

FRIENDS OF GUEST HOUSE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

KOSITZKA, WICKS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



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KOSITZKA, WICKS & COMPANY
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
Friends of Guest House, Inc.

We have audited the accompanying financial statements of **Friends of Guest House, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows 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 audits. We conducted our audits 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 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 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 **Friends of Guest House, Inc.** as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
February 5, 2016

Friends of Guest House, Inc.

Statements of Financial Position June 30,

2015

2014

Assets

Current assets

Cash and cash equivalents	\$ 325,958	\$ 354,474
Grants receivable	30,000	34,499
Program service fees receivable	39,724	43,309
Residents' deposits	4,087	11,604
Security deposits	1,000	1,000
Prepaid expenses	5,748	2,560
	<u>406,517</u>	<u>447,446</u>

Investments

59,625 53,491

Property and equipment, net

79,691 89,671

Total assets

\$ 545,833 \$ 590,608

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 41,046	\$ 29,174
Residents' deposits	3,706	11,511
	<u>44,752</u>	<u>40,685</u>

Long-term liabilities

Note payable - City of Alexandria	55,000	55,000
Note payable - Old Presbyterian Meeting House	25,000	25,000
Note payable - City of Alexandria	99,400	99,400
	<u>179,400</u>	<u>179,400</u>

Net assets

Unrestricted	281,181	315,523
Temporarily restricted	30,500	45,000
Permanently restricted	10,000	10,000
	<u>321,681</u>	<u>370,523</u>

Total liabilities and net assets

\$ 545,833 \$ 590,608

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Friends of Guest House, Inc.

Statement of Activities for the year ended June 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue				
Friends of Guest House				
Contributions	\$ 251,538	\$ 30,500	\$ -	\$ 282,038
Grants	109,350	-	-	109,350
United Way	11,009	-	-	11,009
Government grants	94,269	-	-	94,269
Government reimbursements	261,576	-	-	261,576
In-kind contributions	5,000	-	-	5,000
Investment loss	(6,801)	-	-	(6,801)
Amounts released from restrictions	45,000	(45,000)	-	-
	<u>770,941</u>	<u>(14,500)</u>	<u>-</u>	<u>756,441</u>
Together We Bake				
Contributions	79,120	-	-	79,120
Grants	30,180	-	-	30,180
Sales	44,618	-	-	44,618
Less cost of sales	(14,167)	-	-	(14,167)
	<u>139,751</u>	<u>-</u>	<u>-</u>	<u>139,751</u>
Total revenue	910,692	(14,500)	-	896,192
Expenses				
Programs				
Friends of Guest House	668,347	-	-	668,347
Together We Bake	143,926	-	-	143,926
	<u>812,273</u>	<u>-</u>	<u>-</u>	<u>812,273</u>
Management and general	45,185	-	-	45,185
Fundraising	87,576	-	-	87,576
Total expenses	<u>945,034</u>	<u>-</u>	<u>-</u>	<u>945,034</u>
Change in net assets	(34,342)	(14,500)	-	(48,842)
Net assets, beginning of year	<u>315,523</u>	<u>45,000</u>	<u>10,000</u>	<u>370,523</u>
Net assets, end of year	<u>\$ 281,181</u>	<u>\$ 30,500</u>	<u>\$ 10,000</u>	<u>\$ 321,681</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Friends of Guest House, Inc.

