

MARY'S SHELTER

FINANCIAL STATEMENTS

Year ended September 30, 2016

(With Independent Auditors' Report Thereon)

MARY'S SHELTER
FINANCIAL STATEMENTS

Year ended September 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Board of Directors
Mary's Shelter
Santa Ana, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Mary's Shelter as of September 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended and 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 Mary's Shelter as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited Mary's Shelter financial statements ended September 30, 2015, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 16, 2017 on our consideration of Mary's Shelter's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mary's Shelter's internal control over financial reporting and compliance.



Irvine, California
June 16, 2017

MARY'S SHELTER
STATEMENT OF FINANCIAL POSITION

September 30, 2016
(with prior year data for comparison purposes only)

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash (note 2)	\$ 506,668	487,193
Restricted cash (note 2)	1,380	1,007
Investments (note 3)	362,768	327,423
Contracts and contributions receivable, net	142,112	176,433
Contributions receivable	-	2,500
Prepaid and other expenses	<u>21,439</u>	<u>11,682</u>
TOTAL CURRENT ASSETS	<u>1,034,367</u>	<u>1,006,238</u>
NONCURRENT ASSETS		
Fixed assets, net (note 4)	594,214	601,209
Restricted investments - Endowment (note 3)	<u>237,515</u>	<u>217,345</u>
TOTAL NONCURRENT ASSETS	<u>831,729</u>	<u>818,554</u>
TOTAL ASSETS	<u>\$ 1,866,096</u>	<u>1,824,792</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 20,500	22,088
Accrued compensation	18,884	71,041
Accrued paid time off	40,237	35,997
Unearned revenue	<u>-</u>	<u>3,730</u>
TOTAL CURRENT LIABILITIES	<u>79,621</u>	<u>132,856</u>
TOTAL LIABILITIES	<u>79,621</u>	<u>132,856</u>
 NET ASSETS (note 6)		
Unrestricted	1,688,698	1,608,303
Temporarily restricted	21,774	7,630
Permanently restricted (note 12)	<u>76,003</u>	<u>76,003</u>
TOTAL NET ASSETS	<u>1,786,475</u>	<u>1,691,936</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,866,096</u>	<u>1,824,792</u>

See accompanying notes to financial statements.

MARY'S SHELTER
STATEMENT OF ACTIVITIES

Year Ended September 30, 2016
(with prior year data for comparison purposes only)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016</u>	<u>2015</u>
SUPPORT, REVENUES AND GAINS:					
Government funding (note 9)	\$ 1,659,689	1,811	-	1,661,500	1,497,982
Contributions - private funding (note 7)	459,585	-	-	459,585	405,467
Special events, net (note 8)	153,624	-	-	153,624	127,857
Donated services and equipment	995	-	-	995	10,399
Investment income, loss (note 3)	28,933	22,622	-	51,555	(20,660)
Other	8,381	623	-	9,004	5,152
	<u>2,311,207</u>	<u>25,056</u>	<u>-</u>	<u>2,336,263</u>	<u>2,026,197</u>
Subtotal support, revenues and gains					
Net assets released from restrictions	<u>10,912</u>	<u>(10,912)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT, REVENUES AND GAINS	<u>2,322,119</u>	<u>14,144</u>	<u>-</u>	<u>2,336,263</u>	<u>2,026,197</u>
EXPENSES:					
Program services	<u>1,878,399</u>	<u>-</u>	<u>-</u>	<u>1,878,399</u>	<u>1,756,175</u>
TOTAL PROGRAM SERVICES	<u>1,878,399</u>	<u>-</u>	<u>-</u>	<u>1,878,399</u>	<u>1,756,175</u>
SUPPORTING SERVICES					
Management and general	129,975	-	-	129,975	105,035
Fundraising	<u>233,350</u>	<u>-</u>	<u>-</u>	<u>233,350</u>	<u>185,323</u>
TOTAL SUPPORTING SERVICES	<u>363,325</u>	<u>-</u>	<u>-</u>	<u>363,325</u>	<u>290,358</u>
TOTAL EXPENSES	<u>2,241,724</u>	<u>-</u>	<u>-</u>	<u>2,241,724</u>	<u>2,046,533</u>
INCREASE (DECREASE) IN NET ASSETS	80,395	14,144	-	94,539	(20,336)
NET ASSETS AT BEGINNING OF YEAR	<u>1,608,303</u>	<u>7,630</u>	<u>76,003</u>	<u>1,691,936</u>	<u>1,712,272</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,688,698</u>	<u>21,774</u>	<u>76,003</u>	<u>1,786,475</u>	<u>1,691,936</u>

See accompanying notes to financial statements.

