

Flagstaff Shelter Services, Inc.

Financial Statements

For The Year Ended March 31, 2014

Together With Independent Auditor's Report

Flagstaff Shelter Services, Inc.

March 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Flagstaff Shelter Services, Inc.
Flagstaff, Arizona

I have audited the accompanying financial statements of Flagstaff Shelter Services, Inc. (an Arizona nonprofit organization) which comprise the statement of financial position as of March 31, 2014, and the related statements of activities and changes in net assets, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement on 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by managements, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flagstaff Shelter Services, Inc. as of March 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited the Flagstaff Shelter Services, Inc.'s March 31, 2013 financial statements, and my reported dated November 14, 2013, expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2013, is consistent, in all material respects, with the financial statements from which it has been derived.

Flagstaff, Arizona
April 28, 2015

Flagstaff Shelter Services, Inc.

Statement of Activities And Changes In Net Assets
Year Ended March 31, 2014
With Comparative Totals for the Year Ended March 31, 2013

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total 3/31/2014</u>	<u>Total 3/31/2013</u>
Changes in Net Assets:				
Support And Revenues:				
Contributions	\$ 98,518	\$ 29,125	\$ 127,643	\$ 355,842
Grants	298,177		298,177	224,346
In-Kind Donations (Notes 1, 4)	178,665		178,665	83,360
Special Event Income	20,951		20,951	37,673
Other Revenue	<u>7,856</u>		<u>7,856</u>	<u>5,467</u>
Total Support And Revenues	604,167	29,125	633,292	706,688
Net Assets Released From Restrictions:				
Satisfaction of Contribution Restrictions	<u>50,759</u>	<u>(50,759)</u>	<u>0</u>	<u>0</u>
Total Support, Revenue, And Assets Released	654,926	(21,634)	633,292	706,688
Operating Expenses:				
Program Services	502,317		502,317	408,271
Support Services	<u>41,333</u>		<u>41,333</u>	<u>50,411</u>
Total Operating Expenses	<u>543,650</u>	<u>0</u>	<u>543,650</u>	<u>458,682</u>
Change in Net Assets From Operations	111,276	(21,634)	89,642	248,006
Other Changes:				
Interest Income	27		27	41
Loss on Disposal of Assets	(435)		(435)	(45,427)
Interest Expense	<u>(27,516)</u>		<u>(27,516)</u>	<u>(33,352)</u>
Net Other Income/(Expenses) From Other Changes	<u>(27,924)</u>	<u>0</u>	<u>(27,924)</u>	<u>(78,738)</u>
Increase (Decrease) in Net Assets	83,352	(21,634)	61,718	169,268
Net Assets at Beginning of Year	<u>449,245</u>	<u>25,451</u>	<u>474,696</u>	<u>305,428</u>
Net Assets at End of Year	<u><u>\$ 532,597</u></u>	<u><u>\$ 3,817</u></u>	<u><u>\$ 536,414</u></u>	<u><u>\$ 474,696</u></u>

See accompanying notes to financial statements and auditor's report.

Flagstaff Shelter Services, LLC

Statement of Functional Expenses
 Year Ended March 31, 2014
With Comparative Totals for the Year Ended March 31, 2013

	Program Services	Support Services	Total 3/31/2014	Total 3/31/2013
Expenses:				
Special Events	\$ 1,127	\$	\$ 1,127	\$ 8,841
Health Clinic Expense	12,309		12,309	10,387
Bank Charges	1,354		1,354	2,888
Depreciation Expense	29,574	4,670	34,244	26,621
Dues & Subscriptions	356		356	410
Insurance	5,341	843	6,184	8,131
Workers's Compensation Insurance	2,711	1,525	4,236	3,744
Storage	120		120	0
Advertising and Fundraising Expense	4,344	686	5,030	1,606
Postage & Delivery	1,150		1,150	1,361
Printing & Reproduction	107		107	2,953
Professional Fees	51,410		51,410	43,452
Utilities	18,275	2,885	21,160	15,944
Repairs & Maintenance	2,812		2,812	5,175
Telephone & Internet Expense	4,743	749	5,492	5,202
Meals Expense	218		218	0
Travel Expense	385		385	922
Equipment Rental	1,434		1,434	1,309
Office Supplies	5,015		5,015	8,378
Cleaning Supplies	1,636		1,636	849
Program Supplies	4,462		4,462	5,886
Client Services	14,830		14,830	17,396
Salaries & Wages	159,564	27,396	186,960	215,119
Payroll Taxes & Employee Related Expenses	15,018	2,579	17,597	23,103
Staff Development	1,455		1,455	0
Taxes & Licenses	217		217	247
Food and Food Supplies	162,350		162,350	48,758
Total Expenses	<u>\$ 502,317</u>	<u>\$ 41,333</u>	<u>\$ 543,650</u>	<u>\$ 458,682</u>
Total Expenses 3/31/13	<u>\$ 408,271</u>	<u>\$ 50,411</u>		<u>\$ 458,682</u>

See accompanying notes to financial statements and auditor's report.

