

**THE ILLUMINATION FOUNDATION**  
**CERTIFIED PUBLIC ACCOUNTANT'S**  
**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

# THE ILLUMINATION FOUNDATION

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## **Independent Auditor's Report**

To the Board of Directors  
The Illumination Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Illumination Foundation, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Audit 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 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 The Illumination Foundation as of June 30, 2017, 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.

## **Other Matters**

### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2018 on our consideration of The Illumination Foundation'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 Illumination Foundation's internal control over financial reporting and compliance.

*Stephens, Reidinger + Beller LLP*

Newport Beach, California  
January 8, 2018

THE ILLUMINATION FOUNDATION  
**STATEMENT OF FINANCIAL POSITION**

June 30, 2017

**ASSETS**

	2017
Current Assets	
Cash and cash equivalents	\$ 693,919
Accounts receivable	668,498
Prepaid expenses	223,246
Total current assets	1,585,663
Property and Equipment	
Furniture, equipment & improvements, net of accumulated depreciation of \$467,447	2,105,400
Deposits	47,727
Total assets	\$ 3,738,790

**LIABILITIES AND NET ASSETS**

Current Liabilities	
Accounts payable	\$ 425,047
Accrued liabilities	380,832
Deferred revenue	350,668
Note payable	158,334
Current portion of service obligation	47,699
Total current liabilities	1,362,580
Long Term Liabilities	
Line of credit and accrued interest	464,255
Service obligation- net of current portion	479,725
Total liabilities	2,306,560
Net assets	
Unrestricted	1,212,381
Temporarily restricted	219,849
Total net assets	1,432,230
Total liabilities and net assets	\$ 3,738,790

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

THE ILLUMINATION FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support			
Program service fees	\$ 5,668,173	\$ -	\$ 5,668,173
Contributions	558,736	736,070	1,294,806
Special events, net of direct expenses of \$358,244	655,749	-	655,749
In-kind contributions	1,657,843	-	1,657,843
Other income	105,132	-	105,132
Net assets released from restrictions	<u>590,645</u>	<u>(590,645)</u>	<u>-</u>
Total revenue and other support	9,236,278	145,425	9,381,703
Expenses			
Program services	7,418,295	-	7,418,295
Management & general	1,035,276	-	1,035,276
Fundraising	<u>160,506</u>	<u>-</u>	<u>160,506</u>
Total expenses	<u>8,614,077</u>	<u>-</u>	<u>8,614,077</u>
Increase in net assets	622,201	145,425	767,626
Net assets at beginning of year	<u>590,180</u>	<u>74,424</u>	<u>664,604</u>
Net assets at end of year	<u>\$ 1,212,381</u>	<u>\$ 219,849</u>	<u>\$ 1,432,230</u>

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

THE ILLUMINATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services	Management & General	Fundraising	Total
Advertising	\$ 1,728	\$ 459	\$ 1,170	\$ 3,357
Bad debt expense	4,870	-	-	4,870
Conference, convention & meetings	6,607	12,555	31	19,193
Depreciation	150,233	19,689	8,950	178,872
Direct client care	1,612,057	-	-	1,612,057
Donated services, materials and facilities	838,099	29,732	7,036	874,867
Dues, fees & taxes	20,604	2,134	1,367	24,105
Employee benefits	261,710	27,800	12,460	301,970
Equipment rental and maintenance	50,010	4,598	364	54,972
Insurance	213,423	26,106	11,867	251,396
Interest expense	10,094	22,778	-	32,872
License & permits	3,964	105	-	4,069
Miscellaneous	9,061	22,254	510	31,825
Payroll processing fee	100	5,191	6	5,297
Payroll taxes	278,354	56,328	6,281	340,963
Postage, shipping, mailing	992	903	7,388	9,283
Printing & copying	24,037	2,556	1,275	27,868
Professional services	186,784	113,160	12,276	312,220
Salaries	2,831,386	598,554	69,704	3,499,644
Rent, parking and other occupancy	382,593	24,459	9,849	416,901
Repairs and maintenance	134,301	5,652	-	139,953
Staff development	19,497	6,729	2,025	28,251
Supplies	80,731	18,657	6,147	105,535
Telephone	53,951	3,262	1,149	58,362
Temporary help	136,949	-	-	136,949
Travel	40,936	25,998	651	67,585
Utilities	65,224	5,617	-	70,841
Total Expenses	<u>\$ 7,418,295</u>	<u>\$ 1,035,276</u>	<u>\$ 160,506</u>	<u>\$ 8,614,077</u>

