

**Thomas House Temporary Shelter**  
**Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**Stafford and Warren, LLP**  
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THOMAS HOUSE TEMPORARY SHELTER  
FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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To the Board of Directors  
Thomas House Temporary Shelter

We have audited the accompanying financial statements of Thomas House Temporary Shelter (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, statements of cash flows, and statements of functional expenses for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 risk 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 Thomas House Temporary Shelter as of June 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Stafford & Warren, LLP  
Irvine, CA  
November 3, 2016

THOMAS HOUSE TEMPORARY SHELTER  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note A)	\$ 42,253	\$ 146,655
Grants receivable	45,083	51,484
Deposits	1,729	1,522
Prepays	35,245	10,125
Property and equipment, net of accumulated depreciation (Note B)	<u>1,378,749</u>	<u>1,426,493</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,503,059</u></u>	<u><u>\$ 1,636,279</u></u>
<b>LIABILITIES</b>		
Accounts payable	\$ 24,775	\$ 17,215
Accrued payroll and payroll taxes	3,943	12,086
Accrued expenses	15,928	18,514
Other current liabilities	205	247
Deferred revenue	7,800	65
Accrued interest (Note C)	439,110	405,180
Long-term debt (Note C)	<u>1,131,000</u>	<u>1,131,000</u>
<b>TOTAL LIABILITIES</b>	1,622,761	1,584,307
<b>NET ASSETS</b>		
Unrestricted	(131,473)	45,468
Temporarily Restricted (Note D)	<u>11,771</u>	<u>6,504</u>
<b>TOTAL NET ASSETS</b>	<u>(119,702)</u>	<u>51,972</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,503,059</u></u>	<u><u>\$ 1,636,279</u></u>

THOMAS HOUSE TEMPORARY SHELTER  
 STATEMENTS OF ACTIVITIES  
 Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>UNRESTRICTED NET ASSETS</b>		
Support and Revenue		
Contributions and donations	\$ 318,892	\$ 350,958
Government grants	95,792	103,717
Laundry room and miscellaneous income	5,493	3,797
Program service fees	-	-
Interest income	21	136
Net assets released from restriction	<u>69,733</u>	<u>78,496</u>
Subtotal Support and Revenue	489,931	537,104
Fundraising Activity		
Fundraising revenue	209,995	242,352
Direct fundraising costs	<u>(45,344)</u>	<u>(52,971)</u>
Net Fundraising Activity	<u>164,651</u>	<u>189,381</u>
Total Support and Revenue	654,582	726,485
Expenses		
Housing and Living Skills	654,295	689,776
Management and General	90,449	102,078
Fundraising	<u>86,779</u>	<u>158,245</u>
Total Expenses	<u>831,523</u>	<u>950,099</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(176,941)	(223,614)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	75,000	55,000
Net assets released from restrictions	<u>(69,733)</u>	<u>(78,496)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>5,267</u>	<u>(23,496)</u>
NET INCREASE (DECREASE) IN NET ASSETS	(171,674)	(247,110)
NET ASSETS AT BEGINNING OF YEAR	<u>51,972</u>	<u>299,082</u>
NET ASSETS AT END OF YEAR	<u>\$ (119,702)</u>	<u>\$ 51,972</u>

THOMAS HOUSE TEMPORARY SHELTER  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (171,674)	\$ (247,110)
Adjustments to reconcile change in net assets to net cash provided operating activities		
Depreciation	53,478	55,406
Decrease (increase) in grants receivable	6,401	66,457
(Decrease) increase in other receivable	-	288
(Decrease) increase in deposits	(207)	-
Decrease (increase) in prepaids	(25,120)	(1,347)
(Decrease) increase in accounts payable	7,560	2,971
(Decrease) increase in accrued payroll and payroll taxes	(8,143)	941
(Decrease) increase in accrued expenses	(2,586)	2,759
(Decrease) increase in other current liabilities	(42)	312
(Decrease) increase in deferred revenue	7,735	-
(Decrease) increase in accrued interest	33,930	33,930
	<u>33,930</u>	<u>33,930</u>
NET CASH PROVIDED (USED )BY OPERATING ACTIVITIES	(98,668)	(85,393)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(5,734)	(16,911)
Redemption of investments	-	-
	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) FOR INVESTING ACTIVITIES	(5,734)	(16,911)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	-	-
	<u>-</u>	<u>-</u>
NET CASH USED FOR FINANCING ACTIVITIES	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(104,402)	(102,304)
BEGINNING CASH AND CASH EQUIVALENTS	<u>146,655</u>	<u>248,959</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 42,253</u>	<u>\$ 146,655</u>
<b>Supplemental Disclosure of Noncash Activities</b>		
Donated materials and services	<u>\$ 40,584</u>	<u>\$ 64,027</u>
Cash paid during the year for interest	<u>\$ 792</u>	<u>\$ 613</u>
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

