SAMARITAN INNS, INC.

FINANCIAL STATEMENTS

June 30, 2016

CONTENTS

ANDERSON DAVIS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Samaritan Inns, Inc.
Washington, D.C.

We have audited the accompanying financial statements of Samaritan Inns, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the Organization as of June 30, 2016, 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.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
November 21, 2016

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SAMARITAN INNS, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

Current assets	
Cash and cash equivalents	$ 1,484,870
Investments	822,236
Pledges and grants receivable	25,000
Other receivables	102,895
Prepaid expenses and other assets	10,757
Total current assets	2,445,758
Property and equipment	
Land	649,263
Buildings and improvements	10,080,392
Furniture and equipment	763,940
Computers, equipment and software	155,224
	11,648,819
Less: Accumulated depreciation and amortization	(5,617,104)
Net property and equipment	6,031,715
Other assets	
Sculptures	42,951
Total other assets	42,951
Total assets	$ 8,520,424

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued liabilities	$ 109,548
Annuities payable - current portion	17,404
Tenants' security deposits	60,545
Total current liabilities	187,497
Long-term liabilities	
Annuities payable, net of current portion	60,761
Total long-term liabilities	60,761
Total liabilities	248,258
Net assets	
Unrestricted:	
Undesignated	1,658,508
Invested in property and equipment	5,199,224
Board designated	500,000
Total unrestricted	7,357,732
Temporarily restricted	914,434
Total net assets	8,272,166
Total liabilities and net assets	$ 8,520,424

See independent auditor's report and notes to the financial statements.

SAMARITAN INNS, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions and grants:			
Individuals	$ 255,031	$ -	$ 255,031
Foundations	181,958	25,000	206,958
Corporations	60,000	-	60,000
Government	50,000	-	50,000
Churches	1,820	-	1,820
Capital campaign	118,846	136,021	254,867
In-kind contributions	8,288	-	8,288
Rent from residents	627,592	-	627,592
Rental income from non-residents	113,400	-	113,400
Special events and sponsorships	64,399	-	64,399
Interest and investment income	11,500	-	11,500
Fee for service revenue	1,278,997	-	1,278,997
Other	44,824	-	44,824
Net assets released from donor restrictions	400,817	(400,817)	-
Total support and revenue	3,217,472	(239,796)	2,977,676
Expenses			
Program services	2,308,161	-	2,308,161
Management and general	362,136	-	362,136
Fundraising	250,595	-	250,595
Total expenses	2,920,892	-	2,920,892
Changes in net assets before other items	296,580	(239,796)	56,784
Other items			
Change in value of split interest agreements	7,528	-	7,528
Depreciation and amortization	(313,006)	-	(313,006)
Change in net assets	(8,898)	(239,796)	(248,694)
Net assets at beginning of year	7,461,698	1,154,230	8,615,928
Prior period adjustment (Note 12)	(95,068)	-	(95,068)
Net assets at beginning of year, restated	7,366,630	1,154,230	8,520,860
Net assets at end of year	$ 7,357,732	$ 914,434	$ 8,272,166

See independent auditor's report and notes to the financial statements.

SAMARITAN INNS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and related benefits	$ 1,706,415	$ 159,514	$ 202,097	$ 2,068,026
Printing and production	6,959	3,600	10,028	20,587
Professional fees	161	44,886	-	45,047
Insurance	20,676	47,632	-	68,308
Travel and entertainment/transportation	8,984	101	38	9,123
Staff development	5,727	3,763	-	9,490
Postage and delivery	200	1,154	-	1,354
Repairs and maintenance	135,392	5,034	-	140,426
Bad debt expense	-	25,366	-	25,366
Office supplies	13,922	9,740	1,950	25,612
Licenses and fees	7,665	1,052	-	8,717
Bank and investment fees	154	17,140	2,459	19,753
Interest expense	20	1,438	999	2,457
Utilities	260,422	15,579	1,770	277,771
Technical services	315	20,426	-	20,741
Drug screening/TB screening	3,124	-	-	3,124
Resident specials/resident supplies	17,093	166	23,144	40,403
Meals	92,697	-	-	92,697
Other taxes	23,234	-	-	23,234
Capital campaign expenses	-	-	8,110	8,110
Miscellaneous	5,001	5,545	-	10,546
Total expenses	2,308,161	362,136	250,595	2,920,892
Depreciation and amortization	313,006	-	-	313,006
Total	$ 2,621,167	$ 362,136	$ 250,595	$ 3,233,898

SAMARITAN INNS, INC.
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016

Cash flows from operating activities:	
Change in net assets	$ (248,694)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	313,006
Unrealized loss on investments	22,963
Realized gain on sales of investments	(16,089)
Liability related to charitable gift annuities	(7,528)
Changes in assets and liabilities:	
Decrease (increase) in:	
Pledges and grants receivable	250,000
Other receivables	(42,041)
Prepaid expenses and other assets	(4,214)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(36,683)
Tenants' security deposits	(4,083)
Net cash provided by operating activities	226,637
Cash flows from investing activities:	
Purchase of property and equipment	(88,758)
Purchase of investments	(264,632)
Proceeds from sale of investments	183,830
Net cash used in investing activities	(169,560)
Cash flows from financing activities:	
Payments to charitable gift annuitants	(25,168)
Net cash used in financing activities	(25,168)
Net increase in cash	31,909
Cash and cash equivalents, beginning of year	1,452,961
Cash and cash equivalents, end of year	$ 1,484,870

