SHELTER PARTNERSHIP, INC.

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

Gursey | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

C O N T E N T S

Gursey | Schneider LLP

CERTIFIED
PUBLIC ACCOUNTANTS
& ADVISORS

1888 Century Park East, Suite 900
Los Angeles, CA 90067

310 552 0960 ph
310 557 3468 fx

www.gursey.com

Independent Auditor's Report

To the Board of Directors
Shelter Partnership, Inc.
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited the accompanying financial statements of Shelter Partnership, Inc. (a California nonprofit public benefit corporation) (the "Partnership"), which comprises 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 Partnership 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.

Other Matter

As disclosed in Note 2 to the financial statements, 87% of total revenues are from donated goods and 71% of total assets are from donated inventory on hand. The valuation of these donated goods is subject to estimation. The Partnership estimates the value of donated goods by obtaining estimates of wholesale selling prices provided by the donors, or other indicators of value when donor estimated wholesale values are not provided. The Partnership also undertakes its own research as needed in order to better ascertain fair values. As a result, there is significant judgment and uncertainty in arriving at fair values of contributed goods, and such values materially enter into the determination of net assets and results of activities.

Report on Summarized Comparative Information

We have previously audited the Shelter Partnership, Inc.'s June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gursey | Schneider LLP

November 3, 2016
Los Angeles, California

SHELTER PARTNERSHIP, INC.
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
June 30, 2016 and 2015

ASSETS

	2016	2015
ASSETS		
Cash and cash equivalents	$ 574,870	$ 605,751
Certificates of deposit	250,000	250,000
Accounts receivable	9,797	28,564
Pledges receivable	52,070	211,938
Donated inventory	18,273,875	18,764,578
Prepaid expenses and other assets	6,840	36,852
Property and equipment, net	6,481,576	6,725,605
TOTAL ASSETS	$ 25,649,028	$ 26,623,288

LIABILITIES AND NET ASSETS

	2016	2015
LIABILITIES		
Accounts payable	$ 15,085	$ 6,115
Accrued expenses and other liabilities	104,810	104,859
TOTAL LIABILITIES	119,895	110,974
NET ASSETS		
Unrestricted	3,112,662	3,090,339
Temporarily restricted	22,416,471	23,421,975
TOTAL NET ASSETS	25,529,133	26,512,314
TOTAL LIABILITIES AND NET ASSETS	$ 25,649,028	$ 26,623,288

See Accompanying Notes to Financial Statements.

SHELTER PARTNERSHIP, INC.
(A California Nonprofit Public Benefit Corporation)
Statements of Activities
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	2016 Unrestricted	2016 Temporarily Restricted	2016 Total	2015 Total
REVENUE AND SUPPORT				
Donated goods	$ -	$ 8,536,111	$ 8,536,111	$ 10,409,789
Foundation contributions	140,114	183,000	323,114	627,594
Individual and corporate contributions	152,577	62,350	214,927	137,209
Government grants	167,605	55,000	222,605	244,091
Special events, net of expense of $81,278 in 2016 and $79,082 in 2015	311,292	-	311,292	281,510
Consulting services	184,066	-	184,066	218,937
Other	1,184	-	1,184	1,384
Subtotal	956,838	8,836,461	9,793,299	11,920,514
Net assets released from restrictions	9,841,965	(9,841,965)	-	-
TOTAL REVENUES AND SUPPORT	10,798,803	(1,005,504)	9,793,299	11,920,514
FUNCTIONAL EXPENSES				
Program services				
Material assistance	9,967,100	-	9,967,100	12,520,355
Public education and policy / technical assistance	390,934	-	390,934	452,220
Total Program Services	10,358,034	-	10,358,034	12,972,575
Supporting services				
General and administrative	159,754	-	159,754	133,620
Fundraising	258,692	-	258,692	251,019
Total Supporting Services	418,446	-	418,446	384,639
TOTAL FUNCTIONAL EXPENSES	10,776,480	-	10,776,480	13,357,214
CHANGES IN NET ASSETS	22,323	(1,005,504)	(983,181)	(1,436,700)
NET ASSETS, Beginning of Year	3,090,339	23,421,975	26,512,314	27,949,014
NET ASSETS, End of Year	$ 3,112,662	$ 22,416,471	$ 25,529,133	$ 26,512,314

See Accompanying Notes to Financial Statements.