THOMAS HOUSE TEMPORARY SHELTER  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 Year Ended June 30, 2016

	Program Services	Supporting Services		2016
	Housing and Living Skills	Management and General	Fundraising	Total
Auto/transportation	\$ 2,687	\$ -	\$ -	\$ 2,687
Bank charges	6,739	214	-	6,953
Child care	11,817	-	-	11,817
Children's Program	1,072	-	-	1,072
Clothing	15,476	-	-	15,476
Computer & internet related fees	11,366	2,541	3,712	17,619
Counseling	5,717	-	-	5,717
Depreciation	51,874	1,604	-	53,478
Dues and subscriptions	-	937	-	937
Event expenses	-	-	1,687	1,687
Food	19,627	-	-	19,627
Furnishing & appliances	5,407	-	-	5,407
Insurance	45,552	5,236	1,571	52,359
Interest	33,680	1,042	-	34,722
Laundry	1,184	-	-	1,184
Licence and permits	-	256	-	256
Parenting classes	600	-	-	600
Payroll Service	1,655	265	287	2,207
Payroll taxes	21,014	3,362	3,643	28,019
Postage	1,647	183	-	1,830
Prevention program	48,727	-	-	48,727
Printing & newsletter	-	783	10,639	11,422
Professional fees	28,918	30,084	10,833	69,835
Program development	14,329	-	4,702	19,031
Promotion	-	-	7,870	7,870
Property tax	11,312	350	-	11,662
Repairs	7,689	238	-	7,927
Salaries	226,659	39,386	38,609	304,654
Storage	5,083	268	-	5,351
Supplies	24,771	508	553	25,832
Telephone	9,420	265	-	9,685
Travel	4,141	128	414	4,683
Utilities	23,099	714	-	23,813
Workman's Compensation	13,033	2,085	2,259	17,377
<b>TOTAL EXPENSES</b>	<b>\$ 654,295</b>	<b>\$ 90,449</b>	<b>\$ 86,779</b>	<b>\$ 831,523</b>

THOMAS HOUSE TEMPORARY SHELTER  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 Year Ended June 30, 2015

	Program Services	Supporting Services		2015
	Housing and Living Skills	Management and General	Fundraising	Total
Auto/transportation	\$ 4,778	\$ -	\$ -	\$ 4,778
Bank charges	3,580	117	-	3,697
Child care	12,720	-	-	12,720
Children's Program	17,880	-	-	17,880
Clothing	11,045	-	-	11,045
Computer & internet related fees	19,790	-	-	19,790
Counseling	21,015	-	-	21,015
Depreciation	53,744	1,662	-	55,406
Dues and subscriptions	1,789	-	-	1,789
Event expenses	-	-	57,224	57,224
Food	35,450	-	-	35,450
Furnishing & appliances	4,803	-	-	4,803
Insurance	34,825	4,003	1,201	40,029
Interest	33,507	1,036	-	34,543
Laundry	1,008	-	-	1,008
Licence and permits	-	317	-	317
Move-in expense	2,900	-	-	2,900
Parenting classes	2,093	-	-	2,093
Payroll Service	1,869	379	461	2,709
Payroll taxes	20,040	4,066	4,937	29,043
Postage	2,016	504	-	2,520
Prevention program	59,550	-	-	59,550
Printing & newsletter	-	643	21,339	21,982
Professional fees	765	35,751	8,919	45,435
Program development	14,959	-	3,192	18,151
Promotion	-	-	3,381	3,381
Property tax	4,187	130	-	4,317
Repairs	19,527	604	-	20,131
Salaries	227,878	48,297	54,318	330,493
Security	2,562	-	-	2,562
Storage	4,788	-	-	4,788
Supplies	22,178	1,097	367	23,642
Telephone	7,117	163	-	7,280
Travel	7,626	236	-	7,862
Utilities	21,991	680	-	22,671
Workman's Compensation	11,796	2,393	2,906	17,095
<b>TOTAL EXPENSES</b>	<b>\$ 689,776</b>	<b>\$ 102,078</b>	<b>\$ 158,245</b>	<b>\$ 950,099</b>



