

GRANDMA'S HOUSE OF HOPE  
(A NONPROFIT ORGANIZATION)

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INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS

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December 31, 2015 and 2014

GRANDMA'S HOUSE OF HOPE  
(A NONPROFIT ORGANIZATION)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Grandma's House of Hope  
Santa Ana, California

We have audited the accompanying financial statements of Grandma's House of Hope which comprises the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows and functional expenses 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 the auditing standards generally accepted in the United States of America. Those standards require 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 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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grandma's House of Hope as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Prior Period Financial Statements**

The financial statements of Grandma's House of Hope as of December 31, 2014, were audited by other auditors whose report dated January 15, 2015, expressed an unqualified opinion on those statements.

*J. Scott Magfieri & Company*

May 10, 2016  
Napa, California

**GRANDMA'S HOUSE OF HOPE**  
STATEMENT OF FINANCIAL POSITION

As of December 31, 2015  
(With comparative totals as of December 31, 2014)

	<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:			
Cash and cash equivalents		\$107,273	\$ 95,960
Accounts receivable		66,103	16,113
Prepaid expenses		<u>7,404</u>	<u>18,652</u>
Total current assets		<u>180,780</u>	<u>130,725</u>
Property and equipment, net		25,854	43,083
Security deposits		<u>24,156</u>	<u>19,885</u>
 Total Assets		 <u>\$230,790</u>	 <u>\$193,693</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable		\$ 14,850	\$ 6,669
Accrued payroll and benefits		<u>18,044</u>	<u>31,727</u>
Total liabilities		<u>32,894</u>	<u>38,396</u>
Net assets:			
Temporarily restricted net assets		80,000	0
Unrestricted net assets		<u>117,896</u>	<u>155,297</u>
Total net assets		<u>197,896</u>	<u>155,297</u>
Total Liabilities and Net Assets		<u>\$230,790</u>	<u>\$193,693</u>

See accompanying notes to the financial statements.

**GRANDMA'S HOUSE OF HOPE**  
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

	2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support:			
Grants	\$ 415,771	\$ 140,000	\$ 555,771
Contributions	150,045	0	150,045
In-kind contributions	<u>799,157</u>	<u>0</u>	<u>799,157</u>
Total support	<u>1,364,973</u>	<u>140,000</u>	<u>1,504,973</u>
Revenues:			
Program services	416,228	0	416,228
Special events	3,014	0	3,014
Other income	<u>74</u>	<u>0</u>	<u>74</u>
Total revenues	<u>419,316</u>	<u>0</u>	<u>419,316</u>
Total support and revenues	<u>1,784,289</u>	<u>140,000</u>	<u>1,924,289</u>
Operating expenses:			
Program services	1,608,176	60,000	1,668,176
Management and general	120,770	0	120,770
Fundraising	<u>92,744</u>	<u>0</u>	<u>92,744</u>
Total operating expenses	<u>1,821,690</u>	<u>60,000</u>	<u>1,881,690</u>
Increase (decrease) in net assets	(37,401)	80,000	42,599
Net assets, beginning of year	<u>155,297</u>	<u>0</u>	<u>155,297</u>
Net assets, end of year	<u>\$ 117,896</u>	<u>\$ 80,000</u>	<u>\$ 197,896</u>

See accompanying notes to the financial statements.

**GRANDMA'S HOUSE OF HOPE**  
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

	2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support:			
Grants	\$ 320,356	\$ 0	\$ 320,356
Contributions	146,226	0	146,226
In-kind contributions	<u>570,858</u>	<u>0</u>	<u>570,858</u>
Total support	<u>1,037,440</u>	<u>0</u>	<u>1,037,440</u>
Revenues:			
Program services	348,858	0	348,858
Special events	<u>9,451</u>	<u>0</u>	<u>9,451</u>
Total revenues	<u>358,309</u>	<u>0</u>	<u>358,309</u>
Total support and revenues	<u>1,395,749</u>	<u>0</u>	<u>1,395,749</u>
Operating expenses:			
Program services	1,347,217	0	1,347,217
Management and general	115,427	0	115,427
Fundraising	<u>41,857</u>	<u>0</u>	<u>41,857</u>
Total operating expenses	<u>1,504,501</u>	<u>0</u>	<u>1,504,501</u>
Decrease in net assets	(108,752)	0	(108,752)
Net assets, beginning of year	<u>264,049</u>	<u>0</u>	<u>264,049</u>
Net assets, end of year	<u>\$ 155,297</u>	<u>\$ 0</u>	<u>\$ 155,297</u>

See accompanying notes to the financial statements.

