

THE LAMB CENTER

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2013**

**GILLILAND & ASSOCIATES, P.C.
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THE LAMB CENTER

CONTENTS	Page
Independent Auditors' Report	1 – 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 – 14



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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
The Lamb Center
Fairfax, Virginia

We have audited the accompanying financial statements of The Lamb Center ("the Center"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 of material misstatement, whether due to fraud or error.

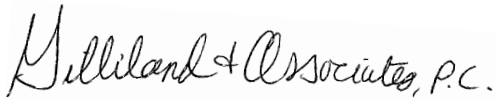
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Lamb Center as of June 30, 2013, 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.

A handwritten signature in cursive script that reads "Gilliland & Associates, P.C." is written over a light blue rectangular background.

Gilliland & Associates, P. C.
Certified Public Accountants
Falls Church, Virginia
March 19, 2014

THE LAMB CENTER
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 134,962
Cash and cash equivalents - Reserved	200,000
Accounts receivable	1,717
Prepaid expenses	4,710
Short-term investment	
Total current assets	<u>341,389</u>

Fixed assets:

Leasehold improvements	27,278
Accumulated depreciation	(692)
Total fixed assets	<u>26,586</u>

Intangible and other long-term assets:

Security deposits	<u>5,000</u>
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Total assets	<u><u>\$ 372,975</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Payroll liabilities	\$ 31,903
Accounts payable	2,878
Deferred rent, current	1,288
Total current liabilities	<u>36,069</u>

Long-term liabilities:

Due to supporting organization	5,000
Deferred rent, net of current	4,857
Total long-term liabilities	<u>9,857</u>

Total liabilities	<u>45,926</u>
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Net assets:

Unrestricted	127,049
Unrestricted - Reserved	200,000
Total net assets	<u>327,049</u>

Total liabilities and net assets	<u><u>\$ 372,975</u></u>
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The accompanying notes are an integral part of these financial statements.
See accompanying auditors' report.

THE LAMB CENTER
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR-ENDED JUNE 30, 2013

UNRESTRICTED NET ASSETS

REVENUE:

Contributions	\$ 650,854
In-kind donations	375,304
Local government grants	60,543
Interest	602
Gain on sale of equities	144
Total revenue	<u>1,087,447</u>

EXPENSES:

Program	786,153
Management and general	114,731
Fundraising	66,529
Total expenses	<u>967,413</u>

Change in unrestricted net assets	<u><u>\$ 120,034</u></u>
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CHANGE IN NET ASSETS	\$ 120,034
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NET ASSETS, BEGINNING OF YEAR	207,015
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NET ASSETS, END OF YEAR	<u><u>\$ 327,049</u></u>
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THE LAMB CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR-ENDED JUNE 30, 2013

	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 277,758	\$ 41,340	\$ 30,750	\$ 349,848
Supplies	240,402	2,669	15,477	258,548
Professional fees	96,970	44,790	-	141,760
Facilities	127,146	4,263	664	132,073
Compassion and caring program	33,958	-	-	33,958
Office expenses	2,267	8,550	2,064	12,881
Fundraising events	-	-	12,543	12,543
Insurance	-	11,031	-	11,031
Telephone	5,252	656	656	6,564
Postage and shipping	1,154	1,276	3,007	5,437
Printing and copying	1,246	156	1,368	2,770
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 786,153</u>	<u>\$ 114,731</u>	<u>66,529</u>	<u>\$ 967,413</u>

THE LAMB CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR-ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 120,034
Depreciation	692
Gain on sale of securities	(151)
Noncash donations received	(7,535)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts receivable	(1,717)
Prepaid expenses	(1,807)
Accounts payable	2,724
Deferred rent	1,114
Payroll liabilities	6,942
Net cash provided by operating activities	<u>120,296</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Redemption of short-term investments	\$ 1,010
Sale of equities	7,686
Improvements to leased property	(27,278)
Net cash provided (used) by investing activities	<u>(18,582)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 101,714

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 233,248

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 334,962

INTEREST PAID \$ -

INCOME TAXES PAID \$ -

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

A. NATURE OF ACTIVITIES

The Lamb Center (the “Center”) is organized under the laws of the Commonwealth of Virginia as a nonprofit organization and is exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. The Center operates an informal partnership with other local Christian churches, reaching out to the poor by providing a place for homeless men and women to obtain services to assist in their move toward sustainable living situations. The Center provides services to any who follow simple rules of safety, regardless of faith. The basic services the Center provides from its facility in Fairfax County, Virginia include: counseling, showers, laundry, simple medical assistance, meals, phones and an address for guests to receive mail.

Funding for these activities comes primarily from cash and in-kind donations received from individuals, businesses, religious and other organizations within the regional communities at large. The Center also makes use of government grants to advance select programs of public concern.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The financial statements of the Center have been prepared on the accrual basis of accounting. Under this basis, revenue is recognized when earned and expenses are recognized as incurred.

Use of estimates and assumptions – Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Financial statement presentation – The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of June 30, 2013, the Center had no temporarily or permanently restricted net assets.