SHELTER PARTNERSHIP, INC.
(A California Nonprofit Public Benefit Corporation)
Statements of Functional Expenses
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Program Services		Supporting Services			
	Materials Assistance	Public Education and Policy / Technical Assistance	General and Administrative	Fundraising	Total 2016	Total 2015
Personnel:						
Salaries	$ 344,809	$ 246,090	$ 80,999	$ 162,234	$ 834,132	$ 862,429
Employee benefits	82,069	35,501	15,770	21,042	154,382	148,776
Payroll taxes	43,219	22,049	5,435	14,272	84,975	85,053
Total Personal	470,097	303,640	102,204	197,548	1,073,489	1,096,258
Other Operating Expenses						
Depreciation	296,992	6,225	2,795	4,000	310,012	306,615
Donated goods distributed	9,021,366	-	-	-	9,021,366	11,460,782
Inventory obsolescence	5,448	-	-	-	5,448	133,625
Insurance	23,471	3,930	1,329	2,270	31,000	26,630
K.I.D.S	15,000	-	-	-	15,000	15,000
Newsletter	-	-	-	5,219	5,219	5,129
Occupancy	54,006	29,651	13,953	23,837	121,447	147,594
Office expense	15,399	13,854	6,068	8,685	44,006	30,647
Other	156	82	10,612	53	10,903	7,427
Postage	835	436	168	280	1,719	2,181
Printing	2,780	1,453	560	934	5,727	5,105
Professional fees	21,755	13,225	17,456	8,895	61,331	46,520
Taxes and assessments	12,146	-	-	-	12,146	12,382
Telephone	5,280	4,332	1,945	2,783	14,340	15,174
Training and education	921	1,956	921	1,573	5,371	6,134
Travel	3,486	12,150	1,743	2,615	19,994	20,615
Trucking	8,291	-	-	-	8,291	5,460
Warehousing	9,671	-	-	-	9,671	13,936
Total Other Operating Expenses	9,497,003	87,294	57,550	61,144	9,702,991	12,260,956
TOTAL FUNCTIONAL EXPENSES	$ 9,967,100	$ 390,934	$ 159,754	$ 258,692	$ 10,776,480	$ 13,357,214

See Accompanying Notes to Financial Statements.

SHELTER PARTNERSHIP, INC.
(A California Nonprofit Public Benefit Corporation)
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (983,181)	$ (1,436,700)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	310,012	306,615
Noncash contributions received	(15,035)	(1,137)
Proceeds from sale of donated securities	14,601	1,065
Realized / unrealized loss on investments, net	434	72
Receipt of donated inventories	(8,536,111)	(10,409,789)
Distribution of donated inventories	9,021,366	11,460,782
Inventory obsolescence	5,448	133,625
(Increase) decrease in assets:		
Accounts receivable	18,767	(8,356)
Pledges receivable	159,868	(116,092)
Prepaid expenses and other assets	30,012	(21,776)
Increase (decrease) in liabilities:		
Accounts payable	8,970	(5,449)
Accrued expenses and other liabilities	(49)	20,172
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	35,102	(76,968)
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(65,983)	(29,086)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,881)	(106,054)
CASH AND CASH EQUIVALENTS, Beginning of Year	605,751	711,805
CASH AND CASH EQUIVALENTS, End of Year	$ 574,870	$ 605,751

See Accompanying Notes to Financial Statements.

NOTE 1 – ORGANIZATION

Shelter Partnership, Inc. (the "Partnership"), formed February 8, 1985, is organized as a California non-profit public benefit corporation. The Partnership works to collaboratively solve homelessness in Los Angeles County through policy analysis, program design, resource development, and advocacy in support of agencies and local governments that serve the homeless. The Partnership also distributes new goods, at no cost, to community agencies serving the homeless and households in poverty.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

The most significant estimates related to the valuation of contributed goods and the valuation of inventory on hand. Contributed goods account for 87% of total revenues during the year ended June 30, 2016 and contributed goods in inventory on hand accounted for 71% of total assets at June 30, 2016.

Management relies on the use of judgment in the estimation in determining fair values of contributed goods, and such values materially enter into determination of net assets and results of activities. Management has implemented a number of safeguards that are designed to significantly reduce the risk of donated goods being recorded as overstated (or misstated) amounts. These safeguards are utilized on an ongoing basis and management feels they effectively reduce risk of misstating the financial position.

