

Dwell with Dignity, Inc.

**Financial Statements December 31,
2016 and 2015**

Dwell with Dignity, Inc.

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Independent Auditors' Report

To the Board of Directors
Dwell with Dignity, Inc.

We have audited the accompanying financial statements of Dwell with Dignity, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years 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 U.S. generally accepted accounting principles; 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 audits. We conducted our audits in accordance with U.S. generally accepted accounting standards. Those standards require that we plan and perform the audits 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 misstatements 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 Dwell with Dignity, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Sutton Frost Lang

A Limited Liability Partnership

Arlington, Texas
May 19, 2017

Dwell with Dignity, Inc.
Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 458,991	\$ 518,237
Investments	161,945	160,718
Pledges receivable	58,493	-
Inventory	50,924	89,110
Other assets	9,813	-
Total current assets	740,166	768,065
Property and equipment, net	5,201	13,179
Total assets	\$ 745,367	\$ 781,244
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 20,566	\$ 18,296
Accrued expenses	-	52,520
Deferred rent	7,551	-
Total current liabilities	28,117	70,816
Net assets:		
Unrestricted:		
Board designated	250,000	250,000
Undesignated	455,234	460,428
Total unrestricted net assets	705,234	710,428
Temporarily restricted	12,016	-
Total net assets	717,250	710,428
Total liabilities and net assets	\$ 745,367	\$ 781,244

See notes to financial statements.

Dwell with Dignity, Inc.
Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Contributions	\$ 277,334	\$ 12,016	\$ 289,350
In-kind contributions	556,099	-	556,099
Thrift studio, net of direct costs of \$431,043	104,022	-	104,022
Other special events, net of direct costs of \$19,590	92,140	-	92,140
Investment income, net	9,010	-	9,010
Total revenue and support	1,038,605	12,016	1,050,621
Expenses:			
Program services	813,673	-	813,673
Management and general	96,249	-	96,249
Fundraising	133,877	-	133,877
Total expenses	1,043,799	-	1,043,799
Change in net assets	(5,194)	12,016	6,822
Net assets at beginning of year	710,428	-	710,428
Net assets at end of year	\$ 705,234	\$ 12,016	\$ 717,250

See notes to financial statements.

Dwell with Dignity, Inc.
Statement of Activities
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Contributions	\$ 303,353	\$ -	\$ 303,353
In-kind contributions	271,952	-	271,952
Thrift studio, net of direct costs of \$175,945	194,275	-	194,275
Other special events, net of direct costs of \$8,641	109,085	-	109,085
Investment loss, net	(12,606)	-	(12,606)
Total revenue and support	866,059	-	866,059
Expenses:			
Program services	660,487	-	660,487
Management and general	147,505	-	147,505
Fundraising	124,763	-	124,763
Total expenses	932,755	-	932,755
Change in net assets	(66,696)	-	(66,696)
Net assets at beginning of year	777,124	-	777,124
Net assets at end of year	<u>\$ 710,428</u>	<u>\$ -</u>	<u>\$ 710,428</u>

See notes to financial statements.

Dwell with Dignity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services	Management and General	Fundraising	Total
Contract services	\$ 21,292	\$ 63,211	\$ 7,321	\$ 91,824
Facilities and equipment	252,266	3,528	15,543	271,337
General fundraising	-	-	8,449	8,449
Grant writing	-	-	6,300	6,300
Marketing	8,196	-	9,107	17,303
Nonpersonnel	9,858	1,484	1,830	13,172
Other	37,199	3,380	2,165	42,744
Apartment décor	109,176	-	-	109,176
Salaries	336,907	22,848	74,886	434,641
Payroll taxes	25,980	1,762	5,774	33,516
Travel and conferences	12,799	36	2,502	15,337
	<u>\$ 813,673</u>	<u>\$ 96,249</u>	<u>\$ 133,877</u>	<u>\$ 1,043,799</u>

See notes to financial statements.

Dwell with Dignity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2015

	Program Services	Management and General	Fundraising	Total
Contract services	\$ 7,569	\$ 55,136	\$ 4,149	\$ 66,854
Facilities and equipment	109,976	14,199	11,749	135,924
General fundraising	-	-	4,608	4,608
Grant writing	-	-	6,300	6,300
Information technology	11,689	280	6,333	18,302
Marketing	2,986	41	6,769	9,796
Nonpersonnel	8,783	1,765	3,230	13,778
Other	26,060	4,182	6,876	37,118
Apartment décor	180,325	-	-	180,325
Salaries	281,725	60,215	66,595	408,535
Payroll taxes	17,772	11,679	8,154	37,605
Travel and conferences	13,602	8	-	13,610
	<u>\$ 660,487</u>	<u>\$ 147,505</u>	<u>\$ 124,763</u>	<u>\$ 932,755</u>

See notes to financial statements.

