JLK Rosenberger
Certified Public Accountants

ASCENCIA

Financial Statements and Independent Auditors' Report

June 30, 2013 and 2012

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Independent Auditors' Report

To the Board of Directors
Ascencia
Glendale, California

We have audited the accompanying financial statements of Ascencia (a California nonprofit) which comprise the statements of financial position as of June 30, 2013 and 2012, 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 auditors consider 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ascencia as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 10, 2013, on our consideration of Ascencia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ascencia's internal control over financial reporting and compliance.

JLK Rosenberger, LLP

Glendale, California
December 10, 2013

ASCENCIA

Statements of Financial Position
As of June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 529,810	$ 383,391
Short-term investment	201,506	200,000
Grants receivable	148,676	194,896
Prepaid expenses	11,955	14,812
Security deposits	34,915	32,190
Other assets	20,946	13,681
Total current assets	947,808	838,970
Property and equipment, net	3,670,347	18,488
Total assets	$ 4,618,155	$ 857,458
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 132,626	$ 21,069
Accrued payroll	71,949	68,472
Client savings deposit	20,946	13,681
Security deposits payable	7,234	6,426
Deferred revenue	68,080	-
Note payable	15,300	15,300
Total current liabilities	316,135	124,948
Deferred revenue	1,849,321	-
Total liabilities	2,165,456	124,948
Net assets:		
Unrestricted net assets:		
Undesignated	2,144,335	437,834
Board designated	290,000	290,000
Temporarily restricted net assets	18,364	4,676
Total net assets	2,452,699	732,510
Total liabilities and net assets	$ 4,618,155	$ 857,458

See accompanying notes to financial statements.

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Statement of Activities
For the Year Ended June 30, 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Revenue and support:			
Donations	$ 506,057	$ 13,688	$ 519,745
Grants	1,597,735	-	1,597,735
Special events revenue, net	187,179	-	187,179
Rental income	45,663	-	45,663
Interest income	2,075	-	2,075
Total revenue and support	2,338,709	13,688	2,352,397
Expenses:			
Program services	1,709,322	-	1,709,322
General and administrative	153,944	-	153,944
Fundraising	147,582	-	147,582
Total expenses	2,010,848	-	2,010,848
Increase in net assets from operating activities	327,861	13,688	341,549
Nonoperating revenue:			
Inherent contribution received – merger with The S.H. Ho Hope and Compassion Center	1,378,640	-	1,378,640
Increase in net assets	1,706,501	13,688	1,720,189
Net assets, beginning of year	727,834	4,676	732,510
Net assets, end of year	$ 2,434,335	$ 18,364	$ 2,452,699

See accompanying notes to financial statements.

ASCENCIA

Statement of Activities
For the Year Ended June 30, 2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Revenue and support:			
Donations	$ 85,411	$ 4,209	$ 89,620
Grants	1,625,814	-	1,625,814
Special events revenue, net	301,600	-	301,600
Rental income	44,502	-	44,502
Interest income	2,122	-	2,122
Net assets released from restrictions	6,813	(6,813)	-
Total revenue and support	2,066,262	(2,604)	2,063,658
Expenses:			
Program services	1,603,153	-	1,603,153
General and administrative	72,929	-	72,929
Fundraising	80,416	-	80,416
Total expenses	1,756,498	-	1,756,498
Increase (decrease) in net assets	309,764	(2,604)	307,160
Net assets, beginning of year	418,070	7,280	425,350
Net assets, end of year	$ 727,834	$ 4,676	$ 732,510

See accompanying notes to financial statements.

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Statement of Functional Expenses
For the Year Ended June 30, 2013

	Program Services	General and Administrative	Fund Raising	Total
Payroll and benefits	$ 1,090,391	$ 93,569	$ 29,608	$ 1,213,568
Rent	303,222	2,161	548	305,931
Professional services	67,120	29,256	105,244	201,620
Utilities	28,021	966	1,480	30,467
Building and maintenance	39,062	2,040	634	41,736
Insurance	15,499	5,021	823	21,343
Telephone	18,640	1,671	706	21,017
Office expenses	31,276	5,225	3,814	40,315
Client expenses	89,518	-	-	89,518
Bank and payroll fees	-	6,130	918	7,048
Recruitment and staffing	5,375	2,247	1,402	9,024
Auto and travel	10,573	391	145	11,109
Depreciation	10,565	4,366	202	15,133
Miscellaneous	60	901	2,058	3,019
Total expenses	$ 1,709,322	$ 153,944	$ 147,582	$ 2,010,848

See accompanying notes to financial statements.