Classes of Net Assets – To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Partnership are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted - These generally result from revenues generated by receiving unrestricted contributions, providing services and receiving interest from investments less expenses incurred in providing program-related services, raising contributions and performing administrative functions.

Temporarily Restricted - The Partnership 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 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 reported in the statements of activities as net assets released from restrictions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Permanently Restricted **–** These net assets are received by donors who stipulate that resources are to be maintained permanently, but permit the Partnership to expend all of the income (or other economic benefits) derived from the donated assets. At June 30, 2015 and 2014, the Partnership had no permanently restricted net assets.

Cash and Cash Equivalents – Cash equivalents consist of short-term, highly liquid investments that are readily convertible into cash and were purchased with maturities of less than three months.

Certificates of Deposit – Certificates of deposit are carried at cost plus accrued interest. This amount approximates fair value. As of June 30, 2016, the certificates of deposit consist of:

Issuer	Face value plus accrued interest	Interest Rate	Maturity Date
CIT	$ 155,000	0.56%	10/2/2016
CIT	95,000	0.56%	1/6/2017

Accounts and Pledges Receivable - The Partnership records accounts and pledges receivable, net of allowances for uncollectible amounts, whenever there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made and received. No provision has been provided for uncollectible amounts at June 30, 2016, as all amounts are considered to be fully collectible. In addition, accounts and pledges receivable are expected to be collected within one year.

Inventory, Donated Goods, Revenues and Expenses – Inventory / Donated Goods consists of new goods donated by manufacturers, retailers and others, including clothing, shoes, personal care products, household goods, cleaning supplies, paper products, office products, etc. These goods are recorded as temporarily restricted contributions at estimated fair market value. Fair values are determined based on numerous factors which may include (a) amounts specified by the donor as being the wholesale selling price, (b) current retail or selling price of similar items, if known, or (c) management's own subjective appraisals based on research. The goods are held at the value recorded at the date of contribution on an item-by-item basis and placed into inventory for distribution. Goods are distributed to independent nonprofit organizations for households in poverty, and the distributed items' values are removed from inventory based on the specific identification method. Upon distribution of the inventory, the amount is released from temporarily restricted net assets. The Partnership reviews its inventory on an ongoing basis for possible damaged goods and provides for a write off and determines whether a reserve is required. No allowance is provided for damaged or expired goods as such amounts are not material.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Property and Equipment – Property and equipment are stated at cost or, for those assets acquired by gift or bequest, the estimated fair value at the date of contribution. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

Office equipment	5 years
Vehicles / warehouse equipment	5 years
Warehouse	30 years
Warehouse improvements	5 – 30 years

Long-lived assets, such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require that a long-lived asset be tested for possible impairment, the Partnership first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. No impairment losses were recorded for the years ended June 30, 2016 and 2015.

Income Taxes – The Partnership is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California. In addition, the Partnership does not have any revenue which it believes would subject it to unrelated business income taxes.

The Partnership recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Partnership has not recorded any uncertain tax positions. The Partnership recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the years ended June 30, 2015 and 2014, the Partnership did not recognize any potential interest and penalties associated with uncertain tax positions. At June 30, 2016, the open tax years for the Partnership were 2012 to 2015.

Contributions and Revenue – Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Conditional contributions are recorded as support in the period the condition is met. All gifts and other public support are included in unrestricted net assets unless they are specifically restricted by the terms of the gift or grant instrument or require the passage of time.

Contributed Services – 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 donation. During the year ended June 30, 2016, the following contributed services met the above criteria, and therefore these services have been recorded at estimated fair value in the accompanying financial statements.

Legal assistances	$6,759
Architectural services	4,300

Functional Allocation of Expenses – Expenses that can be identified with a specific program or supporting service are charged directly to that related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Fair Value Measurements – The Partnership records its assets and liabilities at fair value. Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. In addition, assets and liabilities are classified in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The Partnership's cash and cash equivalents and investments are classified within the Level 1 category. At June 30, 2016, the Partnership's other financial instruments such as accounts receivable, pledges receivable, accounts payable, accrued expenses and other liabilities and benefit plans payable, and are all stated at carrying value, which approximate fair value due to the short maturity of these instruments.