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

THE ILLUMINATION FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

Cash flows from operating activities	
Increase in net assets	\$ 767,626
Adjustments to reconcile change in net assets	
Depreciation	178,872
Amortization of service contract	(16,576)
Accrued interest on long-term line of credit	14,255
Cancellation of debt	(158,333)
Contributions of property	(624,699)
(Increase) decrease in operating assets	
Accounts receivable	(230,954)
Prepaid expenses	(189,252)
Deposits	(25,525)
Increase (decrease) in operating liabilities	
Accounts payable	160,802
Accrued liabilities	(245,867)
Deferred revenue	337,145
Net cash used in operating activities	<u>(32,506)</u>
Cash flows from investments activities	
Acquisition of property and equipment	<u>(350,735)</u>
Net cash used in investment activities	<u>(350,735)</u>
Cash flows from financing activities:	
Proceeds from service contract obligation	<u>544,000</u>
Net cash provided from financing activities	<u>544,000</u>
Net increase in cash and cash equivalents	160,759
Cash and cash equivalents at beginning of year	<u>533,160</u>
Cash and cash equivalents at end of year	<u>\$ 693,919</u>
Supplemental disclosure	
Cash paid during the year for interest	<u>\$ 58,451</u>

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

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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 people's vulnerability to future homelessness.

**NOTE 2: SUMMARY OF SIGNIFICANT 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 June 30, 2017.

**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 (continued)

June 30, 2017

**NOTE 2: SUMMARY OF SIGNIFICANT 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 property and equipment that was capitalized during the year ended June 30, 2017 totaled \$624,699. Other donated materials and noncash assets received totaled \$469,683, which includes \$158,333 of cancelled debt. Donated services are recognized when a nonfinancial asset is created or specialized skills are required and the Organization would otherwise need to purchase the services. Donated services of \$376,617 were received during the year ended June 30, 2017. Donated facilities are reported as support income and rental expense. The total of donated facilities was \$186,900 during the year ended June 30, 2017.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2017

**NOTE 2: SUMMARY OF SIGNIFICANT 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. In the opinion of management, all receivables for the year ended June 30, 2017 are collectable. Therefore, no allowance for doubtful accounts has been provided.

**Property and Equipment**

Property and equipment purchased by IF are carried at cost. Major renewals and betterments are capitalized. IF's capitalization threshold is \$1,000. 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 June 30, 2017 was \$118,852 and is included in accrued liabilities in the statement of financial position.

**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.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2017

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**NOTE 3: PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2017 for IF are comprised of:

Buildings & leasehold improvements	\$ 1,418,166
Furniture & fixtures	295,635
Computers & equipment	290,098
Vehicles	93,948
Accumulated depreciation	(467,447)
Subtotal	<u>1,630,400</u>
Land	475,000
Total	<u><u>\$ 2,105,400</u></u>

Depreciation expense for the year ended June 30, 2017 was \$178,872.

**NOTE 4: FUNDING SOURCES**

IF is funded through government, corporate, foundations and individuals grants and contributions and fees for services from hospitals discharging homeless patients. For the year ended June 30, 2017, IF received \$1,570,731 from Brilliant Corners under the Greater Los Angeles Recuperative Care Program, and \$1,760,265 from other various Southern California hospitals. IF also received \$175,000 from the Children and Families Commission of Orange County, \$56,701 for services provided at the Buena Park Community Clinic, \$261,063 for program service fees provided for AccessOC, and \$1,781,967 from the Department of Housing and Urban Development for the year ended June 30, 2017.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2017

**NOTE 5: LINE OF CREDIT**

IF has a \$450,000 line of credit. The line of credit expires on September 1, 2021 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 Organization. The outstanding balance on this credit line as of June 30, 2017 was \$464,255, including long term accrued interest of \$14,255. See Note 11 for subsequent events related to the line of credit.

