

***GLENWOOD HOUSING FOUNDATION, INC.***

**FINANCIAL STATEMENTS**

**December 31, 2016**

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, 2016, 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, 2016, 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  
June 12, 2017

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2016

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 174,627
Accounts receivable	14,925
Prepaid expense - rent and other	102,058
Due from related party	3,800
Total current assets	<u>295,410</u>

Restricted cash - debt service reserve 240,231

Fixed assets:

Property and equipment, net	<u>8,123,697</u>
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Total assets \$ 8,659,338

**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable and accrued liabilities	\$ 51,467
Deposits payable - resident's final month's rent	111,454
Unearned rent	135,012
Line of credit	164,393
Current portion of notes payable	1,301,857
Total current liabilities	<u>1,764,183</u>

Long-term portion of notes payable 6,005,735

Total liabilities 7,769,918

Net Assets:

Unrestricted	<u>889,420</u>
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Total net assets 889,420

Total liabilities and net assets \$ 8,659,338

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:				
Contributions	\$ 140,218	2,650	-	142,868
Special Event - Gratitude (gross \$155,316 less \$43,887 direct expenses)	111,429	-	-	111,429
Special Event - Luau (gross \$8,571 less \$8,302 direct expenses)	269			269
Donated supplies	30,190			30,190
Room and board income	1,383,808	-	-	1,383,808
Miscellaneous income	71	-	-	71
Interest income	326	-	-	326
Subtotal support and revenues	<u>1,666,311</u>	<u>2,650</u>	<u>-</u>	<u>1,668,961</u>
Net assets released from restrictions	<u>2,650</u>	<u>(2,650)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,668,961</u>	<u>-</u>	<u>-</u>	<u>1,668,961</u>
Expenses:				
Program services	<u>1,334,471</u>	<u>-</u>	<u>-</u>	<u>1,334,471</u>
Supporting services:				
Management & General	208,354	-	-	208,354
Fundraising	45,973	-	-	45,973
Subtotal supporting services	<u>254,326</u>	<u>-</u>	<u>-</u>	<u>254,326</u>
Total expenses	<u>1,588,797</u>	<u>-</u>	<u>-</u>	<u>1,588,797</u>
Increase (decrease) in net assets	80,164	-	-	80,164
Net assets (deficit) at beginning of year, as restated (Note 7)	<u>809,256</u>	<u>-</u>	<u>-</u>	<u>809,256</u>
Net assets (deficit) at end of year	<u>\$ 889,420</u>	<u>-</u>	<u>-</u>	<u>889,420</u>

See independent auditors' report and notes to financial statements

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2016

	Program Services	Supporting Services			Total
		Management & General	Fundraising	Subtotal	
Salaries and wages	\$ 458,055	70,055	10,778	80,833	538,888
Employee benefits	63,458	9,705	1,493	11,198	74,656
Payroll taxes	45,808	7,006	1,078	8,084	53,892
Resident food, care and services	144,505	-	-	-	144,505
Professional services- accounting	20,847	11,727	-	11,727	32,574
Professional services- legal	4,628	2,603	-	2,603	7,231
Professional services- other	23,699	13,330	-	13,330	37,029
Insurance	14,389	9,593	-	9,593	23,982
Depreciation and amortization	80,187	12,264	1,887	14,151	94,338
Utilities, cable, internet, phone	47,323	7,238	1,113	8,351	55,674
Donated supplies	25,662	3,925	604	4,529	30,190
Travel and transportation	1,514	1,514	336	1,850	3,364
Training	331	331	74	405	736
Office expenses	15,864	2,426	373	2,799	18,663
Licenses and dues	2,467	822	-	822	3,289
Advertising	-	-	4,601	4,601	4,601
Repairs and maintenance	102,441	15,667	2,410	18,078	120,519
Property taxes	5,468	836	129	965	6,433
Interest	270,360	38,168	9,542	47,711	318,070
Miscellaneous fundraising	-	-	11,379	11,379	11,379
Fees-bank, loan, payroll	7,466	1,142	176	1,318	8,784
Total expenses	<u>\$ 1,334,471</u>	<u>208,354</u>	<u>45,973</u>	<u>254,326</u>	<u>1,588,797</u>