ASCENCIA

Statement of Functional Expenses
For the Year Ended June 30, 2012

	Program Services	General and Administrative	Fund Raising	Total
Payroll and benefits	$ 998,815	$ 36,809	$ 20,902	$ 1,056,526
Rent	315,667	4,806	435	320,908
Professional services	72,757	18,689	50,456	141,902
Utilities	25,720	263	341	26,324
Building and maintenance	36,443	584	907	37,934
Insurance	17,206	205	221	17,632
Telephone	19,736	175	181	20,092
Office expenses	36,277	4,144	2,616	43,037
Client expenses	60,483	-	-	60,483
Bank and payroll fees	15	4,028	622	4,665
Recruitment and staffing	742	1,076	957	2,775
Auto and travel	9,635	428	273	10,336
Depreciation	9,657	571	88	10,316
Miscellaneous	-	1,151	2,417	3,568
Total expenses	$ 1,603,153	$ 72,929	$ 80,416	$ 1,756,498

See accompanying notes to financial statements.

ASCENCIA

Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 1,720,189	$ 307,160
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,133	10,316
Interest income	(1,506)	-
Inherent contribution – merger with The S.H. Ho Hope and Compassion Center	(1,378,640)	-
Changes in operating assets and liabilities:		
Grants receivable	46,220	(20,401)
Prepaid expenses	3,123	(6,151)
Security deposits	(2,725)	(650)
Other assets	(7,265)	6,604
Accounts payable	(56,405)	(7,407)
Accrued payroll	3,477	2,774
Client savings deposit	7,265	(6,604)
Security deposits payable	(1,707)	(1,420)
Deferred revenue	276,537	-
Net cash provided by operating activities	623,696	284,221
Cash flows used in investing activities:		
Short-term investment	-	(200,000)
Purchase of property and equipment	(691,992)	(8,908)
Cash acquired in merger with The S.H. Ho Hope and Compassion Center	214,715	-
Net cash used in investing activities	(477,277)	(208,908)
Net increase in cash and cash equivalents	146,419	75,313
Cash and cash equivalents, beginning of year	383,391	308,078
Cash and cash equivalents, end of year	$ 529,810	$ 383,391

See accompanying notes to financial statements.

1. Nature of Operations

Ascencia (the "Organization") is a nonprofit incorporated in California on June 15, 2006 with the mission to end homelessness in the Greater Glendale Area, one person, one family, at a time. The Organization serves approximately 1,200 homeless men, women, and children each year through a range of housing and services that support their regaining a home of their own.

The Organization operates the following programs:

- The Access Center program serves as the entry point for all clients in the Glendale Continuum of Care by providing street outreach, comprehensive screening and assessment of client needs, and case management with specializations in mental health, employment, substance abuse recovery and veterans services. The Organization's outreach team canvasses streets to offer services to homeless people, respond to calls from the community to help homeless people and provides essential transportation to connect clients to needed services. The intake and assessment staff conduct a thorough review of each person's social, economic and health needs and tailors a plan for continuing services at the Organization or a responsible referral to an appropriate provider. Case managers assist clients by helping them clarify priorities, identify resources, and facilitate short and long-term planning.

- Emergency Shelter program provides housing for up to 60 days to help people address an immediate crisis. Entering adult clients must pass a drug test, commit to saving money, and participate in case management services. Parents are required to attend weekly parenting education workshops. The 40-bed program can accommodate families of any size and configuration; parents are not forced to separate and children of any age are permitted. Volunteers provide substantial enrichment to the program; for example, school age children receive tutoring from School on Wheels, and volunteers and guest chefs purchase, prepare and serve dinner for the residents each night by utilizing 350 volunteers from 40 different churches, temples, and social and service organizations over the course of each year.

