

LAUREL HOUSE, INC.

Report on Examination

For the years ended June 30, 2022 and 2021

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Laurel House, Inc.:

Opinion

We have audited the accompanying financial statements of Laurel House, Inc. ("Laurel House") which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurel House as of June 30, 2022, and the changes in its net assets and its cash flows in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Laurel House and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

The Statements of Activities include certain 2021 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the 2021 financial statements from which the summarized information was derived.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America' and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Laurel House's ability to continue as a going concern for one year from the date of issuance of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

1. Exercise professional judgement and maintain professional skepticism throughout the audit.
2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
3. Obtain an understanding of internal control relevant to the audit 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 Laurel House's internal control. Accordingly, no such opinion is expressed.
4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
5. Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Laurel House's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

August XX, 2022

LAUREL HOUSE, INC.
Balance Sheets as of June 30,

	2022			2021
	<u>Operating</u>	<u>Plant</u>	<u>Total</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>		
ASSETS:				
Cash and cash equivalents	\$ 579,968	\$ -	\$ 579,968	\$ 637,838
Property and equipment, net of accumulated depreciation	-	460,807	460,807	499,126
Prepaid expenses and other current assets	5,308	-	5,308	7,353
Security deposits and other assets	5,766	-	5,766	9,882
Total assets	<u>\$ 591,042</u>	<u>\$ 460,807</u>	<u>\$ 1,051,849</u>	<u>\$ 1,154,199</u>
LIABILITIES AND NET ASSETS:				
Accounts payable and accrued expenses	\$ 173,430	\$ -	\$ 173,430	\$ 104,168
Long term debt	-	17,014	17,014	255,144
Due to Friends of Laurel House	668,889	-	668,889	631,312
Total liabilities	842,319	17,014	859,333	990,624
Net assets without donor restrictions	<u>(251,277)</u>	<u>443,793</u>	<u>192,516</u>	<u>163,575</u>
Total liabilities and net assets	<u>\$ 591,042</u>	<u>\$ 460,807</u>	<u>\$ 1,051,849</u>	<u>\$ 1,154,199</u>

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

LAUREL HOUSE, INC.
Statements of Activities
for the years ended June 30,

	2022			2021
	<u>Operating Fund</u>	<u>Plant Fund</u>	<u>Total</u>	<u>Total</u>
Changes in net assets without donor restrictions				
Revenues and Other Support				
State grant	\$ 1,311,498	\$ -	\$ 1,311,498	\$ 1,261,056
Other grants, contributions, rental income and other	554,497	-	554,497	950,770
Total revenues and other support	<u>1,865,995</u>	<u>-</u>	<u>1,865,995</u>	<u>2,211,826</u>
Expenses:				
Salaries and fringe benefits	1,536,594	-	1,536,594	1,387,743
Program operating, and general and administrative expenses	705,067	-	705,067	705,972
Loss from asset dispositions		15,249	15,249	28,522
Depreciation and amortization	-	91,986	91,986	130,589
Total expenses	<u>2,241,661</u>	<u>107,235</u>	<u>2,348,896</u>	<u>2,252,826</u>
Net gain from sale of building	-	511,842	511,842	-
Transfer to plant fund for capital acquisitions and debt principal repayments, net of cash proceeds from term loan	(385,046)	385,046	-	-
Cash proceeds from asset sale transferred to operating fund	<u>589,842</u>	<u>(589,842)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets without donor restrictions	(170,870)	199,811	28,941	(41,000)
Net assets, beginning of year	<u>(80,407)</u>	<u>243,982</u>	<u>163,575</u>	<u>204,575</u>
Net assets, end of year	<u>\$ (251,277)</u>	<u>\$ 443,793</u>	<u>\$ 192,516</u>	<u>\$ 163,575</u>

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

LAUREL HOUSE, INC.
Statements of Cash Flow
Representing Increases (Decreases) in Cash
for the years ended June 30,