**NOTE 6: NOTE PAYABLE**

On January 25, 2016, IF obtained real property located in Stanton, CA valued at \$475,000. The property was obtained through a donation of \$158,333 and the execution of a promissory note in the amount of \$316,667, which is secured by the property. The note accrues interest at 3.25% per annum and calls for two installment payments. The first payment of \$158,333 was waived by the note holder and recorded as an in-kind contribution on January 25, 2017. The final payment of \$158,334 plus accrued interest is due on January 25, 2018.

The donation to obtain the property was received from a member of IF's board of directors, and the promissory note secured by the property is payable to the same board member.

**NOTE 7: LONG-TERM SERVICE OBLIGATION**

During December of 2016, IF completed the construction of a shelter on the Stanton property (Note 6) with the proceeds of a \$544,000 advance for future services from Children and Families Commission of Orange County (CFCOC) and in-kind contributions of \$616,163. Under the agreement with CFCOC, IF is obligated to provide emergency shelter and other support services valued at \$544,000 to meet basic needs of homeless families with children ages 0-5 through December 31, 2031.

This service obligation, which is collateralized by a deed of trust on the property, is being amortized as services are provided with an imputed interest rate of 3.25%. During the year IF provided \$16,576 of services related to this obligation resulting in an unamortized service obligation of \$527,424 as of June 30, 2017.

**NOTE 8: LEASES**

IF leases various facilities for its programs with terms from monthly to three years. The base office lease expires in July 2018, with payments due monthly in the amount of \$2,937. On April 1, 2017 IF leased an additional office suite at their base location with a lease term for two years at \$2,453 adjusted annually for cost of living adjustments.

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2017

**NOTE 8: LEASES (continued)**

In January 2017, IF entered into a lease agreement for additional office space expiring in January 2019 with monthly lease payments of \$709.

During the year ended June 30, 2017, IF entered into three lease agreements for housing facilities in Los Angeles, CA. The facilities will be utilized for homeless clients being discharged from hospitals under the recuperative care program. One of the facilities was occupied in November 2016, with payments due monthly in the amount of \$16,371 and is adjusted annually for cost of living adjustments; the lease agreement expires November 2019. The second facility was occupied in January 2017, with payments due monthly in the amount of \$6,000; the lease agreement expires December 2018. The third facility was occupied in April 2017, and payments are due monthly in the amount of \$5,000; the lease agreement expires May 2019.

IF shares a lease obligation with another non-profit organization for additional office space expiring in January 2019. IF's share of this lease obligation is \$605 per month.

Lease and rental facilities expense for the year ended June 30, 2017 was \$416,901.

Minimum future lease obligations for all facilities are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 398,100
2019	298,935
2020	65,363
Total	<u>\$ 762,398</u>

**NOTE 9: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of contributions restricted for a specific purpose which are expected to be satisfied during fiscal year ending June 30, 2017.

Temporarily restricted net assets consist of the following as of June 30, 2017:

<u>Year Ending June 30, 2017</u>	<u>Amount</u>
Children's Program	\$ 132,009
UniHealth Street2Home	87,755
Change a Life	85
Total	<u>\$ 219,849</u>

THE ILLUMINATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2017

**NOTE 10: RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2017, IF provided services to Buena Park Community Clinic, a related party non-profit, and recognized program service fee income of \$56,701. Two of the six members of the community clinic's board of directors are also members of IF's board of directors. IF also provided services to AccessOC, a related party non-profit, and recognized income of \$261,063. Four of the six members of the non-profit's board of directors are also members of IF's Healthcare Committee.

During the year ended June 30, 2017, IF paid rent to two organizations affiliated with board members in the amounts of \$32,920 and \$70,095. In the opinion of management, these rent payments, which are included in lease and rental facilities expense, are at or below prevailing market rates.

As of June 30, 2017, unreimbursed payments and expenses due to one of the Organization's officers totaling \$104,724 are included in accounts payable.

A donation and a promissory note involving a member of IF's board of directors are described in Note 6.