Statement of Activities for the year ended June 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue				
Friends of Guest House				
Contributions	\$ 183,601	\$ 20,000	\$ -	\$ 203,601
Grants	78,500	25,000	-	103,500
United Way	23,528	-	-	23,528
Foundation grants	10,000	-	-	10,000
Government grants	139,763	-	-	139,763
Government reimbursements	253,538	-	-	253,538
In-kind contributions	5,000	-	-	5,000
Investment income	8,771	-	-	8,771
Amounts released from restrictions	45,000	(45,000)	-	-
	<u>747,701</u>	<u>-</u>	<u>-</u>	<u>747,701</u>
Together We Bake				
Contributions	61,869	-	-	61,869
Grants	50,000	-	-	50,000
Sales	30,946	-	-	30,946
Less cost of sales	(8,038)	-	-	(8,038)
	<u>134,777</u>	<u>-</u>	<u>-</u>	<u>134,777</u>
Total revenue	882,478	-	-	882,478
Expenses				
Programs				
Friends of Guest House	672,705	-	-	672,705
Together We Bake	117,665	-	-	117,665
	<u>790,370</u>	<u>-</u>	<u>-</u>	<u>790,370</u>
Management and general	33,743	-	-	33,743
Fundraising	23,765	-	-	23,765
Total expenses	<u>847,878</u>	<u>-</u>	<u>-</u>	<u>847,878</u>
Change in net assets	34,600	-	-	34,600
Net assets, beginning of year	<u>280,923</u>	<u>45,000</u>	<u>10,000</u>	<u>335,923</u>
Net assets, end of year	<u>\$ 315,523</u>	<u>\$ 45,000</u>	<u>\$ 10,000</u>	<u>\$ 370,523</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Friends of Guest House, Inc.

Statement of Functional Expenses for the year ended June 30, 2015

	Programs			Supporting services		Total
	Friends of Guest House	Together We Bake	Total programs	Management and general	Fundraising	
Personnel expenses						
Salary	\$ 470,386	\$ 94,796	\$ 565,182	\$ 15,105	\$ 18,000	\$ 598,287
Payroll taxes	37,731	7,011	44,742	1,210	1,377	47,329
Employee benefits	11,518	-	11,518	1,440	1,440	14,398
	<u>519,635</u>	<u>101,807</u>	<u>621,442</u>	<u>17,755</u>	<u>20,817</u>	<u>660,014</u>
Other expenses						
Advertising	-	770	770	-	-	770
Depreciation	9,680	-	9,680	300	-	9,980
Dues and subscriptions	725	-	725	-	-	725
Printing	-	511	511	-	10,931	11,442
Insurance	23,245	-	23,245	150	-	23,395
Occupancy	30,989	-	30,989	-	-	30,989
Professional fees	-	4,936	4,936	18,500	55,828	79,264
Program expenses	34,994	4,718	39,712	-	-	39,712
Repairs and maintenance	10,757	-	10,757	-	-	10,757
Supplies and office expense	6,525	27,481	34,006	6,526	-	40,532
Tax and licenses	529	2,441	2,970	-	-	2,970
Telephone and internet	10,659	-	10,659	1,184	-	11,843
Training and conferences	5,132	437	5,569	-	-	5,569
Travel and auto expense	4,774	825	5,599	-	-	5,599
Utilities	10,703	-	10,703	770	-	11,473
	<u>148,712</u>	<u>42,119</u>	<u>190,831</u>	<u>27,430</u>	<u>66,759</u>	<u>285,020</u>
Total expenses	<u>\$ 668,347</u>	<u>\$ 143,926</u>	<u>\$ 812,273</u>	<u>\$ 45,185</u>	<u>\$ 87,576</u>	<u>\$ 945,034</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Friends of Guest House, Inc.

Statement of Functional Expenses for the year ended June 30, 2014

	Programs			Supporting services		Total
	Friends of Guest House	Together We Bake	Total programs	Management and general	Fundraising	
Personnel expenses						
Salary	\$ 441,377	\$ 83,006	\$ 524,383	\$ 13,651	\$ -	\$ 538,034
Payroll taxes	36,428	6,350	42,778	1,127	-	43,905
Employee benefits	10,618	-	10,618	1,180	-	11,798
	<u>488,423</u>	<u>89,356</u>	<u>577,779</u>	<u>15,958</u>	<u>-</u>	<u>593,737</u>
Other expenses						
Advertising	-	916	916	-	-	916
Depreciation	9,911	-	9,911	-	-	9,911
Dues and subscriptions	900	-	900	-	-	900
Printing	-	823	823	-	6,675	7,498
Insurance	21,602	-	21,602	-	-	21,602
Occupancy	30,820	-	30,820	-	-	30,820
Professional fees	-	436	436	11,600	17,090	29,126
Program expenses	64,183	7,111	71,294	-	-	71,294
Repairs and maintenance	5,722	-	5,722	-	-	5,722
Supplies and office expense	5,179	14,796	19,975	5,180	-	25,155
Tax and licenses	343	2,185	2,528	-	-	2,528
Telephone and internet	9,049	-	9,049	1,005	-	10,054
Training and conferences	4,738	153	4,891	-	-	4,891
Travel and auto expense	20,467	1,889	22,356	-	-	22,356
Utilities	11,368	-	11,368	-	-	11,368
	<u>184,282</u>	<u>28,309</u>	<u>212,591</u>	<u>17,785</u>	<u>23,765</u>	<u>254,141</u>
Total expenses	<u>\$ 672,705</u>	<u>\$ 117,665</u>	<u>\$ 790,370</u>	<u>\$ 33,743</u>	<u>\$ 23,765</u>	<u>\$ 847,878</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Friends of Guest House, Inc.