GLENNWOOD HOUSING FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2016

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Increase (decrease) in net assets	\$ 80,164
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	94,338
Donated supplies	(27,942)
(Increase) decrease in accounts receivable	(5,890)
(Increase) decrease in prepaid expenses	(31,953)
(Increase) decrease in due from related party	-
(Decrease) Increase in accounts payable	28,242
(Decrease) Increase in deposits payable	(11,390)
(Decrease) Increase in unearned rent	14,261
(Decrease) Increase in accrued interest	-
Net cash provided by operating activities	<u>139,830</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of property and equipment	(4,048)
Purchase of reserve for debt service	<u>(121)</u>
Net cash used in investing activities	<u>(4,169)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from issuance of notes payable	-
Issuance of line of credit	1,033
Repayment of notes payable	(190,576)
Repayment on line of credit	<u>-</u>
Net cash used in financing activities	<u>(189,543)</u>

Net increase in cash (53,882)

Cash and cash equivalents, beginning of year 228,509

Cash and cash equivalents, end of year \$ 174,627

**SUPPLEMENTAL CASH FLOWS DISCLOSURE:**

Taxes paid	<u>\$ 6,433</u>
Interest paid	<u><u>\$ 318,070</u></u>

**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, 2016.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**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, 2016

**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, 2016 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, 2016

**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, 2016, the Foundation received \$30,190 of various donated equipment and supplies which were recognized.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense was \$4,601 for the year ended December 31, 2016.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**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 2013 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 \$11,623 as of December 31, 2016 and was recorded in accounts payable and accrued liabilities on the statement of net assets.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**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.

Prepaid Expense – Rent and other

Prepaid expenses at December 31, 2016 in the amount of \$102,058 represents prepayment of expenses incurred for rent, insurance, and various other services.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2016 consisted of the following:

Land	\$ 5,141,074
Building	1,407,518
Building improvements	1,752,313
Furniture and fixtures	157,566
Total	<u>8,458,471</u>
Less accumulated depreciation	<u>(334,774)</u>
Net book value	<u>\$ 8,123,697</u>

Depreciation expense and amortization was \$94,338 for the year ended December 31, 2016.

**NOTE 3 - NOTES PAYABLE**

Notes payable as of December 31, 2016 consisted of the following:

Notes payable, unsecured	\$ 234,000
Notes payable, secured by deed	<u>7,073,592</u>
Total	\$ 7,307,592
Less current portion	<u>(1,301,857)</u>
Long-term portion	<u>6,005,735</u>

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**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 from \$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 ever first occurs. The amount of annual net revenues equaled approximately 106% of the annual debt service requirement as of December 31, 2016. 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 \$240,231 recorded on the statement of financial position. As of December 31, 2016, the outstanding balance of the note was \$6,323,592. The following are the future obligations per the note agreement:

<u>Year ended December 31,</u>	<u>Principal</u>
2016	\$ 154,497
2017	161,997
2018	169,863
2019	178,108
2020	186,756
Thereafter	<u>5,472,371</u>
Total	<u>\$6,323,592</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. The note is due on demand. Principal outstanding as of December 31, 2016 was \$750,000.

The Foundation also has obtained two unsecured notes payable from related parties in the amounts of \$204,000 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, 2016, these loans totaled \$234,000 and have been classified as current liabilities.

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**NOTE 4 – LINE OF CREDIT**

In 2015, the Foundation obtained a bank line of credit that provided for maximum borrowings of \$200,000, secured by a second lien on real property, at an interest rate of 4.25%. The line terminates on February 18, 2017 and there was a balance outstanding of \$164,393 as of December 31, 2016.

**NOTE 5 – NET ASSETS RELEASED FROM RESTRICTIONS**

During the year ended December 31, 2016, \$2,650 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, 2016.

	<b>Temporarily Restricted Net Assets- Beginning of Year</b>	<b>Temporarily Restricted Revenues</b>	<b>Released From Restriction</b>	<b>Temporarily Restricted Net Assets- End of Year</b>
Restricted for:				
Air conditioning	\$ -	<u>2,650</u>	<u>(2,650)</u>	=

**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, 2016 have been restated to reflect a certain adjustment to accumulated depreciation which was overstated in the prior year:

Beginning net assets, January 1, 2016, as previously reported	\$797,016	
Adjustment to accumulated depreciation	<u>12,240</u>	
Beginning net assets, January 1, 2016, as restated	<u>\$809,256</u>	

GLENNWOOD HOUSING FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

**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 June 12, 2017, the date on which the financial statements were available to be issued.