Cash and cash equivalents – For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, cash deposited with financial institutions, and all highly liquid investments with an original maturity of three-months or less.

Contributions receivable – Management does not recognize individual promises to give until the money is received. Accounts receivable represents the amounts collected and due from an event held by another organization in May 2013 where the funds were not received by the Center until August 2013.

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments – Equity securities are held at their original cost, or market value at the time of contribution, and sold as soon as practicable thereafter. The Center held no securities at June 30, 2013.

Property and equipment – Expenditures for the acquisition of property and equipment are capitalized at cost for all property and equipment with acquisition costs that exceed \$1,000 (corrected by the Board in March 2014.) The fair value of donated assets at the date of the gift is similarly capitalized. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

Asset class	Life	Depreciation	
		Current	Accumulated
Guest area improvement	10-years	661	661
Structural fixture	20-years	<u>31</u>	<u>31</u>
		<u>692</u>	<u>692</u>

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the results of activities.

Certain property and equipment, which included mostly desks and chairs, were donated to the Center when it first began operation. Given the age and condition of the fixed assets, and because they were received after use by a related organization (founding party described further in Note J,) no value was recorded for these assets.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions. The Center reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor's restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

The Center estimates the value for in-kind contributions of meals and toiletries based on the number of guests served. For the year-ended June 30, 2013, the Center estimates providing their guests with \$220,738 worth of meals and other services, and \$16,900 of other sundries.

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed services – Donated services are recognized as contributions if the services (1) create or enhance nonfinancial assets or 2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. Services recognized by the Center include lawyers provided to the guests, accounting services utilized by management, storage facilities provided by a local church, and lawyers, appraisers, and other professionals involved in the Center's efforts to purchase a new location for their facilities.

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>
Professional fees – Legal Services	\$ 92,650	\$ 9,000	\$ 0
Professional fees – Other Services		33,016	
Facilities – Storage	<u>2,947</u>	<u>38</u>	<u>15</u>
	<u>\$ 95,650</u>	<u>\$ 42,016</u>	<u>\$ 15</u>

Additionally, many individuals volunteer their time and perform a variety of tasks that assist the Center in the performance of its exempt activities, but these services do not meet the criteria for recognition as contributed services. The Center received more than 24,000 volunteer hours in the year-ended June 30, 2013.

Inventories – Because of their highly perishable nature, the Center did not maintain an inventory of contributed supplies on-hand at June 30, 2013.

Functional allocation of expenses – The Center's expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the areas benefited.

Cost of joint activities – FASB ASC 958-720-45-29 describes recording costs associated with joint activities (activities which are part fundraising and have elements of one or more other functions, such as program or management and general.) The standard requires that the criteria of purpose, audience and content be met in order to allocate any portion of the costs of joint activities to a functional area other than fundraising.

Income taxes – The Center is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Annual information returns for the years ending June 30, 2012, 2011, and 2010 are open to examination by the IRS, generally for three-years after they were filed.

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

C. DESIGNATED RESERVES

In June 2013 the Board resolved to designate \$200,000 of available cash as reserved for the purpose of funding the Center's relocation. The reserved amount was left open for Board-directed additions of future annual surpluses.

D. CONCENTRATION OF CREDIT RISK & ECONOMIC DEPENDENCY

Financial instruments which potentially subject the Lamb Center to concentrations of credit risk consist of cash in the bank. The Center maintains its cash accounts in up-to three financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC").

The FDIC insures cash balances of interest bearing accounts up to \$250,000 at each institution. While the Center had interim daily balances in excess of this amount, there were no uninsured cash balances at June 30, 2013.

The Center's efforts revolve around supporting the needs of those in Fairfax County, Virginia and the surrounding area. Similarly, most financial and in-kind contributions are received from this region.

Because 94% of support is from contributions, including one-third from in-kind donations, a shift in charitable giving would have a significant impact on the Center's operations. In such a situation, the Board would direct that services be provided commensurate with donation levels.

E. LINE OF CREDIT

The Lamb Center had a \$45,000 revolving line of credit with First Virginia Community Bank of Fairfax, Virginia; any principal and unpaid accrued interest was due on March 8, 2013. Interest is payable monthly at prime plus 2% with a minimum rate of 6% per annum. In August 2013, this line was retroactively extended until August 28, 2014 with a \$100,000 limit and otherwise similar terms. The line is for ensuring available working capital, is secured by all business assets of the Center, and requires maintaining a minimum 1.25 debt service coverage ratio.

As of June 30, 2013, the outstanding balance on the line of credit was zero.

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

E. LINE OF CREDIT (continued)

The Center also has a \$3,000 unsecured revolving line of credit with Citibank, under the Staples Card brand, used for making supplies purchases. Interest and principal (subject to minimum amounts) is payable monthly at 23.99% after a grace period if the prior month's balance is paid in full. The outstanding balance at June 30, 2013 of \$70 is included in accounts payable.