Statements of Cash Flows for the years ended June 30,

2015

2014

Cash flows from operating activities:

Change in net assets	\$ (48,842)	\$ 34,600
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities-		
Depreciation	9,980	9,911
Unrealized and realized (gain) loss on investments	10,049	(5,425)
Donated stock received	(13,554)	(7,855)
(Increase) decrease in operating assets		
Grants receivable	4,499	(1,198)
Program service fees receivable	3,585	(5,753)
Residents' deposits	7,517	(8,994)
Equipment deposit	-	2,000
Prepaid expenses	(3,188)	(2,006)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	11,872	1,854
Residents' deposits	(7,805)	9,330
Net cash (used in) provided by operating activities	<u>(25,887)</u>	<u>26,464</u>

Cash flows from investing activities:

Purchase of investments and reinvestments	(2,629)	(2,340)
Purchase of property and equipment	-	(11,521)
Net cash used in financing activities	<u>(2,629)</u>	<u>(13,861)</u>

Net change in cash and cash equivalents

(28,516) 12,603

Cash and cash equivalents, beginning of year

354,474 341,871

Cash and cash equivalents, end of year

\$ 325,958 \$ 354,474

Supplemental disclosure of cash flow information:

Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

1. Organization

Friends of Guest House, Inc. (a nonprofit organization) was founded in 1975 to provide quality rehabilitative services to female offenders, either as an alternative to incarceration or as a vehicle to assist women returning to the community from jails or prisons. During 2013, the Organization expanded its operations by renting two residential apartments in order to house an additional 7 women at a time. As of June 30, 2015, the Organization has a total of 17 women enrolled in the program at one time. Total women served in the residential program for the year was 52, although 368 applied to be part of the program throughout the year.

Friends of Guest House, Inc. was the fiscal sponsor for a program called Together We Bake, which provides comprehensive workforce training and personal development for the women at Friends of Guest House. As of July 1, 2015, Together We Bake incorporated as an independent nonprofit organization and is no longer a program of Friends of Guest House.

2. Summary of significant accounting policies

Basis of accounting

The financial statements of Friends of Guest House, Inc. (the Organization or Guest House) are prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

Financial statement presentation

Guest House 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. Permanently restricted net assets generally result from assets donated for a specific purpose with a donor stipulation that the assets be preserved and not be sold, or from assets donated with donor stipulations that they be invested to provide a permanent source of income, such as endowment funds. As of June 30, 2015 and 2014, Guest House had \$10,000 in permanently restricted net assets. Accumulated earnings from the fund will be used for current operations. See additional disclosures in Note 8.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

2. Summary of significant accounting policies (continued)

Cash and cash equivalents

Guest House maintains cash in bank accounts which may, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. FDIC insurance is \$250,000 per depositor, per insured bank. At June 30, 2015, the Organization had \$33,372 in excess of the FDIC limit. At June 30, 2014, the Organization had \$151,784 in excess of the FDIC limit.

Grants receivable

Grants receivable consists of unconditional promises to give that are expected to be collected within one year and are recorded at net realizable value. Grants receivable at June 30, 2015 and 2014 consists of grants from various funders. No allowance for uncollectible accounts has been provided based upon management's review of the grants receivable and historical collection experience.

Program service fees receivable

Program service fees receivable consists of reimbursements that are expected to be collected within one year and are recorded at net realizable value. Program services fees receivable at June 30, 2015 and 2014 consists of reimbursements from the Department of Corrections. No allowance for uncollectible accounts has been provided based upon management's review of the receivable and historical collection experience.