**THOMAS HOUSE TEMPORARY SHELTER**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note A - Summary of Significant Accounting Policies**

Nature of Activities

Thomas House Temporary Shelter (the Organization) is a nonprofit organization established under the general nonprofit corporation laws of the State of California. The Organization (Thomas House) was established to provide temporary shelter and housing for the poor and needy in the County of Orange, California. Families stay in facilities owned by the Organization and are provided with counseling services to help them obtain employment, financial assistance, and eventually, permanent housing. The Organization's primary source of revenue is through public support in the form of donations, grants, and fundraising. It is governed by a Board of Directors appointed according to the provisions of the bylaws.

Basis of Presentation

The Organization 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. In addition, the Organization is required to present a statement of cash flows.

Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Certain costs have been allocated among program and supporting services. Fundraising costs are considered to be supporting services.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Contributions

The Organization recognizes contribution revenues for certain services received at the fair value of those services. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of donor restrictions.

Contributions of donated materials are recorded at their fair values in the period received if there is an objective basis available to measure their value. Contributions of donated services meeting the criteria for recognition in the financial statements are recorded at their

## **THOMAS HOUSE TEMPORARY SHELTER**

### **Notes to Financial Statements**

**June 30, 2016 and 2015**

#### **Note A - Summary of Significant Accounting Policies, Continued**

##### Contributions, Continued

fair value. Donated materials amounted to \$40,584 and \$64,027 for years ended June 30, 2016 and 2015, respectively.

##### Recognition of Donor Restricted Contributions

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, temporarily restricted net assets are reclassified to unrestricted net assets.

##### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the statement of activities.

##### Income Taxes

The organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes.

#### **Note B – Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an ordinary transaction between market participants on the measurement date. Assets recorded at fair value in the statement of activities and changes in net assets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

**THOMAS HOUSE TEMPORARY SHELTER**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Note B – Fair Value Measurements, Continued**

Level inputs, are as follows:

Level Input	Input Definition
Level 1	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs, other than quoted prices included in Level 1, which are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

**Note C - Land, Buildings, Furniture and Equipment**

Property and Equipment

Fixed Assets acquired by Thomas House Temporary Shelter are considered to be owned by the Organization. However, the City funding sources may maintain equitable-sharing interest equal to sixty percent (60%) in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets in the event of sale, lease exchange, or other conveyance of the property other than the lease of the individual apartment units to tenants in the ordinary course of business, prior to the fifty fifth anniversary of the date of the promissory note (See Note D).

Acquisitions of land, buildings, furniture and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. 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 of donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations when the donated assets are placed in service as instructed by the donor.

# THOMAS HOUSE TEMPORARY SHELTER

## Notes to Financial Statements

June 30, 2016 and 2015

### Note C - Land, Buildings, Furniture and Equipment, Continued

The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over their estimated useful lives (40 years for buildings and 5 to 10 years for improvements, furniture and equipment). Expenditures that extend the useful life of the asset or enhance its productivity are capitalized.

The cost of such assets at June 30, 2016 and 2015 is as follows:

	2016	2015
Land	\$ 953,015	\$ 953,015
Buildings and improvements	803,938	802,389
Furniture, fixtures, and equipment	54,546	50,361
	<u>1,811,499</u>	<u>1,805,765</u>
Less: Accumulated depreciation	432,750	379,272
	<u>\$ 1,378,749</u>	<u>\$ 1,426,493</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$53,478 and \$55,406 respectively.