Effect of Recently Issued Accounting Standards — In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *"Leases"* (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. For non-public entities, the standard is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients during the period of adoption. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Management is currently evaluating the impact this change in accounting standards will have on the Company's financial statements and related disclosures.

Finally, in May 2014, FASB issued ASU 2014-09, *"Revenue from Contracts with Customers,"* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of this standard, with a revised effective date for fiscal years beginning after December 15, 2017. Early adoption is permitted, although not prior to fiscal years beginning after December 15, 2016. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. Management is currently evaluating the impact this change in accounting standards will have on the Company's financial statements and related disclosures and has not yet selected a transition method.

Concentrations of Credit Risk – *Cash in Excess of FDIC Insured Limits* - Cash and cash equivalents generally consist of cash and highly liquid investments with an initial maturity of three months or less. The Federal Deposit Insurance Corporation ("FDIC") insures cash deposits up to $250,000 per depositor. At times, cash may exceed the federally insured amounts.

Subsequent events - Subsequent events have been evaluated through November 3, 2016, the financial statements were available to be issued.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2016	2015
Building and improvements	$ 8,760,273	$ 8,760,273
Construction in process	74,060	69,188
Office equipment	148,760	88,449
Vehicles / warehouse equipment	237,719	236,918
	9,220,812	9,154,828
Accumulated depreciation	(2,739,236)	(2,429,223)
	$ 6,481,576	$ 6,725,605

Depreciation expense for the years ended June 30, 2016 and 2015 was $310,012 and $306,615, respectively.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets were as follows:

	Available at June 30, 2015	Contributions	Released from Restrictions	Available at June 30, 2016
Donated goods	$ 18,764,578	$ 8,536,111	$ (9,026,814)	$ 18,273,875
Donated building	4,203,552	-	(191,070)	4,012,482
Program activities	423,538	277,000	(570,424)	130,114
Building maintenance	30,307	23,350	(53,657)	-
	$ 23,421,975	$ 8,836,461	$ (9,841,965)	$ 22,416,471

On July 6, 2007, the United States of America, acting through the Secretary of Health and Human Services ("Grantor"), granted the Organization the building currently occupied as the S. Mark Taper Foundation Shelter Resource Bank. The grant of this property from the United States government contained certain continuing covenants and restrictions including (1) the use of property for health purposes, (2) limitation on ability to sell or encumber property without the consent of the Grantor, (3) annual reporting requirements as to the Organization's program use and accomplishments, (4) maintenance of tax exempt status, and (5) other customary requirements for receiving assistance and doing business with the United States of America. The Organization currently uses the donated property to distribute, free of charge, donations of surplus inventory from manufacturers, wholesalers, retailers, and others to homeless service agencies throughout Los Angeles County. The Organization believes it is in compliance with all covenants and restrictions under the grant agreement. The covenants and restrictions will lapse in year 2037.

NOTE 5 – LEASE COMMITMENTS

The Partnership leases its office space under a non-cancelable operating lease agreement that expires on July 31, 2020. The future minimum lease payments are as follows:

Year Ending June 30:	
2017	$ 77,292
2018	79,611
2019	81,999
2020	84,683
2021	7,698
	$ 331,283

Rent expense for the years ended June 30, 2016 and 2015, was $81,394 and $104,313, respectively.

NOTE 6 – PROFIT SHARING PLANS

The Partnership offers a 401(k) profit sharing plan (the “401(k) plan”). All employees are eligible to participate in the 401(k) plan if they are twenty-one years of age and have completed 500 hours of service. The 401(k) plan allows employees to defer up to $18,000 of their salary plus a catch-up contribution of $6,000 (for individuals over age 50). The Partnership may make discretionary contributions to the plan. The Partnership contributed $41,247 and $40,530 for the years ended June 30, 2016 and 2015, respectively.

The Partnership also offers a tax-exempt deferred compensation plan (the “457 plan”) for the executive director. The 457 plan allows for contributions discretionary contributions. For the years ended June 30, 2016 and 2015, the Partnership contributed $6,500 and $6,500 to the 457 plan, respectively.

NOTE 7 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2016 and 2015, the Partnership received a total of $72,774 and $118,571, respectively, in contributions from board members. Receivables from the board of directors as of June 30, 2016 and 2015 were $12,350 and $8,200, respectively.