Dwell with Dignity, Inc.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 6,822	\$ (66,696)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	7,978	11,663
Amortization	-	750
Noncash contributions of stock	(25,212)	(35,300)
Realized and unrealized (gains) losses on investments	(4,340)	17,094
Changes in assets and liabilities:		
Pledges receivable	(58,493)	2,000
Inventory	38,186	12,570
Other assets	(9,813)	-
Accounts payable	2,270	36,794
Accrued expenses	(52,520)	-
Deferred rent	7,551	-
Net cash used by operating activities	(87,571)	(21,125)
Cash flows from investing activities:		
Proceeds from sales of investments	37,992	167,005
Purchases of investments	(9,667)	(142,317)
Purchase of property and equipment	-	(4,120)
Net cash provided by investing activities	28,325	20,568
Net decrease in cash	(59,246)	(557)
Cash at beginning of year	518,237	518,794
Cash at end of year	\$ 458,991	\$ 518,237
Supplemental disclosure on noncash investing and financing activities		
Donations of common stock	\$ 25,212	\$ 35,300

See notes to financial statements.

Dwell with Dignity, Inc.
Notes to Financial Statements

1. Organization

Dwell with Dignity, Inc. (Organization) is a nonprofit corporation organized in Texas and is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization's mission is to help families escape poverty and homelessness through design, one household at a time. The Organization is funded by individual and corporate donations, grants and an annual fundraiser, Thrift Studio. Thrift Studio is a 30-day pop-up shop that is created to provide financial viability for the Organization by selling donated furniture, housewares, art, accessories and high-end designer finds to the public.

Effective December 2016, Dwell with Dignity Foundation, Inc. changed its name to Dwell with Dignity, Inc.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.

Temporarily restricted net assets - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by the Organization. As of December 31, 2016 and 2015, there were no permanently restricted net assets.

Dwell with Dignity, Inc.
Notes to Financial Statements

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Temporarily restricted contributions whose restrictions are met in the same year the contributions are received are reported as unrestricted net assets.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash, investments, and pledges receivable.

The Organization places cash, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. Accounts at each institute are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016, the Organization's uninsured bank balances totaled \$217,019. The Organization has not experienced any losses on such assets.

Pledges receivable are unsecured and are due from various donors. The Organization continually evaluates the collectability of pledges receivable and maintains allowances, as considered necessary, for potentially uncollectable amounts. Pledges from two donors totaled 83% of total pledges receivable at December 31, 2016.

The Organization's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of the investments will occur in the near term and such changes could materially affect the value of the Organization's portfolio.

Investments

At December 31, 2016 and 2015, the Organization's investments consist of cash, sweep accounts, stocks and mutual funds and are stated at fair value in the statements of financial position. Interest, dividends and realized and unrealized gains and losses are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The Organization classifies cash and sweep accounts held by external investment managers as investments as these funds are not readily available for operations.

Inventory

Inventory consists primarily of high-end designer furniture and décor available for use in design projects or made available for sale at the Thrift Studio (see Note 1). Purchased inventory is stated at the lower of cost or fair market value. Donated inventory is stated at estimated fair value on the date of donation.

Dwell with Dignity, Inc.
Notes to Financial Statements

Property and Equipment

Property and equipment is recorded at cost or if acquired by gift, at fair market value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000. Depreciation is calculated using the straight-line method over estimated useful lives.

Deferred Rent

Rent expense is recognized on a straight line basis over the lives of the leases. Deferred rent represents rent expense recognized in excess of rental payments made.

Revenue Recognition

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give (pledge) has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected and reduced by an allowance for uncollectible amounts. Conditional promises to give are recognized when the conditions to which they are subject are met. If funds are received related to the conditional promise, the amounts received are accounted for as a refundable advance.

Donated furniture, décor and rent are reflected as contributions at their estimated fair value at date of receipt. Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Organization.

Federal Income Tax

The Organization is a nonprofit publicly supported organization, as defined in Section 501(c)(3) of the IRC that is exempt from federal income taxes under Section 501(a) of the IRC. For the years ended December 31, 2016 and 2015, the Organization did not conduct any unrelated business activities that would be subject to federal income taxes and had no uncertain tax positions. Therefore, no tax provision or liability has been reported in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2016 and 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Dwell with Dignity, Inc.