### Note D - Long-Term Debt

Long-term debt at June 30, 2016 and 2015 consisted of the following:

Promissory note to the City of Garden Grove, given in accordance with the "Affordable Housing Agreement" executed between the City of Garden Grove and the Thomas House Temporary Shelter, dated Jan. 31, 2003. The note bears simple interest at 3% per annum. The full balance of the note plus accrued interest thereon shall become due and payable upon the sale, lease, exchange, or other conveyance of the property, other than the lease of the individual apartment units in the ordinary course of the business. In the event that the note has not become due and payable prior to the fifty-fifth anniversary of the note, the full amount together with any interests accrued thereon shall be forgiven.

	June 30, 2016	June 30, 2015
Principal	\$ 614,000	\$ 614,000
Accrued Interest	247,380	228,960
Total Due	<u>\$861,380</u>	<u>\$842,960</u>

**THOMAS HOUSE TEMPORARY SHELTER**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Note D - Long-Term Debt, Continued**

Promissory note to the County of Orange, dated Feb. 9, 2004, with a simple interest rate of 3% per annum due as follows: 1) Commencing on the date six (6) months after closing of the Organization's books and every one year anniversary date thereafter during the Term, the Organization shall make annual payments to the County of the then available "residual receipts"; 2) at the expiration of the term of this note, which is fifty-five (55) years, the then outstanding principal plus any accrued interest shall become due and payable.

"Residual receipts" means revenue less operating expenses, debt service on other loans senior to this loan, and scheduled deposits to reserves approved by the County in writing at the closing of the loan. The Organization had no residual receipts during the year ended June 30, 2016 and June 30, 2015, respectively.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Principal	\$ 517,000	\$ 517,000
Accrued Interest	191,730	176,220
Total Due	<u>\$708,730</u>	<u>\$693,220</u>
Total Principal	\$ 1,131,000	\$ 1,131,000
Total Accrued Interest	439,110	405,180
Grand Total	<u>\$ 1,570,110</u>	<u>1,536,180</u>

Maturities by year are as follows:

2017	\$ 0
2018	0
2019	0
2020	0
2021	0
Thereafter	<u>\$ 1,131,000</u>
Total	<u>\$ 1,131,000</u>

Interest expense on long-term debt for the years ended June 30, 2016 and 2015 was \$33,930 and \$33,930, respectively.

## **THOMAS HOUSE TEMPORARY SHELTER**

### **Notes to Financial Statements**

**June 30, 2016 and 2015**

#### **Note E - Temporarily Restricted Net Assets**

The Organization had temporarily restricted net assets of \$11,771 and \$6,504 for the years ended June 30, 2016 and 2015, respectively. These net assets are restricted for program expenses.

#### **Note F- Related Party Transactions**

During the year ended in June 30, 2016 and 2015, The Board of Director's made contributions in the amount of \$73,546 and \$57,793, respectively.

#### **Note G-Risks and Uncertainties**

Due to a number of factors during the last two fiscal years, the Organization incurred substantial losses due to a reduction in revenue which has resulted in cash flow issues. First of all, a recent shift in the funding landscape for homeless services caused a reduction in government funding for the Organization. Changes in the metrics for government funding of programs is not uncommon, however the significance of these changes after so many years of continuity were unexpected. In addition, there were personnel issues that created a reduction in private grant funding, mostly due to missed deadlines for submitting grant requests.

The Board of Directors and management have developed a plan to cut expenses in the interim in order to increase cash flow. Additionally, a new Executive Director has been hired to reach out to former corporate contributors to solicit future funding. The Board of Directors and management believe that the current cost cutting plan and anticipated funding from former corporate contributors, as well as fundraising activities that have taken place subsequent to year end, is sufficient to strengthen the future cash flow of the Organization and that the Organization will be able to meet its current obligations.

#### **Note H -Subsequent Events**

Management has evaluated subsequent events through November 3, 2016 the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.