**GRANDMA'S HOUSE OF HOPE**  
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase(decrease in net assets)	\$ 42,599	\$(108,752)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	17,230	13,250
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(49,990)	( 8,089)
Prepaid expenses	11,248	( 16,310)
Security deposit	( 4,271)	(11,394)
Increase (decrease) in liabilities:		
Accounts payable	8,181	1,509
Accrued payroll and benefits	<u>(13,684)</u>	<u>25,770</u>
Net cash used in operating activities	<u>11,313</u>	<u>(104,016)</u>
Cash flows from investing activities:		
Purchase of equipment	<u>0</u>	<u>( 8,859)</u>
Net cash used in investing activities	<u>0</u>	<u>( 8,859)</u>
Net increase (decrease) in cash	11,313	(112,875)
Cash, beginning of year	<u>95,960</u>	<u>208,835</u>
Cash, end of year	\$ <u>107,273</u>	\$ <u>95,960</u>

See accompanying notes to the financial statements.



**GRANDMA'S HOUSE OF HOPE**  
Notes to Financial Statements

For the Year Ended December 31, 2015 and 2014

(1) Nature of Organization

Grandma's House of Hope (GHH) was incorporated in the State of California as a nonprofit organization in 2007. The Organization provides services, programs and affordable housing to the underserved and under privileged persons in Orange County, California and the surrounding areas. GHH provides compassionate and uplifting transitional care for homeless women in crisis and hungry children in Orange County.

In 2015, Grandma's House of Hope assisted over persons in Orange County.

(2) Summary of Significant Accounting Policies

A summary of Grandma's House of Hope's significant accounting policies in the preparation of the accompanying financial statements follows:

*Basis of Presentation*

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America using the accrual basis of accounting. In accordance with the Accounting Standards Codification (ASC) Section 958-205, Presentation of Financial Statements for Not-for-Profit Organizations, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the principal be maintained permanently by the Organization. The Organization is permitted to use the income earned on the related investments for general or specific purposes.

Revenues are reported as an increase in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as a decrease in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction.

**GRANDMA'S HOUSE OF HOPE**  
Notes to Financial Statements

For the Year Ended December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

*Cash*

For the purpose of the statements of financial position and cash flows, the Organization considers cash to be cash on hand and cash in checking and savings accounts. As of December 31, 2015 and 2014, the carrying amount of the Organization's cash was \$105,946 and \$94,077. There were no donor-imposed restrictions, generally related to program costs, in 2015 and 2014. The Organization's accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash as of December 31, 2015 and 2014 were within the insured limits.

*Accounts Receivable and Allowance for Bad Debts*

Accounts receivable arise in the normal course of business in providing program services. The Organization provides an allowance for bad debts based on historical collection experience and a review of the current status of receivables. The Organization believes that all receivables are collectible and has not provided for an allowance for bad debts as December 31, 2015 and 2014. It is reasonably possible that the estimate for bad debts will change.

*Property and Equipment*

Property and equipment consists of furniture, equipment and computer software and is stated at cost, net of accumulated depreciation. Donated assets are stated at their estimated or actual value at the time they were donated to the Organization. The Organization does not imply time restriction on donated assets received without stipulation about how long the donated assets must be used.

Expenditures for major additions and improvements are capitalized. Minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method based on estimated useful lives.

*Donated Services, Materials and Equipment*

Amounts are reported in the financial statements for voluntary donations of services that create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and would be typically purchased if not provided by donation. The Organization receives services from volunteers that either meet the requirements for financial statement recognition or give significant amounts of their time to the Organization's programs but do not meet the criteria for financial statement recognition. The hours of volunteers whose time does not meet the criteria of financial statement recognition are significant and are reported in Footnote 11 of the financial statements.

Donated services, materials and equipment are recorded at the fair value of the gift.