Notes to Financial Statements

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.

Estimates and Assumptions

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 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 estimated.

3. Investments

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies;

Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates or assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Cash and Sweep Accounts

Cash and sweep accounts held by the Organization are valued using \$1 for the net asset value (NAV).

Dwell with Dignity, Inc.
Notes to Financial Statements

Common Stock

Common stock held by the Organization is valued at the closing price reported on the New York Stock Exchange Composite Listing.

Mutual Funds

These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

The methods described above may produce fair value estimates that may not be indicative of net realized value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments held by the Organization are measured using Level 1 inputs.

The table below sets forth the Organization's investments by general type as of December 31:

	2016	2015
Cash and sweep accounts	\$ 279	\$ 28,192
Common stock	23,856	4,888
Mutual funds - income	108,606	100,700
Mutual funds - growth	29,204	26,938
	\$ 161,945	\$ 160,718

Net investment income (loss) consists of the following for the years ended December 31:

	2016	2015
Interest and dividend income	\$ 4,670	\$ 4,488
Realized/unrealized gains (losses)	4,340	(17,094)
	\$ 9,010	\$ (12,606)

Dwell with Dignity, Inc.
Notes to Financial Statements

The following investments represent 10% or more of total investments at December 31:

	<u>2016</u>	<u>2015</u>
Apple Inc.	\$ 19,110	\$ -
Franklin Income Fund Class A	28,395	24,418
Franklin Custodian Growth Fund Class A	29,204	26,938
Franklin Funds Total Return Fund Class A	39,922	38,354
Templeton Global Bond Fund Class A	40,288	37,927
Cash	-	28,192

4. Property and Equipment

Property and equipment consists of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Furniture, fixtures and equipment	\$ 25,506	\$ 25,506
Vehicles	20,452	20,452
	45,958	45,958
Accumulated depreciation	<u>(40,757)</u>	<u>(32,779)</u>
	<u>\$ 5,201</u>	<u>\$ 13,179</u>

Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$7,978 and \$11,663, respectively.

5. Board Designated Net Assets

Unrestricted net assets of \$705,234 and \$710,428 at December 31, 2016 and 2015, respectively, included board-designated funds of \$250,000 for a reserve to support the Organization.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets totaling \$12,016 at December 31, 2016 are restricted for home installations.

Dwell with Dignity, Inc.
Notes to Financial Statements

7. In-kind Donations

The Organization received the following in-kind donations during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Inventory	\$ 291,290	\$ 192,962
Rent	154,274	78,990
Legal services	<u>110,535</u>	<u>-</u>
	<u>\$ 556,099</u>	<u>\$ 271,952</u>

8. Leased and Donated Facilities

During the year ended December 31, 2015, the Organization entered into non-cancelable operating lease agreements for facilities located in Atlanta, Georgia and Dallas, Texas. The leases include rent abatements and fixed rent escalations, which are amortized and recorded over the lease term on a straight-line basis. The following is a schedule of future minimum lease payments under these lease agreements for the years ending December 31:

2017	\$ 72,108
2018	72,948
2019	44,796
2020	44,796

For the year ended December 31, 2016, rent expense totaled \$241,565, of which \$154,274 represents the value of donated rent.

For the year ended December 31, 2015, rent expense totaled \$108,981, of which \$78,990 represents the value of donated rent.

9. Legal Matters

In 2015 the Organization was a party to a lawsuit which involved the use of “Dwell” in the name of the Organization. No monetary damages were being sought by the plaintiff. The litigation was ultimately settled in 2016.

At December 31, 2015 accrued attorney’s fees related to the matter totaled \$52,520. In 2016 the Organization incurred additional attorney’s fees of \$58,015. The law firm retroactively deemed all services to be pro-bono resulting in \$110,535 of in-kind revenue, \$58,015 of in-kind legal expense and \$52,520 reduced the accrued liability from the prior year.

Dwell with Dignity, Inc.
Notes to Financial Statements

10. Related Party Transactions

During the year ended December 31, 2016, the Organization purchased inventory from a company owned by a board member totaling \$9,194.

11. Subsequent Events

The Organization evaluated subsequent events after the statement of financial position date of December 31, 2016 through May 19, 2017, which was the date the financial statements were issued, and concluded that no additional disclosures are required.