107,713
Total	<u>8,404,570</u>
Less accumulated depreciation	<u>(230,765)</u>
Net book value	<u>\$ 8,173,805</u>

Depreciation expense and amortization was \$94,276 for the year ended December 31, 2015.

NOTE 3 - NOTES PAYABLE

Notes payable as of December 31, 2015 consisted of the following:

Related party notes (see note 4)	\$ 277,233
Notes payable, secured by deed	<u>7,220,935</u>
Total	\$ 7,498,168
Less current portion	<u>(1,174,577)</u>
Long-term portion	<u>6,323,591</u>

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 3 - NOTES PAYABLE (Continued)

In February 2015, the Foundation obtained a promissory note, secured by a deed of trust on the land and building, for the refinancing of a first, second, and third trust deed associated with the building. The original principal amount of the note was \$6,600,000, due on December 19, 2021. The note has monthly principal payments ranging \$11,502 and \$15,903 and bears interest at 1.9%. The note requires the Foundation to pledge its annual net revenues (defined as operating income plus depreciation and amortization, interest income, and non-operating income, less forgiveness of debt) in an amount equal to at least 120% of the annual debt service requirement for each fiscal year through final maturity of the notes, or early retirement of the note, whichever first occurs. The amount of annual net revenues equaled approximately 120% of the annual debt service requirement as of December 31, 2015. The loan also has two additional liquidity requirements: (1) a \$300,000 reserve on certain securities held by a related party plus the Foundation's operating checking account, and (2) a pledge account reserve of \$240,110 recorded on the statement of financial position. As of December 31, 2015, the outstanding balance of the note was \$6,470,935. The following are the future obligations per the note agreement:

<u>Year ended December 31,</u>	<u>Principal</u>
2015	\$ 147,344
2016	154,497
2017	161,997
2018	169,863
2019	178,108
Thereafter	<u>5,659,126</u>
Total	<u>6,470,935</u>

In 2011, the Foundation also obtained a straight note, secured by a deed of trust on the land and the building in the amount of \$750,000 with an original simple interest rate of 4.0%. The note holder also is guarantor of up to \$1 million should the Foundation default on the first trust deed. During 2015, the interest rate was amended to 0% and \$129,583 of accrued interest rate was waived and recorded as forgiveness of debt on the statement of activities. The note is due on demand. Principal outstanding as of December 31, 2015 was \$750,000.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Foundation has obtained four notes payable from related parties in the amounts of \$204,000, \$43,233, and \$30,000. These loans have no repayment terms, with no interest rate, and are due when the Foundation is able to repay them. As of December 31, 2015, these related party loans totaled \$277,233 and have been classified as current liabilities.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 4 – RELATED PARTY TRANSACTIONS (Continued)

As of December 31, 2015, the Foundation had a receivable from a related party in the amount of \$3,800.

NOTE 5 – NET ASSETS RELEASED FROM RESTRICTIONS

There were no temporary or permanently restricted net assets during the year ended December 31, 2015.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The Foundation is subject to legal proceedings, claims, and assessments which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, should they occur, will not materially affect the Institute's financial statements.

NOTE 7 - RESTATEMENT OF BEGINNING NET ASSETS

Beginning net assets as of January 1, 2015 have been restated to reflect a certain adjustment to cash and cash equivalents:

Beginning net assets, January 1, 2015, as previously reported	\$567,549
Adjustment for understatement of cash	<u>13,064</u>
Beginning net assets, January 1, 2015, as restated	<u>580,613</u>

NOTE 8 – 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 30, 2016, the date on which the financial statements were available to be issued.