**GRANDMA'S HOUSE OF HOPE**  
Notes to Financial Statements

For the Year Ended December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

*Compensated Absences*

The Executive Director of Grandma's House of Hope is entitled to paid vacation of 8.0 hours per month. The compensated absences accrual at December 31, 2015 and 2014 was \$ 863 and \$0 respectively, and is presented as a component of accrued payroll and benefits in the accompanying Statements of Financial Position.

*Revenues*

Revenues are derived from public support, grants and charges for services. All contributions are recognized as public support when received. Grants are recognized as revenue when used to that specific purpose. Charges for services are recognized as revenue at the time the service is performed. Donations of property and equipment, rent and professional services are recorded at fair market value at the time of receipt.

*Programs and Activities*

The Organization is involved in the following programs and activities:

Housing Program - The Organization provides 107 beds in 6 homes in Orange County as temporary housing for women and strives to move women into permanent housing.

HopeWorks! Education and Enrichment Center - The center provides after school tutoring and educational support, community events, financial and nutritional education, workforce development, parenting workshops and a Summer Kids Camp. In addition, the staff provides case management for families and children who live in low income affordable housing complexes and strives to move families when possible out of government assistance and to full self-sustainability.

Community Leadership Training Program - The Organization provides mediation, conflict resolution classes and property management training to participants in the housing program.

**GRANDMA'S HOUSE OF HOPE**  
Notes to Financial Statements

For the Year Ended December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

*Contributions*

FASB ASC Topic 958-605, Not-for Profit Entities - Revenue Recognition, requires that contributions received are to be recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under FASB ASC Topic 958 time restricted contributions are required to be reported as temporarily restricted support and are then reclassified to net assets upon expiration of the time restriction.

Contributions, including unconditional promises to give (pledge) are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the condition on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated value.

*Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Schedule of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Income Taxes*

Grandma's House of Hope is a nonprofit corporation that is exempt from state and federal income tax under section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income tax has been provided in the accompanying financial statements. The Organization is required to report its financial position, financial activities and other information related to certain donors, officers and directors on annual informational returns with the Department of Treasury, Internal Revenue Service and the State of California. Tax years that remain subject to examination by the major tax jurisdictions are 2015, 2014 and 2013.

*Valuation of Long-Lived Assets*

Grandma's House of Hope reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. The factors considered by management in performing the assessment include current obsolescence, demand, competition and other economic factors. To date, management has determined no such impairments exist.

**GRANDMA'S HOUSE OF HOPE**  
Notes to Financial Statements

For the Year Ended December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

*Fair Value of Financial Instruments*

The carrying amount reflected in the Statements of Financial Position for cash, accounts receivable, accounts payable and accrued payroll and benefits approximate their respective fair values due to the short-term maturities of those instruments.

*Use of Estimates*

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

(3) Accounts Receivable

Accounts receivable consists primarily of amounts invoiced for services. No provision has been made for uncollectible accounts as, in the opinion of management, all accounts outstanding as of December 31, 2015 and 2014 are collectable.

(4) Property and Equipment

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>
Furniture	\$ 59,799	\$ 59,799
Equipment	46,913	46,913
Computer software	<u>12,720</u>	<u>12,720</u>
At cost	119,432	119,432
Accumulated depreciation	<u>( 93,578)</u>	<u>( 76,349)</u>
	<u>\$ 25,854</u>	<u>\$ 43,083</u>

Depreciation expense was \$17,230 for the year ended December 31, 2015 and \$13,250 for the year ended December 31, 2014.

(5) Line of Credit

The Organization has a pre-approved short-term loan from Nonprofit's Insurance Alliance of California with a limit of \$50,000 that funded March 2015. Amounts drawn on the loan are unsecured and payable in twelve monthly payment of \$4,303, including interest at 6.0% per annum. No amounts were drawn on the loan in 2015.

**GRANDMA'S HOUSE OF HOPE**  
Notes to Financial Statements

For the Year Ended December 31, 2015 and 2014

(6) Grant Revenue

Grants received are restricted to be used solely for supporting projects.

Temporarily restricted net assets as of December 31, 2015 are restricted for housing, HopeWorks! Education and Enrichment Center and the Community Leadership Training Program.