**NOTE 11: SUBSEQUENT EVENT**

During December 2017, the Organization refinanced the existing line of credit (Note 5) with the proceeds of a term loan in the amount of \$450,000 from a board member's private foundation. The loan will be amortized over a ten year period with payments of principal and interest at 5% due monthly. The loan will mature on November 30, 2027.

Also in December 2017, the Organization entered into a line of credit agreement with the private foundation referred to above, providing for borrowings of up to \$500,000 through December 1, 2027. The outstanding balance of the line of credit will accrue annual interest at 5% with principal and interest becoming due on December 1, 2027.

Management has evaluated subsequent events through January 8, 2018, the date when the financial statements were available for issue.

**ILLUMINATION FOUNDATION**  
**Single Audit Report on Federal Awards**  
**Year Ended June 30, 2017**

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
The Illumination Foundation

We have audited, 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, the financial statements of The Illumination Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Illumination Foundation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Illumination Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Illumination Foundation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Illumination Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Stephen, Reidinger + Beller LLP*

Newport Beach, California  
January 8, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors  
The Illumination Foundation

**Report on Compliance for Each Major Federal Program**

We have audited The Illumination Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Illumination Foundation's major federal programs for the year ended June 30, 2017. The Illumination Foundation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of The Illumination Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Illumination Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The Illumination Foundation's compliance.

## Opinion on Each Major Federal Program

In our opinion, The Illumination Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control over Compliance

Management of The Illumination Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Illumination Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Illumination Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Stephen, Reidinger + Beller LLP*

Newport Beach, California

January 8, 2018

THE ILLUMINATION FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2017

<u>Name of Agency or Department</u>	<u>Name of Program</u>	<u>CFDA No.</u>	<u>Name of Pass-through Entity</u>	<u>Identifying Number</u>	<u>Awards Expended</u>
U.S. Department of Housing and Urban Development	Continuum of Care - Stanton Multi-Service Center	14.267		CA1121L9D021604	\$ 367,882
U.S. Department of Housing and Urban Development	Continuum of Care - Street2Home	14.267		CA1512L9D021500	931,817
					<u>1,299,699</u>
U.S. Department of Housing and Urban Development	Emergency Solutions Grant	14.231	City of Santa Ana	A-2016-064 A-2016-295	126,884
U.S. Department of Housing and Urban Development	Emergency Solutions Grant	14.231	City of Anaheim	E-16-MC-06-0501	38,337
U.S. Department of Housing and Urban Development	Emergency Solutions Grant - Homeless Assistance Pilot Program	14.231	City of Anaheim	E-16-MC-06-0501	60,000
					<u>225,221</u>
U.S. Department of Housing and Urban Development	HOME-TBRA	14.239	City of Anaheim	M-16-MC-06-0502	<u>257,047</u>
			Total Expenditures of Federal Awards		<u>\$ 1,781,967</u>

THE ILLUMINATION FOUNDATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

**NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The Illumination Foundation under programs of federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Illumination Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Illumination Foundation.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF FEDERAL AWARDS**

**Scope of Presentation**

The accompanying schedule presents the expenses incurred by The Illumination Foundation that are reimbursable under federal programs of federal financial assistance.

**Basis of Accounting**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate**

The Illumination Foundation has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

THE ILLUMINATION FOUNDATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

**PRIOR PERIOD AUDIT REPORT**

There were no audit findings in the previous year.

THE ILLUMINATION FOUNDATION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2017

**SUMMARY OF AUDITOR'S RESULTS**

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control nor were there any significant deficiencies based upon our audit of the financial statements of the auditee.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses nor were there any significant deficiencies in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditor's to be reported in accordance with 2 CFR Section 200.516(a).
7. The major programs of the auditee were the Continuum of Care Program, CFDA # 14.267, and the Emergency Solutions Grants, CFDA #14.231, both from the U.S. Department of Housing and Urban Development.
8. The dollar threshold used to distinguish Type A and Type B programs was \$750,000.
9. The auditee did not meet the requirements of a low risk auditee for the year ended June 30, 2017 for purposes of major program determination.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

There were no auditor's findings required to be reported in accordance with GAGAS.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

There were no auditor's findings or questioned costs to be reported in accordance with 2 CFR Section 200.516(a).