- Scattered Site Family Transitional program provides social services support to help increase household income and provides up to two years of rental subsidy for apartment housing located throughout Glendale. The program focuses on helping families overcome the economic and emotional setbacks of homelessness and preparing them to return to their own market-rate or long-term subsidized unit, depending on their income-earning potential. Clients in this program are families with children who have at least one employed adult or adults fulfilling educational plans that will lead to better paying employment. At the close of the two year program, clients with sufficient income may opt to take over the lease on their unit. Staff seek out longer-term subsidized housing for families with more persistent barriers to earning a living wage. The Scattered Site Family Transitional program operated 12 units in fiscal year 2013.

- Next Step Permanent Supportive provides a critical housing opportunity for single chronically homeless adults in recovery from alcohol or drug addiction. Clients in this program have completed residential rehabilitation, but need more time to establish their sobriety and repair the substantial damage done to their credit, employability and personal relationships following long-term alcohol and drug abuse and homelessness. As a permanent housing program, clients have the opportunity to work at their own pace to rebuild their lives, and the Organization staff provide the support and guidance to help them. Services include financial literacy training, recovery support groups, small grants for education, guidance on credit repair, and referrals for legal services.

1. Nature of Operations (Continued)

- Supportive Services for Veteran Families ("SSVF") is a U.S. Department of Veteran Affairs ("VA") program to assist homeless and at-risk veteran families. The goal of the SSVF program is to promote housing stability among very low-income veteran families who reside in or are transitioning to permanent housing. The Organization provides eligible veteran families with outreach, case management, and assistance in obtaining VA and other benefits.

- United Way awarded Ascencia's Access Center funding through its Home for Good Campaign, which seeks to end veteran and chronic homelessness in Los Angeles County by 2016.

- Social Innovation Fund Initiative program provides supportive housing for vulnerable, high-cost users of crisis health services. Services include assisting clients in connecting to and navigating needed health, nutrition education, assistance with daily living, and other services to move each homeless high utilizing person into permanent supportive housing and provide the services needed to help them retain their housing and obtain reliable, integrated health care.

The Organization is a leading provider of homeless services in the Glendale Continuum of Care and participates in the Continuum's Homeless Management Information System.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Significant estimates embodied in these financial statements include the collectability of receivables and expense allocation. Actual results could differ from those estimates.

Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Accordingly, when market observable data is not readily available, Ascencia's own assumptions are set to reflect those that market participants would be presumed to use in pricing the asset or liability at the measurement date. The Organization categorizes and records on the balance sheet its financial assets and financial liabilities based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy as set forth below:

Level 1 - Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets that the Organization can access.

2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Level 2 - Financial assets and financial liabilities whose values are based on (a) quoted prices for similar
assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in non-active markets, or (c) valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Organization's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Organization uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

Contributions and Funding

Contributions are recognized at fair value when the donor makes an unconditional promise to give to Ascencia. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. An allowance is provided for those promises to give estimated to be uncollectible, as necessary.

The Organization receives funding through federal, state, municipal, and foundation grants, and fund raising. Grant revenue includes exchange transactions under which revenue is recognized when earned and expenses are recognized when incurred. Grant receipts from exchange transactions not earned are reported as deferred revenue.

Net Assets

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

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization's activities and operations at the direction of the Board of Directors.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Organization and/or the passage of time. Donor-restricted contributions for which the restriction has been satisfied in the same reporting period as the contribution was received are recorded as unrestricted support.

2. Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Organization. Ascencia held no such assets at June 30, 2013 and 2012.

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.

Cash and Cash Equivalents

Ascencia considers cash equivalents to be all highly liquid investments with a maturity of three months or less when acquired.

Short-Term Investments

Short-term investments consist of certificates of deposit with a maturity date greater than three months and less than one year at the acquisition date and are recorded at cost.

Grants Receivable

Ascencia's grants receivable are due in less than one year and include receivables from private foundations and exchange transactions due from contracted government grant reimbursement requests. Management has determined that no allowance is necessary, and management believes that all grants receivable are collectible.

Property and Equipment

Property and equipment are recorded at cost except for donated property and equipment, which is stated at fair value at date of donation. Ascencia follows the practice of capitalizing all expenditures for building improvements and equipment in excess of $5,000. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Management of the Organization assesses the recoverability of property and equipment whenever a triggering event occurs. In the event that there is a decline in value, the Organization performs an analysis to determine if the decline in value may be unrecoverable. Management has determined that no unrecoverable declines in the market values of property and equipment exist at June 30, 2013 and 2012.