Residents' deposits

Residents' deposits represent cash earnings by residents during their stay at Guest House. These funds are held in a separate checking account on the residents' behalf and are returned when a resident leaves the Guest House. These funds are shown as an asset and liability on the statements of financial position and are not included as cash and cash equivalents for the purposes of the statements of cash flows.

Investments

Investments in equity securities, with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect amounts reported in future statements of activities. Management believes that Guest House's investments do not represent significant concentrations of market risk in as much as Guest House's investment portfolio is adequately diversified among issuers.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

2. Summary of significant accounting policies (continued)

Property and equipment

It is the Organization's policy to capitalize property and equipment with a cost of over \$500. Depreciation of property and equipment is computed on the straight-line basis over the estimated useful life of the asset. When assets are sold or disposed of, the cost and related allowance for depreciation are removed from the accounts, and any gain or loss on disposition is recognized in the period in which the disposition occurred.

Various items of office furniture, equipment and small office items acquired in prior years through donation or purchase, and whose individual values are considered nominal, have not been recorded on the books of the Organization.

Functional expenses

The costs of providing the various programs and other activities 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.

Compensated absences

Full time employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation at June 30, 2015 and 2014 was \$8,103 and \$5,014, respectively. It is included in accounts payable and accrued expenses on the statements of financial position.

Income taxes

The Organization is exempt from federal income tax as a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation. The Organization did not have a liability for unrelated business income for the years ended June 30, 2015 and 2014.

The Organization is subject to taxation in the U.S. and a small number of state and local jurisdictions. The material jurisdictions subject to potential examination by taxing authorities are the U.S. and Virginia. The Board does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the Organization's results of operations. Tax years that remain subject to examination by the IRS are fiscal years 2012 through 2015.

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, grant receivable, program service fees receivable, residents' deposits, security deposits, and prepaid expenses. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses, and residents' deposits. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

3. Cash and cash equivalents

Cash and cash equivalents at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Friends of Guest House:		
Checking accounts	\$ 242,929	\$ 310,257
PayPal account	101	165
Money market account	58,035	-
	<u>301,065</u>	<u>310,422</u>
Together We Bake:		
Checking accounts	24,893	44,052
	<u>\$ 325,958</u>	<u>\$ 354,474</u>

4. Property and equipment

A summary of information relative to property and depreciation for 2015 and 2014 was as follows:

As of June 30, 2015:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Depreciation expense</u>	<u>Useful life</u>
Building and improvements	\$ 239,256	\$ 195,018	\$ 8,929	15-39 years
Furniture and equipment	9,701	8,077	735	5-7 years
Computer equipment	10,016	9,467	316	5 years
Land	33,280	-	-	
	<u>\$ 292,253</u>	<u>\$ 212,562</u>	<u>\$ 9,980</u>	

As of June 30, 2014:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Depreciation expense</u>	<u>Useful life</u>
Building and improvements	\$ 239,256	\$ 186,089	\$ 8,873	15-39 years
Furniture and equipment	9,701	7,342	593	5-7 years
Computer equipment	10,016	9,151	445	5 years
Land	33,280	-	-	
	<u>\$ 292,253</u>	<u>\$ 202,582</u>	<u>\$ 9,911</u>	

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

4. Investment income (loss)

Investment income (loss) at June 30, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Realized and unrealized gain (loss)	\$ (10,049)	\$ 5,425
Fees and taxes	(79)	(60)
Interest and dividend income	3,327	3,406
	<u>\$ (6,801)</u>	<u>\$ 8,771</u>

5. Fair value measurements

The Organization classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Investments for the year ended June 30, 2015 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	\$ 18,726	\$ -	\$ -	\$ 18,726
Mutual funds				
Open ended	4	-	-	4
Close ended	5,540	-	-	5,540
Stocks, options and ETFs	35,355	-	-	35,355
Total assets reported at fair value	<u>\$ 59,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,625</u>

Investments for the year ended June 30, 2014 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	\$ 2,891	\$ -	\$ -	\$ 2,891
Mutual funds				
Open ended	4	-	-	4
Close ended	16,996	-	-	16,996
Stocks, options and ETFs	33,600	-	-	33,600
Total assets reported at fair value	<u>\$ 53,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,491</u>

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

6. Notes payable

The City of Alexandria provided \$55,000 in funds for which a first deed of trust was placed on the property on February 1, 1982. No interest or principal payments are required on the note until the Organization should sell, convey, transfer or otherwise dispose of the property.