Flagstaff Shelter Services, Inc.

Statement of Cash Flows
Year Ended March 31, 2014
With Comparative Totals for the Year Ended March 31, 2013

	2014	2013
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 61,718	\$ 169,268
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	34,244	26,621
Loss on Disposal of Assets	435	45,427
(Increase) Decrease in current assets:		
Accounts Receivable	90,629	7,830
Allowance for Doubtful Accounts	0	0
Deposits	0	0
Prepaid Expenses	(19)	2,332
Increase (Decrease) in current liabilities:		
Accounts Payable	(1,719)	(37)
Payroll Payable	3,222	1,031
Accrued Vacation Payable	(488)	(44)
Payroll Taxes Payable	(7,628)	224
Accrued Expenses	675	0
Total Adjustments	119,351	83,384
Net Cash Provided by (Used in) Operating Activities	181,069	252,652
Cash Flows From Investing Activities:		
Cash From The Disposal of Property And Equipment	740	0
Purchases of Property And Equipment	(66,679)	(194,162)
Net Cash Provided by (Used in) Investing Activities	(65,939)	(194,162)
Cash Flows From Financing Activities:		
Principle Payments on Long-Term Debt	(13,637)	(49,500)
Net Cash Provided by (Used in) Financing Activities	(13,637)	(49,500)
Net Increase (Decrease) in Cash	101,493	8,990
Cash at Beginning of Year	76,692	67,702
Cash at End of Year (Note 1)	\$ 178,185	\$ 76,692
Supplementary Disclosures of Cash Flow Information:		
Cash Payments for Interest	\$ 27,516	\$ 33,352
Cash Payments for Income Tax	\$ 0	\$ 0
Schedule of Noncash Investing And Financing Activities:		
Acquisition of Real Property Through a Mortgage Payable	\$ 0	\$ 0

See accompanying notes to financial statements and auditor's report.

Flagstaff Shelter Services, Inc.

Notes to Financial Statements Year Ended March 31, 2014 With Comparative Totals for the Year Ended March 31, 2013

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Flagstaff Shelter Services, Inc. (the Organization) have been prepared on the accrual basis of accounting. The significant policies followed are described below to enhance the usefulness of the financial statements to the reader.

Nature of the Organization

Flagstaff Shelter Services, Inc. was incorporated in the State of Arizona on May 1, 2006, in accordance with Section 501(c)(3) of the Internal Revenue Code. The Organization is located in Flagstaff, Arizona and is dedicated to providing emergency shelter to homeless men and women in Coconino County and the services needed to overcome the problems underlying homelessness. The Organization's mission is to provide homeless men and women shelter and services and to assist them in obtaining stable housing. The Organization is also dedicated to establishing a permanent shelter in a location that will allow the program to expand and provide the option for extended stays. Flagstaff Shelter Services offers five different programs for homeless men and women; Emergency Shelter, Temporary Shelter, Transitional Shelter, Day Drop-in Shelter, and Free Health Clinic services.

Financial Statement Presentation

The financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial positions and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Pledges to Give

Contributions are recognized when the donor makes a written pledge to give to the Organization that is, in substance, unconditional. Restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Unconditional pledges to give that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, discounted using low-risk interest rates applicable to the year in which the pledge was received. An allowance for uncollectible pledges is provided based on Management's evaluation of potential uncollectible pledges receivable at year-end. The balance of uncollectible accounts amounted to \$0, for the years ending March 31, 2014 and 2013 respectively.

Discounted or Donated Goods and Services

The Organization records discounted or donated goods and services in accordance with the requirements of SFAS No. 116. The Organization values discounted or donated goods and services at their fair market values at the date of the discount or donation.

Flagstaff Shelter Services, Inc.

Notes to Financial Statements Year Ended March 31, 2014 With Comparative Totals for the Year Ended March 31, 2013

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Discounted or Donated Goods and Services (continued)

The fair market value of some donated goods and services is not readily available at the date of donation and as a result have not been included in the financial statements. For the years ended March 31, 2014 and 2013, the Organization recorded the following in-kind contributions:

	<u>2014</u>	<u>2013</u>
Services	\$ 19,890	\$39,680
Food	<u>158,775</u>	<u>43,680</u>
Total	<u>\$ 178,665</u>	<u>\$ 83,360</u>

The statements do not reflect the fair value of non-specialized contributed services provided by volunteers to the Organization, who provide significant services for program events and fundraising, because they did not meet the criteria for recognition under SFAS No. 116.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Managements' Review of Subsequent Events

In the preparation of the financial statements, management's review of subsequent events were evaluated through April 28, 2015, the date the financial statements were available to issue.