MARY'S SHELTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended September 30, 2016
(with prior year data for comparison purposes only)

	Program Services	Support Services			Totals	
		Management and General	Fund Raising	Total	2016	2015
Salaries and benefits	\$ 1,360,814	92,663	176,846	269,509	1,630,323	1,505,680
Professional Services	8,423	4,950	3,100	8,050	16,473	20,426
Depreciation	35,457	1,848	-	1,848	37,305	38,261
Groceries and clothing	117,876	-	-	-	117,876	112,326
Insurance expense	117,669	10,960	9,745	20,705	138,374	102,795
Medical insurance	44,455	1,158	4,037	5,195	49,650	61,563
Office expenses	7,796	3,908	10,344	14,252	22,048	20,488
Other expenses	22,335	4,783	10,647	15,430	37,765	8,855
Printing and postage	3,694	1,141	17,406	18,547	22,241	19,676
Property and maintenance	44,413	5,476	-	5,476	49,889	37,484
Resident activities and supplies	49,556	-	-	-	49,556	46,379
Staff recruitment and training	8,117	-	-	-	8,117	5,588
Telephone	8,506	1,969	1,225	3,194	11,700	13,866
Transportation	28,021	-	-	-	28,021	24,875
Utilities	21,267	1,119	-	1,119	22,386	28,271
Total expenses	\$ 1,878,399	129,975	233,350	363,325	2,241,724	2,046,533
Percentage of total expenses	84%	6%	10%		100%	

See accompanying notes to financial statements.

MARY'S SHELTER
STATEMENT OF CASH FLOWS

Year ended September 30, 2016
(with prior year data for comparison purposes only)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 94,539	(20,336)
Adjustments to reconcile increase (decrease) in net assets to cash provided by operating activities:		
Depreciation	37,305	38,261
Net realized loss (gain) on investments	-	(4,409)
Net unrealized loss (gain) on investments	(41,814)	44,003
(Increase) decrease in contracts receivable	34,321	(19,035)
(Increase) decrease in contributions receivable	2,500	(2,500)
(Increase) decrease in prepaid expenses	(9,757)	(11,682)
Increase (decrease) in accounts payable	(1,588)	(3,963)
Increase (decrease) in accrued compensation and paid time off	(47,917)	12,222
Increase (decrease) in unearned revenue	(3,730)	3,730
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	63,859	36,291
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	-	4,991
Purchases of investments	(13,802)	(38,295)
Cash paid for property and equipment	(30,209)	(13,811)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(44,011)	(47,115)
NET INCREASE (DECREASE) IN CASH	19,848	(10,824)
CASH AT BEGINNING OF YEAR	488,200	499,024
CASH AT END OF YEAR	\$ 508,048	488,200

Noncash investing and financing activities:

During the years ended September 30, 2016 and 2015, there were no significant noncash investing or financing activities.

See accompanying notes to financial statements.

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

Year ended September 30, 2016

(1) **Summary of Significant Accounting Policies**

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of financial statements. A description of significant accounting policies employed in the preparation of these financial statements are as follows:

Organization and Nature of Services – Mary's Shelter provides comprehensive residential care in a loving and supportive environment for pregnant and parenting minors who are homeless or in another crisis situation. The programs of the organization are designed to ensure the health of the young mothers and their babies, and to develop the responsibility and maturity of each resident.

Basis of Accounting – The financial statements of Mary's Shelter have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation – Mary's Shelter follows the financial statement presentation recommended by the Financial Accounting Standards Boards (FASB) in its Auditing Standards Codification (ASC) ASC 958-205, *Presentation of Financial Statements*. Under ASC 958-205, Mary's Shelter 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, Mary's Shelter considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist of various demand deposits.

