

LAUREL HOUSE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

WITH INDEPENDENT AUDITORS' REPORT

**LAUREL HOUSE
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SEPTEMBER 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Laurel House
Tustin, California

We have audited the accompanying financial statements of Laurel House (the "Organization"), which comprise the statements of financial position as of September 30, 2018, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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.

Related-Party Relationship

The accompanying financial statements are those of Laurel House, which is under common control with Orange County Rescue Mission, and are not those of the primary reporting entity.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of financial position of Laurel House as of September 30, 2018, 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.

Prior-Period Financial Statements

The financial statements of Laurel House as of and for the year ended September 30, 2017, were audited by other auditors whose report dated February 15, 2018, expressed an unmodified opinion on those statements.

White Nelson Dick Evans LLP

Irvine, California
December 13, 2018

LAUREL HOUSE
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

ASSETS

	2018	2017
Assets:		
Cash and cash equivalents	\$ 637,890	\$ 419,949
Prepaid expense	462	-
Property and equipment, net	326,211	358,077
Total Assets	\$ 964,563	\$ 778,026

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 59,962	\$ 3,072
Total Liabilities	59,962	3,072
Net Assets:		
Unrestricted:		
Net investment in property and equipment	326,211	358,077
Available for programs	578,390	416,877
Total Net Assets	904,601	774,954
Total Liabilities and Net Assets	\$ 964,563	\$ 778,026

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

LAUREL HOUSE
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	Year Ended September 30, 2018			Year Ended September 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support, Revenues, and Gains:						
Contributions	\$ 335,206	\$ -	\$ 335,206	\$ 327,147	\$ -	\$ 327,147
Gifts in kind	103,490	-	103,490	38,883	-	38,883
Other income	15,000	-	15,000	20,139	-	20,139
Total Support, Revenue, and Gains	<u>453,696</u>	<u>-</u>	<u>453,696</u>	<u>386,169</u>	<u>-</u>	<u>386,169</u>
Expenses:						
Program services	<u>295,316</u>	<u>-</u>	<u>295,316</u>	<u>168,972</u>	<u>-</u>	<u>168,972</u>
Supporting Services:						
General and administrative	5,235	-	5,235	23,400	-	23,400
Fundraising	<u>23,498</u>	<u>-</u>	<u>23,498</u>	<u>3,427</u>	<u>-</u>	<u>3,427</u>
Total Supporting Services	<u>28,733</u>	<u>-</u>	<u>28,733</u>	<u>26,827</u>	<u>-</u>	<u>26,827</u>
Total Expenses	<u>324,049</u>	<u>-</u>	<u>324,049</u>	<u>195,799</u>	<u>-</u>	<u>195,799</u>
Increase in Net Assets	129,647	-	129,647	190,370	-	190,370
Net Assets, Beginning of Year	<u>774,954</u>	<u>-</u>	<u>774,954</u>	<u>584,584</u>	<u>-</u>	<u>584,584</u>
Net Assets, End of Year	<u>\$ 904,601</u>	<u>\$ -</u>	<u>\$ 904,601</u>	<u>\$ 774,954</u>	<u>\$ -</u>	<u>\$ 774,954</u>

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

LAUREL HOUSE
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	Year Ended September 30, 2018				Year Ended September 30, 2017			
	Program Services	Support Activities			Program Services	Support Activities		
		General and Administrative	Fundraising	Total		General and Administrative	Fundraising	Total
Direct assistance - food, clothing, health-care education, recreation, childcare (includes gifts in kind)	\$ 133,644	\$ -	\$ -	\$ 133,644	\$ 58,863	\$ -	\$ -	\$ 58,863
Direct marketing	574	116	85	775	378	77	56	511
Compensation and related expenses	66,525	4,683	23,413	94,621	55,004	6,471	3,236	64,711
Professional fees	21,090	436	-	21,526	-	16,667	-	16,667
Occupancy, utilities, and maintenance	18,882	-	-	18,882	10,233	185	135	10,553
Depreciation	36,316	-	-	36,316	35,954	-	-	35,954
Vehicles	11,406	-	-	11,406	4,756	-	-	4,756
Supplies	6,879	-	-	6,879	3,784	-	-	3,784
Total Expenses	\$ 295,316	\$ 5,235	\$ 23,498	\$ 324,049	\$ 168,972	\$ 23,400	\$ 3,427	\$ 195,799

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

LAUREL HOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 129,647	\$ 190,370
Noncash Items Included in Increase in Net Assets:		
Donated gifts in kind	(2,295)	(9,354)
Distributed gifts in kind	2,295	9,354
Depreciation	36,316	35,954
Changes in:		
Grants and contributions receivable	-	50
Prepaid expenses	(462)	-
Accounts payable	56,890	(47,188)
Net Cash and Cash Equivalents Provided by Operating Activities	222,391	179,186
Cash Flows from Investing Activities:		
Purchase of property and equipment	(4,450)	(2,039)
Net Cash and Cash Equivalents Used in Investing Activities	(4,450)	(2,039)
Net Increase in Cash and Cash Equivalents	217,941	177,147
Cash and Cash Equivalents, Beginning of Year	419,949	242,802
Cash and Cash Equivalents, End of Year	\$ 637,890	\$ 419,949
Supplemental Disclosure:		
Interest paid	\$ -	\$ -

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

LAUREL HOUSE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 1: Nature of Business and Summary of Significant Accounting Policies

Nature of Organization

Laurel House, Inc. (the “Organization”) is a charitable nonprofit organization incorporated on January 23, 1985, in the state of California. The specific objective and purpose of the Organization is to prevent homelessness among teenage girls in Orange County, California, by providing temporary shelter and care, ongoing counseling, increased access to mental health resources, and enhanced academic support to teen girls between the ages of 12 and 17 at risk of homelessness or who are runaways. It is the goal of the Organization to reunify these teen girls with their families or move them into positive living situations when reunification is not possible.