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

Ascencia is a public charity that has obtained an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal or state income taxes. The Organization is subject, however, to Federal and California income taxes on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation

Section 1.511. For the fiscal years ended June 30, 2013 and 2012, the Organization had no unrelated business income.

Ascencia's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2010, 2011, and 2012 may be subject to examination by the IRS, generally for three years after they were filed.

Allocated Expenses

The direct costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain indirect costs have been allocated among the programs and supporting services benefited based upon estimated usage.

3. Merger with The S.H. Ho Hope and Compassion Center

On December 20, 2012, the Organization entered into a merger agreement (the "Agreement") with The S.H. Ho Hope and Compassion Center ("S.H. Ho"), a California nonprofit public benefit corporation. The Agreement was filed with the California Secretary of State on December 27, 2012, which is the effective date ("Effective Date") of the merger. As of the Effective Date, S.H. Ho was merged with and into Ascencia, and the separate corporate existence of S.H. Ho ceased. The corporate identity, existence, purposes, powers, right, and immunities of S.H. Ho was merged into and vested in Ascencia. The corporate identity, existence, name, purposes, powers, rights, and immunities of Ascencia continue unaffected and unimpaired by the Agreement.

S.H. Ho was established in 2009 for the purpose of acquiring a commercial building at 1851 Tyburn Street in Glendale, rehabilitating the property, and leasing it to Ascencia for use in its Access Center and Emergency Shelter programs for 20 years. The funds for the project were obtained from a $2,042,392 City of Glendale conditional grant agreement, which is treated as an exchange transaction. Accordingly, grant receipts not earned are reported as deferred revenue and recognized over the 20-year service period. Deferred revenue totaled $1,917,401 as of June 30, 2013.

The conditional grant agreement called for a matching of the City of Glendale grant, which was matched by a private foundation. The matching funds were used to assist with the rehabilitation of the Access Center and to acquire and rehabilitate an apartment building at 1911 Gardena Street in Glendale to be leased to Ascencia for use in its supportive housing program. The matching funds amounting to $2,100,000 are included as part of unrestricted net assets as of June 30, 2013.

3. Merger with The S.H. Ho Hope and Compassion Center (Continued)

In accordance with GAAP, Ascencia recorded in its financial statements, the fair value of identifiable assets acquired and liabilities assumed as of the Effective Date. The excess of the identifiable assets acquired over liabilities assumed is recognized as an inherent contribution in Ascencia's Statement of Activities. The acquisition costs associated with this merger were immaterial to Ascencia's financial statements.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Effective Date:

Current assets	$ 214,981
Property:	
1851 Tyburn	1,425,000
1911 Gardena	1,550,000
Less liabilities:	
Current liabilities	(170,477)
Deferred revenue	(1,640,864)
Net assets acquired	$ 1,378,640

The estimated fair value of the identifiable assets acquired and liabilities assumed in the merger were determined based on Level 3 fair value measurement inputs. With the exception of the two properties, the estimated fair values approximated the book values recorded by S.H. Ho. The fair values of the properties were based on recent appraisals that determined the 1851 Tyburn property was below book value by $1,089,419 and 1911 Gardena property exceeded book value by $312,158.

The net assets acquired in the merger were recorded as unrestricted in Ascencia's financial statements at the Effective Date. The inherent contribution of $1,378,640 was recorded as contribution income during the year ended June 30, 2013.

4. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2013	2012
Vehicles	$ 25,589	$ 25,589
Software	14,921	14,921
Equipment	37,299	14,578
Building – 1911 Gardena	1,124,846	-
Construction in progress – 1851 Tyburn	1,708,917	-
Land	865,000	-
Total property and equipment	3,776,572	55,088
Less accumulated depreciation	(106,225)	(36,600)
Total property and equipment, net depreciation	$ 3,670,347	$ 18,488

4. Property and Equipment (Continued)

Depreciation expense amounted to $15,133 and $10,316 for the years ended June 30, 2013 and 2012, respectively.

5. Client Savings Deposit

As part of its program services, Ascencia collects money orders from its clients, and the full amount is returnable to the clients. These funds are not recorded on the books of the Organization. At June 30, 2013 and 2012, the balance of the money orders on hand was $20,946 and $13,681, respectively.

