

THE ILLUMINATION FOUNDATION
CERTIFIED PUBLIC ACCOUNTANT'S
AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2013

THE ILLUMINATION FOUNDATION

Years Ended December 31, 2013

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Independent Auditor's Report

To the Board of Directors
The Illumination Foundation

We have audited the accompanying financial statements of The Illumination Foundation, which comprise the statement of financial position as of December 31, 2013, 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 The Illumination Foundation as of December 31, 2013, 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.

Report on Summarized Comparative Information

We have previously audited The Illumination Foundation's December 31, 2012 financial statements, and in our report dated May 14, 2013, we expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stephens, Reidinger + Beller LLP

Newport Beach, California
May 30, 2014

THE ILLUMINATION FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	150,941	204,391
Accounts receivable, net of allowance for doubtful accounts	388,640	344,306
Inventory	66,827	73,881
Prepaid expenses	72,948	82,640
Security deposit	29,057	10,423
Total current assets	<u>708,413</u>	<u>715,641</u>
Property and Equipment		
Furniture, equipment & improvements, net of accumulated depreciation of \$87,036 and \$40,774	<u>133,706</u>	<u>44,110</u>
Total assets	<u>\$ 842,119</u>	<u>\$ 759,751</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 190,909	\$ 196,238
Accrued liabilities	141,554	155,720
Deferred revenue	47,112	14,612
Current portion of long-term liability	<u>1,991</u>	<u>-</u>
Total current liabilities	381,566	366,570
Long Term Liabilities		
Line of credit and notes payable	259,210	200,000
Net assets		
Unrestricted	162,913	64,223
Temporarily restricted	<u>38,430</u>	<u>128,958</u>
Total net assets	<u>201,343</u>	<u>193,181</u>
Total liabilities and net assets	<u>\$ 842,119</u>	<u>\$ 759,751</u>

The accompanying notes are an integral part of these financial statements.

THE ILLUMINATION FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013 With Comparative Totals for 2012

	Unrestricted	Temporarily Restricted	Total	2012
Revenue and other support				
Program service fees	\$ 1,812,473	\$ -	\$ 1,812,473	\$ 1,314,255
Contributions	814,539	296,950	1,111,489	1,568,692
Special events	344,243	-	344,243	145,363
In-kind contributions	542,560	-	542,560	443,824
Other income	38,414	-	38,414	22,214
Net assets released from restrictions	387,478	(387,478)	-	-
Total revenue and other support	3,939,707	(90,528)	3,849,179	3,494,348
Expenses				
Program services	3,176,137	-	3,176,137	2,900,282
Management & general	183,185	-	183,185	223,116
Fundraising	481,695	-	481,695	337,776
Total expenses	3,841,017	-	3,841,017	3,461,174
Increase (decrease) in net assets	98,690	(90,528)	8,162	33,174
Net assets at beginning of year	64,223	128,958	193,181	160,007
Net assets at end of year	\$ 162,913	\$ 38,430	\$ 201,343	\$ 193,181

The accompanying notes are an integral part of these financial statements.

THE ILLUMINATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013 With Comparative Totals for 2012

	Program Services	Management & General	Fundraising	Total	2012
Conference, convention & meetings	\$ 13,836	\$ 10,095	\$ 1,598	\$ 25,529	\$ 16,803
Advertising	2,531	243	29,248	32,022	4,825
Bad debt expense	43,092	319	2	43,413	-
Depreciation	37,383	3,107	5,771	46,261	23,895
Direct client care	719,268	-	-	719,268	972,770
Donated materials and supplies	534,403	-	-	534,403	443,854
Dues, fees & taxes	7,775	1,265	760	9,800	4,892
Employee benefits	64,629	5,673	8,731	79,033	89,663
Equipment rental and maintenance	11,711	143	1,572	13,426	15,235
Fundraising direct expenses & fees	-	-	180,626	180,626	3,894
Grants	63,074	-	-	63,074	104,082
Insurance	48,863	12,669	6,318	67,850	39,773
Interest expense	-	6,959	7	6,966	6,365
License & permits	12,213	22	41	12,276	504
Miscellaneous	2,740	1,386	7,089	11,215	15,263
Payroll processing fee	-	7,363	-	7,363	7,060
Payroll taxes	102,725	8,706	16,316	127,747	102,782
Postage, shipping, mailing	1,831	156	1,596	3,583	2,737
Printing & copying	2,737	700	1,629	5,066	11,047
Professional services	161,207	3,405	10,011	174,623	132,753
Salaries	1,035,818	90,630	176,350	1,302,798	1,155,075
Rent, parking and other occupancy	85,991	8,729	5,828	100,548	80,738
Repairs and maintenance	34,084	3,875	150	38,109	6,707
Staff development	5,826	2,690	1,792	10,308	15,255
Supplies	38,311	4,750	6,958	50,019	47,072
Telephone	22,265	2,989	1,889	27,143	27,546
Temporary help	14,981	950	3,806	19,737	23,542
Travel	14,442	686	3,067	18,195	24,263
Utilities	28,313	277	515	29,105	15,490
Vacation Expense	66,088	5,398	10,025	81,511	67,289
Total Expenses	\$ 3,176,137	\$ 183,185	\$ 481,695	\$ 3,841,017	\$ 3,461,174