Supplementary cash flow information:	
Interest paid	$ 2,457
Income taxes paid	$ -

NOTES TO THE FINANCIAL STATEMENTS

Note 1. **ORGANIZATION AND PURPOSE**

Samaritan Inns, Inc. (the Organization) is a non-profit organization, incorporated and located in the District of Columbia. The Organization began operations in 1986. The primary purpose of the Organization is to provide housing for homeless individuals, while also providing access to additional programs designed to address many of the problems associated with homelessness. These issues include hunger, physical and emotional illness, lack of education and training, drug and alcohol addiction and unemployment. The Organization is supported primarily by contributions and grants, as well as rental income from its Inns.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Basis of Presentation

The Organization follows the recommendations of the FASB in its ASC. Under these recommendations, the Organization is required to report information regarding its financial position and activities according to three classes of net asset: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets - Unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organization and include both internally designated and undesignated resources.

- Temporarily restricted net assets - Revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

- Permanently restricted net assets - The principal amounts of gifts which are required by donors to be permanently restricted.

As of June 30, 2016, the Organization did not have any permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal. At June 30, 2016, the Organization's cash balance exceeded the federally insured limit by $1,135,403.

Investments

Investments are recorded at their readily determinable fair value. Unrealized and realized gains and losses are included in investment income in the Statement of Activities.

Pledges and grants receivable

Pledges and grants receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Other receivables

Other receivables includes amounts due under fee for service contract payments and rent payments receivable; such amounts approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)**

Property and equipment

Property and equipment acquisitions in excess of $500 are stated at cost. Buildings and improvements are depreciated on a straight-line basis over useful lives of forty years. Furniture, fixtures, and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, five to ten years. Software is amortized over a five-year period on the straight-line basis. The cost of maintenance and repairs is expensed as they are incurred.

Property and equipment purchased with temporarily restricted funds

Certain property and equipment have been acquired with temporarily restricted funds. The depreciation expense related to these fixed assets is recorded as a release of temporarily restricted net assets. The net book value of these fixed assets is included with temporarily restricted net assets.

Income taxes

Samaritan Inns is a not-for-profit organization classified as a 501(c)(3) organization under the Internal Revenue Code. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. Management represents the Organization did not have any unrelated business income for the year ended June 30, 2016. The Organization is not classified as a private foundation by the Internal Revenue Service.

The Organization adopted the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) for Accounting of Uncertainty in Income Taxes without any material effect to the financial statements. These recommendations clarify the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. They also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. Samaritan Inns has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2016.

With few exceptions, the Organization is no longer subject to U.S. Federal, state or local tax examinations by tax authorities for years beginning before July 1, 2012.

Risks and uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Contributions and Promises to Give

Contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Rental Income

Rental income is recorded as revenue on a monthly basis, as earned, through the use of facilities.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)**

Fee for service revenue

Fee for service revenue represents contract fees for providing certain drug addiction recovery and community health, education and mentoring services. The fees are recorded as revenue on a monthly basis, as earned.

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 and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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 services benefited.

In-kind contributions

In-kind contributions consist of legal, meals and technical services. In-kind contributions are recorded at their fair value as of the date of the gift. During the year ended June 30, 2016, the value of in-kind contributions received totaled $8,288.

In addition, volunteers have donated significant amounts of their time to the Organization; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Fair value measurement

The Organization adopted the provisions of FASB ASC 820, *Fair Value Measurement.* FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Subsequent events

The Organization has evaluated events and transactions for potential recognition or disclosure through November 21, 2016, the date that these financial statements were available to be issued. See Note 10 for the subsequent event of the death of a charitable gift annuitant.

Note 3. **INVESTMENTS**

Investments consist of the following at June 30, 2016:

Cash and money funds	$	13,353
Preferred stock		3,849
Government securities		47,637
Corporate bonds		157,917
Exchange traded funds		599,480
	$	822,236

Included in interest and investment income at June 30, 2016 are the following:

Interest and dividends	$	18,374
Unrealized loss on investments		(22,963)
Realized gain on sales of investments		16,089
	$	11,500

Note 4. **PLEDGES AND GRANTS RECEIVABLE**

Following is a schedule of the expected collections as of June 30, 2016:

Less than one year	$ 25,000
One to five years	-
	$ 25,000

Note 5. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at June 30, 2016:

Capital Campaign	$ 55,000
Capital Campaign - unamortized value of capital assets	832,491
Computer Lab	1,943
General operations - restricted for time	25,000
	$ 914,434

Note 6. **NET ASSETS RELEASED FROM RESTRICTIONS**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses or other events which satisfied the restricted purposes specified by the donors during the year ended June 30, 2016:

Capital Campaign - depreciation on capital assets	$ 98,187
Computer lab	7,377
Capital campaign	20,253
General operations	275,000
	$ 400,817

Note 7. **BOARD DESIGNATED NET ASSETS**

Board designated net assets are $500,000 at June 30, 2016 and consists of cash and investments set aside for future expenditures.