(7) Concentration of Credit Risk

The Organization maintains its cash in bank accounts that are federally insured up to \$250,000. In 2015 and 2014 the amounts were not exceeded and management believes it is not exposed to any significant credit risk related to cash. Concentration of credit risk with respect to accounts receivable is due to the economic conditions of clients served that pay for housing and other services. Management believes that any risk associated with these receivables is insignificant and would not have a material effect on the financial statements or financial condition of the Organization.

(8) Commitments

As of December 31, 2015, Grandma's House of Hope conducted operations at 6 homes and one administrative office. Lease agreements expire from May 2017 to November 2020 and current total monthly rent is \$25,272.

The future minimum annual rental payments are as follows:

<u>Year</u>	
2016	\$ 303,257
2017	240,468
2018	27,720
2019	27,720
2020	<u>27,720</u>
	<u>\$ 626,885</u>

Rent paid for the years ended December 31, 2015 and 2014 was \$290,361 and \$273,166, respectively. Rent paid to a related party was \$48,000 for each year ended December 31, 2015 and 2014.

(9) Related Party Transaction

Grandma's House of Hope paid rent to its Executive Director in the amount of \$48,000 each year ended December 31, 2015 and 2014. The rent paid is comparable to the market valuation rent in the surrounding area. The term of the lease agreement is for a period of 5 years ending November 2018. The amount of rent is \$4,000 per month.

**GRANDMA'S HOUSE OF HOPE**  
Notes to Financial Statements

For the Year Ended December 31, 2015 and 2014

(10) Economic Dependency and Contingencies

Grandma's House of Hope receives a substantial amount of its support from private sector donors and in-kind donations for professional services where it conducts operations. A significant reduction in the level of this support, if it were to occur, would have an adverse effect on its programs and activities. For the years ended December 31, 2015 and 2014, the Organization received 58% in 2015 and 45% in 2014 from private sector donors and 42% in 2015 and 55% in 2014 of its support from in-kind contributions, most in the form of food products, material and professional services that met the criteria for financial statement recognition.

(11) Other Matters

Grandma's House of Hope relies on volunteer support to conduct general support and program services. Such services are not recorded as in-kind donations as the volunteer services do not create or enhance financial assets as special skills are not required. The total volunteer hours that are not recorded as in-kind donations were not available for 2015 and 2014.

(12) Subsequent Events

Grandma's House of Hope evaluated subsequent events from January 1, 2016 through May 10, 2016, the date the financial statements were available to be issued. The Organization did not note any subsequent events requiring disclosure in the financial statements.

**GRANDMA'S HOUSE OF HOPE**  
SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015  
(With comparative totals as of December 31, 2014)

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2015 Total</u>	<u>2014 Total</u>
Expenses:					
Salaries and wages	\$ 361,260	\$ 56,932	\$ 45,155	\$ 463,347	\$ 376,480
Payroll taxes	50,961	8,540	6,773	66,274	36,078
Employee benefits	0	5,684	50	5,734	12,399
Total salaries and related	412,221	71,156	51,978	535,355	424,957
Advertising	1,649	51	11,691	13,391	2,784
Bank charges and interest	3,182	1,367	1,606	6,155	3,147
Conferences and meetings	0	0	0	0	5,396
Dues and memberships	670	776	699	2,145	7,376
Insurance	12,363	3,312	0	15,675	8,969
Occupancy	289,476	21,327	0	310,803	273,166
Office expense	918	627	183	1,728	9,850
Outside services	3,538	2,000	19,267	24,805	35,837
Printing, publication and postage	502	478	2,599	3,579	4,146
Program services and supplies	50,603	0	4,105	54,708	77,733
Repairs and maintenance	17,440	315	0	17,755	9,702
Communications	2,014	3,042	0	5,056	11,957
Travel, training and meetings	30,825	587	616	32,028	13,459
Utilities	42,120	0	0	42,120	31,914
Depreciation	1,498	15,732	0	17,230	13,250
In-kind contribution expense	799,157	0	0	799,157	570,858
Total expenses	<u>\$1,668,176</u>	<u>\$ 120,770</u>	<u>\$ 92,744</u>	<u>\$1,881,690</u>	<u>\$1,504,501</u>

See accompanying notes to the financial statements.