The accompanying notes are an integral part of these financial statements.

THE ILLUMINATION FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013 With Comparative Totals for 2012

Cash flows from operating activities	<u>2013</u>	<u>2012</u>
Increase in net assets	\$ 8,162	\$ 33,174
Adjustments to reconcile change in net assets		
Depreciation	46,261	23,895
(Increase) decrease in operating assets		
Accounts receivable	(44,334)	(1,221)
Inventory	7,055	185
Prepaid expenses	9,692	(59,196)
Deposits	(18,634)	850
Increase (decrease) in operating liabilities		
Accounts payable	(5,329)	43,775
Accrued liabilities	(14,166)	(23,168)
Deferred revenue	32,500	(12,852)
Net cash provided from operating activities	<u>21,207</u>	<u>5,442</u>
Cash flows from investments activities		
Purchase of fixed assets	<u>(135,858)</u>	<u>(38,362)</u>
Net cash used in investment activities	<u>(135,858)</u>	<u>(38,362)</u>
Cash flows from financing activities:		
Proceeds from note payable	11,201	-
Borrowings on line of credit	<u>50,000</u>	<u>-</u>
Net cash provided from financing activities	<u>61,201</u>	<u>-</u>
Net decrease in cash and cash equivalents	(53,450)	(32,920)
Cash and cash equivalents at beginning of year	<u>204,391</u>	<u>237,311</u>
Cash and cash equivalents at end of year	<u>\$ 150,941</u>	<u>\$ 204,391</u>

The accompanying notes are an integral part of these financial statements.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 1: NATURE OF ORGANIZATION

The Illumination Foundation (“IF”) is a non-profit organization established to provide housing and social services to homeless individuals and families. The Organization is exempt from federal income taxes under section 501 (c) (3) of the Internal Revenue Code and Section 23701 of the California Revenue and Taxation Code.

IF combines housing and social services with healthcare and behavioral mental health services to, reduce the impacts of homelessness and reduce people's vulnerability to future homelessness.

NOTE 2: SUMMARY OF SIGIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting. IF reports 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 based on the following criteria:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor restrictions contingent upon specific performance of a future event or a specific passage of time before IF may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for generating investment income to fund current operations. IF has no permanently restricted net assets at December 31, 2013.

Contributions

Contributions received as well as unconditional promises to give are recognized in the period received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted revenues. Temporarily restricted net assets are reclassified to unrestricted net assets when the donor restrictions are satisfied.

Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 2: SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash and other highly liquid investments with maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

IF places its cash deposits with high-credit quality financial institutions. At times, balances in the organization's cash accounts may exceed the Federal Deposit Insurance Corporation's (FDIC) insurance limit. IF has not incurred losses related to carrying cash balances in excess of the FDIC insurance limit.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated Services and Material and Facilities

Donated noncash assets are recorded at estimated fair values at the date received. Donated services are recognized when a nonfinancial asset is created or specialized skills are required and the Foundation would otherwise need to purchase the services. The total of donated services and noncash assets for 2013 and 2012 were \$542,560 and \$443,824, respectively.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 2: SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (continued)

Allowance for Doubtful Accounts

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Illumination Foundation provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts and other circumstances, which may affect the collectability of the various accounts receivables. The allowance is \$42,174 for the year ended December 31, 2013. No allowance was required to be provided at December 31, 2012.

Inventory

Inventory, consisting of eye glass frames received as contributions, is stated at a discounted fair value of the estimated useful frames at the date received.

Property and Equipment

Property and equipment purchased by IF are carried at cost. Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses are credited or charged to income.

Contributed property and equipment are reported as support and carried at fair value at the time of donation. Assets donated with restrictions regarding their use and contributions of cash that must be used for property or equipment are reported as restricted support. Absent donor stipulations regarding how long their donated assets must be maintained, IF reports expirations of restrictions when the donated or acquired assets are placed into service.

Depreciation is recorded on the straight-line basis over the estimated useful lives of the related assets.