Note 8. **LINE OF CREDIT**

During the year ended June 30, 2014, the Organization opened a line of credit for $700,000. This agreement is collateralized by the assets of the organization. The interest rate is equal to the prime rate as published in the "Money Rates" section of The Wall Street Journal plus 1.15%. The interest rate was 4.65% at June 30, 2016. There was no balance on the line of credit at June 30, 2016. There were no borrowings and no interest was paid on this line of credit during the year ended June 30, 2016. This line matures on December 31, 2017.

Note 9. **RETIREMENT PLAN**

The Organization has adopted a retirement plan for its full-time employees. The plan has a salary reduction component. As of November 1, 2011, the employer contribution was discontinued.

Note 10. **CHARITABLE GIFT ANNUITIES**

The Organization has entered into charitable gift annuity agreements with a donor in May 2000, January 2003 and April 2004. The donor was a member of the Organization's Board of Directors. Under the terms of the agreement, the Organization received cash and stocks valued at $109,680. In return, the Organization agreed to distribute $8,470 in annual payments, payable in $706 monthly installments, to the donor until the later of his death or the death of his successor. The original donor died in 2013 when payments to his successor began. The successor died subsequent to June 30, 2016 and the related liability includes only the amounts paid through then.

The Organization entered into charitable gift annuity agreements with a donor in October 2002 and July 2003. Under the terms of the agreements, the Organization received cash and stocks valued at $338,983. In return, the Organization agreed to distribute $24,486 annual payments, payable in $12,243 semi-annual installments, to the donor until her death. On June 15, 2011, the donor gifted the first of the two annuities to the Organization. Accordingly, the annual payments on the remaining annuity equal $12,588, payable in $6,294 semi-annual installments, to the donor until her death.

The Organization entered into a charitable gift annuity agreement with a donor in October 2004. Under the terms of the agreement, the Organization received cash of $5,000. In return, the Organization agreed to distribute $310 annual payments, payable in $155 semi-annual installments, to the donor until the later of his death or the death of his successor.

The Organization entered into a charitable gift annuity agreement with a donor in February 2005. Under the terms of the agreement, the Organization received cash of $50,000. In return, the Organization agreed to distribute $3,800 annual payments, payable in $950 quarterly installments, to the donor until the later of his death or the death of his successor.

The Organization records the liability at the present value of the expected future cash flows based on the donors' life expectancy. The present value of the annuity payments totaled $78,165 using a discount rate of 1.8%. The liability is funded by the Organization's investments. At June 30, 2016, the Organization had investments with a fair market value of $407,020 in an internally segregated account at June 30, 2016. Various state laws require the Organization to maintain additional reserves for the charitable annuities.

Note 11. **FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobserved inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

- **Level 1** - These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.

- **Level 2** - These are investments where values are based on quoted prices in markets that are not active or model inputs that are observed either directly or indirectly for substantially the full-term of the investments.

- **Level 3** - There are investments where inputs to the valuation methodology are unobserved and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Note 11. **FAIR VALUE MEASUREMENT (continued)**

- *Cash and money funds* - Fair value is equal to the reported net asset value of the fund.
- *Preferred stock* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Government securities* - Valued at the nominal rate less unamortized discount.
- *Corporate bonds* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Exchange traded funds* - Fair value is equal to the published closing price of the fund.
- *Charitable Gift Annuities* – Valued at the present value of the estimated stream of beneficiary payments throughout the donors' expected lives using IRS annuity tables and a discount rate of 1.8%.

The table below summarizes by level within the fair value hierarchy, the Organization's investments and charitable gift annuities as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and money funds	$ 13,353	$ -	$ -	$ 13,353
Preferred stock	3,849	-	-	3,849
Government securities	-	47,637	-	47,637
Corporate bonds	157,917	-	-	157,917
Exchange traded funds	599,480	-	-	599,480
Total	$ 774,599	$ 47,637	$ -	$ 822,236
Liabilities:				
Charitable gift annuities	$ -	$ -	$ 78,165	$ 78,165

The following summarizes the changes in the fair value measurement of instruments using level 3 inputs for the year ended June 30, 2016:

Charitable gift annuities	
Beginning balance, July 1, 2015	$ 110,861
Change in value	(7,528)
Payments to annuitants	(25,168)
Ending balance, June 30, 2016	$ 78,165

Note 12. **PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2016, it was determined the valuation of the charitable gift annuities had been calculated incorrectly at June 30, 2015. An adjustment of $95,068 was made to net assets at June 30, 2015 in order to report the fair market value of liabilities at June 30, 2016.