Restricted Cash – Mary's Shelter receives some government funding from each resident's county to be used specifically for clothing for residents of the Shelter. A separate account is maintained to track these funds.

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) **Summary of Significant Accounting Policies, (Continued)**

Investments – Investments represent funds invested primarily in money market and mutual funds. In accordance with ASC 958-320, *Investments – Debt and Equity Securities*, the Shelter has reflected all investments in the accompanying financial statements at market value. Net appreciation (depreciation) in the fair value of investments, which consists of realized and unrealized gains or losses on these investments, is shown in the Statement of Activities as a component of investment income.

Fair Value Measurements - ASC 820-10, Fair Value Measurements establishes a framework for measuring fair value using generally accepted accounting principles, and expands disclosures related to fair value measurements. The Statement applies to other accounting pronouncements that require or permit fair value measurements. ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described below:

- Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities
- Level 2 – Directly or indirectly observable input for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets
- Level 3 – Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best information available in the circumstances, including the entity's own data

Donated Property and Equipment – Donated property and equipment are recorded as support at their estimated fair values at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, Mary's Shelter reports expirations of donor restrictions when the donated equipment or acquired assets are placed in service as instructed by the donor. Mary's Shelter reclassifies temporarily restricted net assets to unrestricted net assets at that time.

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) **Summary of Significant Accounting Policies, (Continued)**

Donated Property and Equipment (continued) – As of September 30, 2016, Mary's Shelter has no donor restricted property and equipment.

Income Taxes – Mary's Shelter is a tax-exempt organization ("other than a private foundation") under Section 501(c)(3) of the Internal Revenue Code and is exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code.

Donated Services – Donated services are reflected in the accompanying statements at their estimated market values at date of receipt. Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. See note 6 for further details.

Restricted and Unrestricted Revenue and Support – The organization 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 unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support 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 the purpose for the 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.

Prior Year Data – Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Mary's Shelter's prior year financial statements, from which this selected financial data was derived.

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) **Summary of Significant Accounting Policies, (Continued)**

Revenue Recognition and Concentration of Revenues – Mary's Shelter received approximately 71% of its total support and revenue from government funding for the year ended September 30, 2016. Revenue from government grants are recognized as exchange transactions and are recorded when earned. Amounts received in advance are reflected as deferred revenue.

Expense Allocation – The costs of providing the program and other activities have been summarized on a functional basis in the "Statement of Activities" and in the "Statement of Functional Expenses". Accordingly, certain costs have been allocated among the program and supporting services benefited. Where expenses apply to more than one function, the allocation is based on either square footage (such as for utilities) or estimated percentage of use for each purpose (telephone and postage.)

Accrued Paid Time Off (PTO) – Accrued employee paid time off (PTO) payable represents vacation, sick and personal time earned by Mary's Shelter employees which has not yet been taken. Employees may accrue and accumulate PTO up to a maximum of twenty (20) days. As of September 30, 2016, the amount of accrued PTO benefits was \$40,237 and is being reported in the Statement of Financial Position as accrued compensation and paid time off.

Endowment Funds – In August 2008 the FASB issued FASB Staff Position (FSP) No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds. FSP No. 117-1 improves disclosures about an organization's endowment funds (whether the organization is subject to the Uniform Management of Institutional Funds Act ("UMIFA"), or its replacement legislation, UPMIFA. The State of California enacted UPMIFA effective January 1, 2009.

To build the Endowment Fund and encourage supporters to include Mary's Shelter in their estate plans, a 'Guardian Angel' designation was created. As of the end of the 2016 fiscal year, eighteen Guardian Angels were identified. Current gifts have been received from three of them, while the other fifteen named Mary's Shelter in their wills, trusts, or as beneficiaries of insurance policies. Mary's Shelter has not recorded these wills, trusts, and life insurance policies in the financial statements because the legal documents are not irrevocable. Guardian Angel gifts do not include those directed to the Endowment Fund by the Board of Directors, or gifts donated as part of an endowment campaign for the 21th Anniversary.

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

(2) Cash and Cash Equivalents

Cash and cash equivalents is presented in the accompanying statement of net assets at September 30, 2016 as follows:

Cash	\$ 506,668
Restricted cash	<u>1,380</u>
Total cash	<u>\$ 508,048</u>

At September 30, 2016, cash is comprised of bank accounts and a certificate of deposit. There were no accounts in excess of federally insured limits at year-end.