F. PAYROLL LIABILITIES

The Center pays employees twice a month on the 15th and end-of-month for the pay periods ending on the 5th and 20th (respectively.) Amounts earned in June and paid the following July are detailed on the table below.

Paid sick and vacation leaves are awarded on a tiered-structure, based on the amount of time employed by the Center and classification as full or part-time. All full-time employees had exceeded the maximum amount of hours permitted to vest and carryover as of June 30, 2013. However, in March 2014 the Board resolved to repeal the limit effective June 30, 2013.

No amount is reported for sick leave, as it is permitted to accumulate without limit, but does not vest, and management does not expect any employees to exceed the amount accrued for that year before leaving the Center.

	<u>Vacation</u>	<u>Sick</u>
Accrued balance	\$ 24,844	\$ 32,642
Valuation allowance	<u>(0)</u>	<u>(32,642)</u>
	24,844	<u>-0-</u>
Pay period accrual	<u>7,059</u>	
Balance as Reported	<u>\$ 31,903</u>	

G. RETIREMENT CONTRIBUTIONS

On April 17, 2013 the Center's Board approved enrollment in the Anglican Church in North America (ACNA) Retirement Plan and Trust effective July 1, 2013. The ACNA Retirement Plan and Trust operates under IRC §403(b) as a qualified defined contribution plan. The Center's Board approved a fully vesting employer contribution of 4% to all full-time employees, paid with each semi-monthly pay period. Prior to enrollment, participating employees were making pre-tax contributions under a similar plan as adopted by the Truro Church.

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

G. RETIREMENT CONTRIBUTIONS (continued)

Additionally, a one-time contribution was authorized for 4% of all full-time wages paid in January through June of 2013 for the first pay period in July. However, the payment made in June was for twice the authorized amount. The Center's Board decided to authorize this additional 4% contribution in February 2014 after investigating their options, including inquiries to the plan administrator about having the funds reclaimed.

H. LEASING ARRANGEMENTS

The Center signed a lease agreement for space in June 2010. The lease term commenced on October 1, 2010 and ends on September 30, 2015. However, the lease can be terminated early by either party giving written notice of termination to the other at least 9-months prior to such early termination date. The lease is paid in monthly installments of \$6,523.84 (with a 3% per annum escalation on each anniversary beginning October 1, 2012) due on the first day of each month. Rent expense for the year-ended June 30, 2013 totaled \$81,161.

Deferred rent represents the additional cost of leasing the property, over the payments made, as amortized on the straight-line method over the term of the agreement.

Future minimum lease payments for the years ending June 30:

2014	\$ 82,449
2015	84,922
2016	<u>21,386</u>
	<u>\$ 268,805</u>

Minimum lease amounts beyond the first-half of fiscal-2015 are subject to significant uncertainty, as the Center is actively searching for a new location.

I. RELATED PARTY TRANSACTIONS

Upon assuming the lease on October 1, 2010 from the Truro Church, the \$5,000 security deposit was left with the landlord to be used by the Center. However, any remaining deposit will be returned to the Truro Church upon the Center's departure from their current location. There has been no change to this balance as of June 30, 2013.

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

I. RELATED PARTY TRANSACTIONS (continued)

During 2013, Truro Church, contributed approximately \$20,000 to The Lamb Center.

Truro Church is the original founder. It retains the exclusive powers of appointing new directors to the Center's Board and making amendments to the Center's Bylaws.

In June 2013 the Center paid a company owned by the son of a Board member \$19,828 for improvements made to the facilities in February 2013.

Legal services were received from staff of a Board member's company, related to the Center's efforts to purchase a new location during the year-ended June 30, 2013. No fees were charged for the work performed.

J. PRIOR-YEAR ADJUSTMENTS

During 2014, management discovered financial statement errors that caused an overstatement of June 30, 2012 previously reported unrestricted net assets of \$23,038.

The errors primarily related to omission of deferred rent and accumulated paid leave. Additionally, management corrected certain other immaterial errors in cash and cash equivalents.

The following summarizes the prior period adjustment referred to above:

Balance at June 30, 2012, as previously reported	\$ 230,053
Prior period adjustments for:	
Deferred rent as of June 30, 2012	(5,031)
Accrued paid-time-off as of June 30, 2012	(18,489)
Net effect of all other prior period adjustments	<u>482</u>
Prior period adjustment – June 30, 2012	<u>(23,038)</u>
Balance at June 30, 2012, as restated	<u><u>\$ 207,015</u></u>

THE LAMB CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

K. EVALUATION OF SUBSEQUENT EVENTS

The Center has evaluated subsequent events through March 19, 2014, the date on which the financial statements were available to be issued. No events, beyond those listed previously and summarized below, have occurred which would have a material effect on the financial statements of the Center as of that date.

- Note B – relating to clarifying the threshold for capitalizing fixed assets
- Note E – relating to renewal of the working capital line of credit
- Note F – relating to removal of the accrued leave limitation
- Note G – relating to adjusting the authorized employer retirement contribution
- Note J – relating to items omitted from prior-period financial statements