Income Taxes

The Organization qualifies and tax-exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201 of the Arizona Revised Statutes. Therefore, the Organization's financial statements contain no provision of liability for income taxes.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Organization had only bank accounts and petty cash to be considered as cash equivalents as of March 31, 2014 and 2013.

Flagstaff Shelter Services, Inc.

Notes To Financial Statements

Year Ended March 31, 2014

With Comparative Totals for the Year Ended March 31, 2013

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Accounts Receivable

Accounts receivable consist of donations pledge but not yet collected. An allowance for doubtful accounts is not maintained as management feels that the receivables are fully collectible.

Property and Equipment

Purchases of property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value on the date of donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to thirty years.

NOTE 2 – CASH

The total cash held by the Organization as of March 31, 2014 and 2013 is as follows:

	2014	2013
Cash in Bank - Unrestricted	\$ 174,368	\$ 63,242
Cash in Bank – Temporarily Restricted	3,817	13,450
Petty Cash	0	0
Total	\$178,185	\$ 76,692

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2014 and 2013 consists of the following:

	2014	2013
Land	\$ 215,000	\$ 215,000
Building	645,000	645,000
Furniture and Equipment	9,325	9,325
Vehicles	0	1,500
Leasehold Improvements	270,632	203,953
Total	1,139,957	1,074,778
Less accumulated depreciation	(80,711)	(46,792)
Property and equipment, net	\$ 1,059,246	\$ 1,027,986

Depreciation expense was \$34,244 and \$26,621 at March 31, 2014 and 2013, respectively.

Flagstaff Shelter Services, Inc.

Notes To Financial Statements Year Ended March 31, 2014 With Comparative Totals for the Year Ended March 31, 2013

NOTE 4 – RESTRICTION ON NET ASSETS

As of March 31, 2014, temporarily restricted net assets in the amount of \$3,817 are available for spending on health clinic and capital expansion. As of March 31, 2013, temporarily restricted net assets in the amount of \$25,451 was available for spending on health clinic and capital expansion. There were no permanently restricted net assets as of March 31, 2014 or 2013.

NOTE 5 – CONCENTRATION RISK

The Federal Deposit Insurance Corporation insures accounts up to \$250,000 per institution for the years ended March 31, 2014 and 2013, respectively. As of March 31, 2014 and 2013, the Organization did not maintain cash balances in excess of this amount.

NOTE 6 – LEASES

During the fiscal year ending March 31, 2013, Organization leased a building for its temporary location on Phoenix Avenue in Flagstaff from the City of Flagstaff. Annual rental payment under the lease are \$1 per year. In August 2012, the Organization moved into its current shelter facilities on Huntington Avenue.

NOTE 7 – RELATED PARTY TRANSACTIONS

Certain professional services are provided by members of the board and have been properly reflected in the financial statements in accordance with generally accepted accounting principles. In addition, significant pledges have been made by members of the board to the Organization.

NOTE 8 – MORTGAGE PAYABLE

With the purchase of the Huntington Avenue Shelter property, the Organization incurred a mortgage payable of \$750,000. The mortgage payable carries an interest rate of 4% and requires interest only payments which began in August 2011 for a period of three years. Commencing in July 2014, the interest rate will increase to 6% at which time a principle payment of \$250,000 is also due. The entire unpaid mortgage balance, both principle and interest is due in July 2016. However, the Organization may choose to extend the payoff beyond July 2016 for an additional two years if the mortgage is not in default. The interest rate on the mortgage would increase to 11% during this two year extension period. This mortgage was refinanced during the following fiscal year ending March 31, 2015.

Flagstaff Shelter Services, Inc.

Notes To Financial Statements

Year Ended March 31, 2014

With Comparative Totals for the Year Ended March 31, 2013

NOTE 8 – MORTGAGE PAYABLE (Continued)

Future minimum cash payments required by the mortgage for the fiscal years ending March 31 are as follows:

2015	\$228,643
2016	29,211
2017	45,440
2018	53,554
2019	509,166
Thereafter	<u>0</u>
Total	886,014
Mortgage Interest	<u>(179,151)</u>
Mortgage Payable – March 31, 2014	<u>\$686,863</u>