(3) Investments

Investment income is comprised of the following at September 30, 2016:

Interest and dividend income	\$ 9,741
Unrealized gains (losses)	<u>41,814</u>
Total	<u>\$ 51,555</u>

Fair values of assets measured on a recurring basis at September 30, 2016:

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Mutual funds	\$ 215,879	215,879	-	-
Equities	146,889	146,889	-	-
Common fund	<u>237,515</u>	<u>-</u>	<u>-</u>	<u>237,515</u>
Total	<u>\$ 600,283</u>	<u>362,768</u>	<u>-</u>	<u>237,515</u>

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

(3) Investments, (Continued)

Changes in investments reported at Level 3 for the period October 1, 2015 to September 30, 2016, were as follows:

Balance at beginning of period	\$ 217,345
Reinvested interest and dividend income	1,625
Investment purchases	-
Investment fees	(2,452)
Change in fair value of investments	<u>20,997</u>
Balance at end of period	<u>\$ 237,515</u>

The common fund fair value equals the accumulated cash contributions, distributions, gains or losses and interest credited to the fund. The common fund is held with the Community Foundation, which holds, manages, invested and re-invest the funds as well as collects the interest earned and distributes the total return as determined by the Community Foundation's Board of Governors on an annual basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A framework for measuring fair value prioritizes the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. An investment categorization is based upon the lowest level of input that is significant to the fair value measurement. The estimated fair value may differ from the values that would have been used had a ready market for these securities existed.

(4) Fixed Assets

Fixed assets are recorded at cost. Depreciation of fixed assets is recorded using the straight-line method over a useful life of 5 to 40 years applied to individual items. It is the policy of Mary's Shelter to capitalize all assets over \$1,000. Depreciation expense for the year ended September 30, 2016 amounted to \$37,305. Fixed assets consist of the following at September 30, 2016:

Land	\$ 260,310
Buildings	680,569
Furniture	58,047
Vehicles	114,285
Equipment	<u>5,727</u>
Total	1,118,938
Less accumulated depreciation	<u>(524,724)</u>
Fixed assets, net of accumulated depreciation	<u>\$ 594,214</u>

MARY'S SHELTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(5) Lease Commitment

Mary's Shelter entered into two long-term operating lease agreements for their copier and postage equipment. The rental expense under the long-term leases for the year ended September 30, 2016 was \$3,609.

Future minimum lease payment under long-term operating leases consist of the following:

Fiscal Year:			
	2017	\$	3,609
	2018		2,879
	2019		2,873
	2020		<u>2,873</u>
	Total minimum future payments	\$	<u>12,234</u>

(6) Net Assets

Net assets consisted of the following as of September 30, 2016:

Unrestricted net assets:			
	Net investment in property and equipment	\$	594,214
	Available for programs		953,142
	Unrestricted Net Assets		
	Board Designated Endowment		<u>141,342</u>
	Total unrestricted net assets		<u>1,688,698</u>
Temporarily restricted net assets:			
	Clothing allowance for residents		1,604
	Endowment investment earnings		<u>20,170</u>
	Total temporarily restricted net assets		<u>21,774</u>
Permanently restricted net assets:			
	Donor Endowment		<u>76,003</u>
	Total permanently restricted net assets		<u>76,003</u>
	Total net assets	\$	<u>1,786,475</u>

MARY'S SHELTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(7) Special Events

Mary's Shelter held one significant special event in the current year, a gala. The results of all special events held are as follows:

	<u>Gala</u>	<u>Other</u>	<u>Total</u>
Contribution revenue	\$ 177,422	14,750	192,172
Less direct expenses	<u>(31,476)</u>	<u>(7,072)</u>	<u>(38,548)</u>
Net support from special events	<u>\$ 145,966</u>	<u>7,678</u>	<u>153,624</u>

(8) Contributions - Private Funding

Mary's Shelter received the following contributions from private funding and grants for the year ended September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Corporate donations	\$ 14,736	-	-	14,736
Foundation grants	154,895	-	-	154,895
Individual donations	231,718	-	-	231,718
Institutional donations	<u>58,236</u>	<u>-</u>	<u>-</u>	<u>58,236</u>
	<u>\$ 459,585</u>	<u>-</u>	<u>-</u>	<u>459,585</u>