	<u>2022</u>			<u>2021</u>
	<u>Operating</u>	<u>Plant</u>		
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Total</u>
Cash flows from operating activities:				
(Decrease) increase in net assets	\$ (170,870)	\$ 199,811	\$ 28,941	\$ (41,000)
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation and amortization	-	91,986	91,986	130,786
Net (gains) loss from asset sales and dispositions	-	(496,593)	(496,593)	28,522
Paycheck Protection loan forgiveness	-	-	-	(313,700)
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	2,045	-	2,045	144
Due to Friends of Laurel House, net	37,577	-	37,577	113,452
Accounts payable and accrued expenses	69,459	-	69,459	5,901
Net cash used in provided by operating activities	<u>(61,789)</u>	<u>(204,796)</u>	<u>(266,585)</u>	<u>(75,895)</u>
Cash flows from investing activities:				
Capital expenditures	-	(146,719)	(146,719)	(46,951)
Cash proceeds from sale of building	-	589,842	589,842	-
Security deposits and other assets	3,919	-	3,919	7,233
Net cash provided by (used in) investing activities	<u>3,919</u>	<u>443,123</u>	<u>447,042</u>	<u>(39,718)</u>
Cash flows from financing activities:				
Line of credit advances	-	-	-	(350,000)
Cash proceeds from instalment note	-	-	-	24,361
Long-term debt, principal repayments	-	(238,327)	(238,327)	(18,698)
Net cash used in financing activities	<u>-</u>	<u>(238,327)</u>	<u>(238,327)</u>	<u>(344,337)</u>
Net decrease in cash and cash equivalents	(57,870)	-	(57,870)	(459,950)
Cash and cash equivalents, beginning of year	637,838	-	637,838	1,097,788
Cash and cash equivalents, end of year	<u>\$ 579,968</u>	<u>\$ -</u>	<u>\$ 579,968</u>	<u>\$ 637,838</u>

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

LAUREL HOUSE, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Nature of Operations:

Laurel House, Inc. ("Laurel House") is a tax-exempt nonprofit Organization under Section 501(c)(3) of the Internal Revenue Code. Laurel House, located in the southwestern region of Connecticut, offers psychosocial rehabilitation, housing and residential services, education support, and employment placement services for people living with mental illness to lead fulfilling and productive lives in the communities where they live, work, and go to school.

Financial Statement Presentation:

Laurel House divides its assets and liabilities into two fund groups for presentation purposes as follows:

- The Operating Fund group represents the portion of resources that are available for support of operations.
- The Plant Fund group represents resources expended and available for capital improvements, and other capital additions.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principals generally accepted in the United States of America ("US GAAP"). Accordingly, assets are recorded when Friends obtains the rights of ownership or is entitled to claims for receipt, and liabilities are recorded when the obligations is incurred.

Net Assets:

Net assets and changes in net assets are classified based on the existence or absence of donor or grantor imposed restrictions as follows:

Net assets without donor restrictions – net assets without donor restrictions are resources available to support operations. The only limits on use of these assets are the broad limits resulting from the nature of Laurel House, the environment in which it operates, the purposes specified in the corporate documents, and any limits resulting from contractual agreements with creditors and others that are entered into through the course of its operations. In addition, the governing board of Laurel House may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose and/or in a future period. Some donor restrictions may be temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor imposed restrictions may be perpetual in nature in which case Laurel House must continue to use the resources in accordance with the donor's instructions.

LAUREL HOUSE, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued):

Laurel House unspent contributions are included in this class if the donor limited their use.

When a donor's restrictions are satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration is reported in the financial statements by reclassifying the net assets from the net assets with donor restrictions to net assets without donor restrictions.

Revenue Recognition:

Laurel House has a U.S. Department of Housing and Urban Development grant to provide housing and related supporting services to the population it serves. Grant revenue is recognized as services are performed. Grant revenue and expenses for the years ending June 30, 2022 and 2021 were \$146,788 and \$148,787, respectively.

Property, Plant and Equipment:

Capital improvements, furniture and equipment are recorded at cost except for donated property and equipment, which is stated at fair market value at date of receipt. Depreciation is computed on a straight-line basis over the estimated useful lives of related assets. Laurel House's policy is to capitalize assets purchased of \$1,000 or more.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

Cash and Cash Equivalents:

For purposes of the Statements of Cash Flows, Laurel House considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the Statement of Activities unless the relevant donor specified the use of the related resources for a particular purpose in a future period.

Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

LAUREL HOUSE, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Measure of Operations

In its Statement of Activities, Laurel House includes in its definition of Operations all revenues and expenses that are an integral part of its programs and activities, as well as net assets released from donor restrictions to support operating expenditures.

Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year as of June 30 consist of cash and cash equivalents \$579,968 and \$637,838 at June 30, 2022 and 2021, respectively.

Fair Value of Financial Instruments:

The carrying values of current assets and liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The carrying amount of Laurel House's borrowings under its debt arrangements approximates fair value, as the incremental borrowing rates approximate current rates.