The Trustees of the Old Presbyterian Meeting House provided \$25,000 in funds for which a second deed of trust was placed on the property on September 13, 1982. No interest or principal payments are required on the note until the Organization should sell, convey, transfer or otherwise dispose of the property.

The City of Alexandria provided \$140,400 in funds for which a third deed of trust was placed on the property in April of 2004. The total loan was allocated as \$41,000 in grant funds and \$99,400 as a 99-year deferred loan payment. The grant funds were restricted in purpose and allocated as \$23,000 for materials used in renovations and \$18,000 for a new security system. Interest and principal payments are not required on the note until the Organization should sell, convey, transfer or otherwise dispose of the property.

7. Donated services

For the years ended June 30, 2015 and 2014, the Organization received donated professional accounting services valued at \$5,000.

8. Endowment funds

The Organization's endowment consists of one fund established for the purpose of funding operations and specified programs. The endowment fund includes donor-restricted funds only. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

8. Endowment funds (continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under the policy, as approved by the Board of Directors, the endowment assets primary investment objective is to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. The secondary investment objective is to achieve returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power of endowment assets. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy and how the investment objectives relate to spending policy

Income, generated by assets held in endowment funds, is appropriated for distribution and spent from unrestricted net assets annually. The endowment principal is maintained at amounts originally contributed.

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

8. Endowment funds (continued)

Endowment net asset composition by type of fund

The endowment net assets consisted of the following as of June 30:

	2015			Total
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Donor-restricted endowment funds				
Capacity Building fund	\$ -	\$ -	\$ 10,000	\$ 10,000

	2014			Total
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Donor-restricted endowment funds				
Capacity Building fund	\$ -	\$ -	\$ 10,000	\$ 10,000

Changes in endowment net assets

The endowment net activity consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds as of June 30, 2013	\$ -	\$ -	\$ 10,000	\$ 10,000
Investment income	-	432	-	432
Amounts appropriated for expenditure	-	(432)	-	(432)
Endowment funds as of June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
Investment income	\$ -	\$ 454	\$ -	\$ 454
Amounts appropriated for expenditure	-	(454)	-	(454)
Endowment funds as of June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

See independent auditor's report.

Friends of Guest House, Inc.

Notes to Financial Statements June 30, 2015 and 2014

8. Endowment funds (continued)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2015 and 2014.

9. Employee benefits

The Organization maintains a SIMPLE IRA savings program for full-time employees. The program allows the Organization to match 100 % of employees' contributions, up to 3% of their salary. For the years ended June 30, 2015 and 2014, \$2,292 and \$2,283, respectively, was contributed to the plan.

10. Temporarily restricted net assets

Net assets are temporarily restricted for future periods. Temporarily restricted net assets as of June 30, 2015 and 2014 were as follows:

	<u>2014</u>	<u>Additions</u>	<u>Satisfactions</u>	<u>2015</u>
Restricted for future purposes	\$ -	\$ 500	\$ -	\$ 500
Restricted to future periods	45,000	30,000	(45,000)	30,000
	<u>\$ 45,000</u>	<u>\$ 30,500</u>	<u>\$ (45,000)</u>	<u>\$ 30,500</u>
	<u>2013</u>	<u>Additions</u>	<u>Satisfactions</u>	<u>2014</u>
Restricted to future periods	<u>\$ 45,000</u>	<u>\$ 45,000</u>	<u>\$ (45,000)</u>	<u>\$ 45,000</u>

11. Lease commitments

Guest House leases two residential apartments to clients during their enrollment in the program. The lease term is one year. Rent payments are \$1,280 per month. Total rent expense for the years ended June 30, 2015 and 2014 was \$30,989 and \$30,820, respectively.

12. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2015 through February 5, 2016, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. Subsequent to June 30, 2015, Together We Bake incorporated as a nonprofit corporation. No additional events have occurred that would require adjustment to or disclosure in the financial statements.

See independent auditor's report.