(9) Government Funding

Mary's Shelter received the following government funding for the year ending September 30, 2016:

Aid to Families with Dependent Children (AFDC)	\$ 1,659,689
County Clothing Allowance	<u>1,811</u>
Total governmental funding	<u>\$ 1,661,500</u>

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

(10) **Retirement Plan**

Mary's Shelter has adopted a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code whereby employees may elect to defer a portion of their compensation to be invested in mutual fund chassis on their behalf. The amount of contributions made by Mary's Shelter, if any, is at the sole discretion of Mary's Shelter. For the fiscal year ended September 30, 2016, Mary's Shelter has not made any contributions.

(11) **Contingencies**

Financial assistance from state and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against Mary's Shelter for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

(12) **Endowment Funds**

Mary's Shelter has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds and the maintenance of the original purchasing power of donor-directed gifts and board-directed contributions over time, while safeguarding funds during market fluctuations and providing stability and liquidity for annual distributions. As a result of this interpretation, donor-directed gifts are classified as permanently restricted net assets; however restrictions on the use of permanently endowed funds are not accepted. Board-directed contributions are classified as unrestricted net assets as there is a provision for invasion of the principal of these funds by the Mary's Shelter Board of Directors under specified conditions, when also approved by the Orange County Community Foundation Board of Governors. According to Shelter policy, distributions of earnings may only be taken from the Endowment Fund after it reaches \$1 million, and distributions may only be used for operating expenses. Any distributable amount from earnings, as determined by the OCCF, will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Shelter in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Shelter considers the following factors in determining whether to appropriate or accumulate available endowment funds:

- (1) Fund duration, balance and preservation of the fund

MARY'S SHELTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

(12) Endowment Funds, (Continued)

- (2) The needs of the Shelter to accomplish its core mission
- (3) General economic conditions
- (4) The possible impact of inflation and deflation on the fund
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Shelter
- (7) The investment policies of the Shelter

Endowment Composition and Changes in Endowment Net Assets

Endowment net asset composition by type of fund as of September 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Board designated	\$ 141,342	20,170	-	161,512
Donor restricted	<u>-</u>	<u>-</u>	<u>76,003</u>	<u>76,003</u>
Total	<u>\$ 141,342</u>	<u>20,170</u>	<u>76,003</u>	<u>237,515</u>

Changes in endowment net assets for the fiscal year ended September 30, 2016 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 141,342	6,623	76,003	223,968
Investment return:				
Investment income (loss)	-	22,622	-	22,622
Investment fees	-	(2,452)	-	(2,452)
Contribution to endowment	-	-	-	-
Reclassification of investment income	<u>-</u>	<u>(6,623)</u>	<u>-</u>	<u>(6,623)</u>
Endowment net assets, end of year	<u>\$ 141,342</u>	<u>20,170</u>	<u>76,003</u>	<u>237,515</u>

MARY'S SHELTER
NOTES TO FINANCIAL STATEMENTS

(Continued)

(12) Endowment Funds, (Continued)

Return Objectives and Risk Parameters

The Mary's Shelter Board of Directors holds the Mary's Shelter Endowment Fund in the Orange County Community Foundation, to be managed pursuant to the investment policy adopted by the Board. The goal is to create conservative long-term growth of the Endowment Fund corpus to maintain purchasing power over time, while safeguarding funds during market fluctuations and providing stable income and liquidity for annual distributions. The policy further directs conservative risk tolerance to preserve and grow the Endowment Fund over time and social screens/mission based investing where possible.

(13) Related Party Transactions

Mary's Shelter has a Capital Reserve Fund with the banking institution, Banc of California. An Audit Committee member is an employee at Banc of California. No fees were paid to Banc of California during the year ended September 30, 2016.

(14) Subsequent events

Management has evaluated subsequent events through February 18, 2016 (the date the financial statements were available to be issued). Management believes no events have occurred subsequent to the statement of financial position date and through June 16, 2017 that would require adjustment to or disclosure in Mary's Shelter's financial statements.