In July 2014, the Organization’s board of directors decided to cease operations, and the girls were sent home. In August 2014, the Orange County Rescue Mission (“OCRM”) began providing leadership for the Organization and paying off the \$100,000 line of credit, as well as other expenses. In September 2014, the members of the board resigned effective October 1, 2014, and new board members were appointed by OCRM. Repairs were made to the shelter, and it reopened in February 2015.

Basis of Accounting

The Organization prepares its financial statements using the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements in accordance 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 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.

Financial Statement Presentation

The Organization 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.

Unrestricted Net Assets - Unrestricted net assets are net assets that are not subject to donor-imposed restrictions. Unrestricted net assets generally result from unrestricted contributions and interest and dividends, less expenses incurred in providing services and fundraising and other administrative expenses.

LAUREL HOUSE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

Temporarily Restricted Net Assets - Temporarily restricted net assets are net assets that are subject to donor-imposed restrictions that require the passage of time or the occurrence of a specific event to become available for unrestricted use. At September 30, 2018 and 2017, there were no temporarily restricted net assets.

Permanently Restricted Net Assets - Permanently restricted net assets are net assets that are subject to donor-imposed restrictions that may be maintained permanently while permitting the Organization to use or expense part or all of the income derived from the donated assets. At September 30, 2018 and 2017, there were no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Deposits with banks may, at times, exceed federally insured limits. The Organization has not experienced any losses on these accounts.

Property and Equipment

Property and equipment are carried at cost if purchased or fair market value at date of contribution if contributed. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of 10 to 40 years for building and improvements and 5 to 7 years for furniture and equipment, computer equipment, and automobiles.

Long-lived assets, such as property and equipment, are reviewed on an ongoing basis for impairment based on a comparison of carrying value against undiscounted future cash flows. If impairment is identified, the assets' carrying amounts are adjusted to fair value.

Grants and Contributions

Grants and contributions received are recorded when cash or unconditional promises to give have been received or the ownership of donated assets is transferred to the Organization. Contributions are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

LAUREL HOUSE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Grants and Contributions (Continued)

All donor-restricted contributions are reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts in kind

Donated materials and contributed services are reflected in the accompanying financial statements at their estimated fair market value at the date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by a donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising costs for the years ended September 30, 2018 and 2017, were \$775 and \$511, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting activities based on knowledge and estimates made by management.

Income Taxes

The Organization is subject to income tax examinations for the current year and certain prior years based on applicable laws and regulations. The Organization is a California nonprofit corporation that has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and the State Revenue and Tax Code Section 23701(d). Accordingly, no provision of income taxes has been made in the accompanying financial statements.

LAUREL HOUSE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In August 2016, FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is designed to improve the current reporting requirements of various not-for-profit entities by reducing the number of net asset classes for not-for-profit organizations from three to two, and improves the current reporting requirements surrounding liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 are effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Organization is currently evaluating the effect of ASU 2016-14 on the presentation of its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605)*. ASU 2018-08 clarifies and improves the scope and accounting guidance for contributions received and contributions made. This update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2018-08 on the presentation of its financial statements.

Note 2: Property and Equipment

Property and equipment consist of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 150,700	\$ 150,700
Buildings	220,148	220,148
Building improvements	226,240	226,240
Vehicles	24,078	24,078
Furniture and fixtures	<u>48,338</u>	<u>43,888</u>
Subtotal	669,504	665,054
Less: Accumulated depreciation	<u>(343,293)</u>	<u>(306,977)</u>
Total Property and Equipment, Net	<u>\$ 326,211</u>	<u>\$ 358,077</u>

LAUREL HOUSE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 3: Affiliated Entities and Related-Party Transactions

Consolidation of entities is required when a reporting entity controls other organizations by having a majority voting interest and economic control. As discussed above, OCRM has a majority voting interest in the Organization. For the years ended September 30, 2018 and 2017, it has been determined that an economic interest does exist for OCRM in the Organization. Consequently, the financial statements of the Organization are consolidated with the financial statements of OCRM.

At September 30, 2018, approximately \$55,600, included in accounts payable, was owed to OCRM. During the years ended September 30, 2018 and 2017, the Organization reimbursed OCRM approximately \$112,500 and \$83,400, respectively, for salaries, benefits, and other expenses.

Note 4: Subsequent Events

Subsequent events were evaluated through December 13, 2018, which is the date the financial statements were available to be issued.