Income Taxes:

Laurel House annually evaluates all federal and state income tax positions. This process includes an analysis of whether income tax positions Laurel House takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In general, Laurel House is no longer subject to tax examinations for tax years ending before June 30, 2019.

2. Subsequent Events

Events occurring after June 30, 2022, the date of the most recent balance sheet, have been evaluated for possible adjustment to or disclosure in the financial statements through July 31, 2021 which is the date on which the financial statements were available to be issued.

3. State Grant

Under the terms of the state grant received, the accompanying financial statements are subject to review by the State of Connecticut Department of Mental Health. Such review is intended to verify that Laurel House expended the grant for authorized purposes and in accordance with the terms of the grant. Unauthorized expenditures and surpluses are refundable to the state. Such reviews have been completed through the fiscal year ended June 30, 2021 and resulted in no refunds due.

LAUREL HOUSE, INC.
Notes to Financial Statements

4. Property and Equipment

Property and equipment is recorded at cost and consists of the following:

	<u>2022</u>	<u>2021</u>	<u>Estimated Useful Life</u>
Building improvements	\$ 1,641,899	\$ 2,039,918	20 - 40 years
Vehicles	192,458	192,458	5 years
Furniture and equipment	135,015	126,789	3-5 years
	1,969,365	2,359,160	
Less - accumulated depreciation	<u>(1,508,565)</u>	<u>(1,860,039)</u>	
	<u>\$ 460,807</u>	<u>\$ 499,126</u>	

5. Debt

Line of Credit:

Laurel House has a bank credit line, renewable bi-annually in May, which provides for borrowings of up to \$500,000 as revolving credit. Borrowings under the credit line bear interest at the Prime Rate as published from time to time in the Wall Street Journal (4.75% and 3.25% at June 30, 2022 and June 30, 2021, respectively). The loan is collateralized by substantially all the assets of Laurel House, and is guaranteed by Friends of Laurel House, Inc. (Note 7).

Long-term debt consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
5.5% mortgage payable in monthly installments of \$1,924 of principal and interest	\$ -	\$ 228,768
0% term loan payable in monthly installments of \$387 of principal and interest	17,014	22,654
0% term loan payable in monthly installments of \$472	-	4,722
	<u>\$ 17,014</u>	<u>\$ 255,144</u>

The 5.5% mortgage is guaranteed by Friends. The term loans are collateralized by vehicles.

Scheduled maturities of long-term debt in fiscal years ending after June 30, 2022 are as follows: 2023, \$4,640 in 2024, 2025 and 2026, and \$3,094 in 2027.

Cash paid for interest on all debt obligations was \$4,549 and \$17,932 in 2022 and 2021, respectively.

LAUREL HOUSE, INC.
Notes to Financial Statements

6. Program Operating and General and Administrative Expenses

Program operating and general and administrative expenses consist of the following:

	<u>2022</u>	<u>2021</u>
Rent	\$ 256,763	\$ 252,584
Other general and administrative	183,402	182,193
Maintenance and utilities	161,382	170,407
Food and member aid	31,286	22,507
Training and in-state travel	17,725	15,245
Materials and supplies	49,950	45,104
Interest expense	4,549	17,932
	<u>\$ 705,057</u>	<u>\$705,972</u>

7. Related Parties

Laurel House occupies housing, office, and resource center facilities under operating leases with Friends of Laurel House, Inc. ("Friends"), a charitable Organization formed to act exclusively as a supporting Organization to Laurel House. Laurel House and Friends are under common control through a shared board of directors. The annual rental commitment under these leases is \$150,000 through February 2029.

Friends also serves as a major fundraising arm of Laurel House. During 2022 and 2021, Friends contributed \$52,000 and \$300,000, respectively to Laurel House for operating and capital purposes.

Laurel House is a guarantor of a mortgage note payable by Friends in the outstanding amount of \$280,586 as of June 30, 2022.

8. Commitments

Leases:

Laurel House subsidizes rent of various apartments on a month to month basis which are rented to participants.

Total rent expense under all rental arrangements for the years ended June 30, 2022 and 2021 was \$256,763 and \$252,584, respectively.

Retirement Plans:

Laurel House has a simplified employee pension plan ("SEP") and a 403 (b) salary deferral plan which cover all employees who meet the eligibility requirements of the plans. Contributions to the SEP are made at the discretion of the Board of Directors of up to 3% of eligible compensation. Laurel House contributed \$35,631 and \$43,170 to the SEP in fiscal years 2022 and 2021, respectively.