Compensated Absences

Vacation benefits are allowed to accumulate and upon an employee's termination or retirement is paid out at the individual's regular payroll rate. The balance of accumulated vacation benefits at December 31, 2013 and December 31, 2012 was \$39,016 and \$41,763, respectively.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 2: SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue

Funds received in advance of program services or activities to be performed or delivered in future periods are recorded as deferred revenue in the accompanying Statement of Financial Position. Revenues relating to such advance payments are recognized as the required services or activities are performed and related exchange transaction is completed.

Income Taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code (IRC) Section 501(c)(3) and Section 23701 of the California Revenue and Taxation Code. Therefore no provision for income taxes has been included in the accompanying financial statements.

Subsequent Events

Management has evaluated subsequent events through May 30, 2014, the date which the financial statements were available for issue.

NOTE 3: FUNDING SOURCES

IF is funded through government, corporate, foundations and individuals grants and contributions and fees for services from hospital discharging homeless patients. For the year ended December 31, 2013, IF received \$1,195,000 from the National Health Foundation under the Greater Los Angeles and Orange County Recuperative Care Program. IF also received \$285,284 from the Children and Families Commission of Orange County and \$245,150 for services provided at the Buena Park Community Clinic for the year ended December 31, 2013.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 4: FURNITURE, EQUIPMENT AND IMPROVEMENTS

Property and equipment for IF are comprised of:

	<u>2013</u>	<u>2012</u>
Computers & equipment	\$ 49,537	\$ 35,502
Software	4,129	4,129
Furniture & fixtures	45,263	17,197
Buildings & leasehold improvements	98,402	28,056
Vehicles	<u>23,411</u>	<u>-</u>
Subtotal	220,742	84,884
Accumulated depreciation	<u>(87,036)</u>	<u>(40,774)</u>
Total	<u>\$ 133,706</u>	<u>\$ 44,110</u>

Depreciation expense for the years ended December 31, 2013 and December 31, 2012 were \$46,261 and \$23,895, respectively.

NOTE 5: LINE OF CREDIT

IF has a \$250,000 line of credit. The line of credit expires on September 1, 2016 with no principal or interest payments required until the expiration date. Interest accrues on the outstanding balance at 3.25% per year until the expiration date at which time all outstanding principal and interest is due. The line of credit is secured by substantially all assets of the Foundation. The outstanding balances on this credit line as of December 31, 2013 and December 31, 2012 were \$250,000 and \$200,000, respectively.

NOTE 6: LONG-TERM DEBT

On June 13, 2013, IF obtained a five year loan in the amount of \$12,073 from Ally Bank to purchase a vehicle to provide transportation to the Organization's clients. The loan is secured by the vehicle. The interest rate on the loan is 12.15% with principal and interest payments due monthly in the amount of \$271, until June 2018. The outstanding balance on the loan as of December 31, 2013 is \$11,201. The current portion of the loan is \$1,991.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 6: LONG-TERM DEBT (continued)

The principal amount due until the loan is paid in full are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 1,991
2015	2,247
2016	2,536
2017	2,861
2018	1,566
Total	<u>\$ 11,201</u>

NOTE 7: LEASES

IF leases various facilities for its programs with terms from monthly to three years. On March 14, 2013 IF extended their operating lease for office space for an additional three years. The base office rent is adjusted annually for cost of living adjustments. Office lease expense for the years ended December 31, 2013 and December 31, 2012 was \$100,548 and \$80,738, respectively.

In December 2013, IF entered into a new lease agreement for a housing facility in Los Angeles County. The facility will be utilized for homeless clients being discharged from hospitals, and will also serve as IF's base location for other Los Angeles County programs. IF took occupancy in February 2014 with payments due monthly in the amount of \$16,134.

Minimum future lease obligations for all facilities are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 205,000
2015	227,610
2016	212,237
2017	21,458
Total	<u>\$ 666,305</u>

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions restricted for a specific purpose which are expected to be satisfied during 2014.

Temporarily restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Community Clinic	\$ 25,000	\$ -
Mobile Clinic	1,457	6,596
Change A Life	11,973	17,451
Workforce Development	-	7,500
Interim Support Shelter	-	97,411
Total	<u>\$ 38,430</u>	<u>\$ 128,958</u>

NOTE 9: RELATED PARTY TRANSACTIONS

During the year ended December 31, 2013, IF provided services to a related party non-profit community clinic and recognized program service fee income of \$245,150. Two members of the community clinic's six board of director's members are also on board of directors of IF.

At December 31, 2013, unreimbursed payments and expenses due to one of the Organization's officers totaling \$53,329, is included in accounts payable.