6. Note Payable

Ascencia has a non-interest bearing note payable to the City of Glendale in the amount of $15,300 as of June 30, 2013 and 2012. The funds were used to pay the security deposit on the lease of the Organization's office space and become due upon the earlier of termination of the lease or June 30, 2015.

7. Net Assets

Included in unrestricted net assets are funds designated by the Board of Directors as reserve funds not to be expended without prior authorization of the Board. This amounted to $290,000 at both June 30, 2013 and 2012.

Temporarily restricted net assets at June 30 are comprised of the following:

	2013	2012
Water fountains	$ 413	$ 413
Homeless health education	54	54
Baby diapers	448	448
Clients contacted through 100K Homes Campaign	3,669	3,761
Shelter bed powder coating	8,000	-
Computer hardware	5,780	-
Total	$ 18,364	$ 4,676

8. Line of Credit

Ascencia maintains a one year revolving bank line of credit that renews each year. The current line of credit for $200,000 expires on April 15, 2014 and bears interest at the greater of prime or 5.5%. The Organization did not draw upon its line of credit during the years ended June 30, 2013 and 2012.

9. Retirement Plan

Ascencia maintains a deferred annuity plan under Internal Revenue Code Section 403(b) which covers all full-time employees who have been employed by the Organization for at least 90 days. Employee contributions are voluntary. After two years of employment, the Organization contributes five percent of qualified wages. The Organization's contributions vest at the earlier of retirement age, death, disability, or termination. The Organization's contribution for the year ended June 30, 2013 and 2012 was $44,587 and $26,910, respectively.

10. Commitments and Contingencies

Leases

Ascencia leased its main office space (which includes the Emergency Shelter facility) for a monthly rent of $7,250 for the years ended June 30, 2013 and 2012, respectively. This lease expired on June 30, 2013. The Organization exercised the option to extend the lease until September 30, 2013 at $7,500 per month and exercised a second extension until March 31, 2014 at $7,750 per month.

The Next Step Permanent Supportive and Scattered Site Family Transitional programs have monthly lease payments for apartment housing that range from $875 to $2,750. The longest non-cancellable apartment lease will expire at the end of June 2014.

The Organization also has operating leases on equipment with payments from $40 to $799 per month. The longest lease expires in June 2018.

Future annual minimum payments under these non-cancellable operating leases are as follows:

Year Ending June 30,	Amount
2014	$109,483
2015	9,588
2016	9,588
2017	9,588
2017	9,588
Thereafter	2,397

For the years ended June 30, 2013 and 2012 rent expense totaled $305,931 and $320,908, respectively.

Housing facilities under the Next Step Permanent Supportive Housing and Scattered Site Family Transitional programs are subleased to the clients. Rental income from these subleases for the fiscal years ended June 30, 2013 and 2012 totaled $43,041and $44,502, respectively.

10. Commitments and Contingencies (Continued)

City of Glendale Conditional Grant Agreement

The conditional grant agreement in the amount of $2,042,392 entered into between the City of Glendale and S.H. Ho (assumed by Ascencia as of December 27, 2012) stipulates that the funds are to be used to acquire and rehabilitate a commercial building at 1851 Tyburn in Glendale and to use the property for the Access Center and Emergency Shelter programs. The entire amount of the grant plus interest is to be repaid in the event Ascencia fails to perform any of its material obligations related to the acquisition and rehabilitation of the property, or in the event it fails to provide Access Center programs, or fails to use the apartment building at 1911 Gardena for Ascencia's permanent supportive housing program for at least ten years. Ascencia is also to repay a pro rata share of the grant if it ceases to perform any of these functions after a ten year period but before twenty years.

11. Concentration Risk

Financial instruments that subject Ascencia to a concentration of credit risk consist of cash and short-term investments held at financial institutions, which from time to time, may exceed federally insured amounts. The Organization has not experienced any losses in such accounts and has its funds in a financial institution that carries insurance in excess of federal insured limits. The Organization believes it is not exposed to any significant risk relative to its cash accounts.

Services provided by the Organization are governed by grant agreements with governmental agencies. Most of these grant agreements involving the Organization are for fixed terms and expire on an annual basis. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of operations.

Management believes that they will be able to continue obtaining appropriate grants to fund future operations based on their historical ability to obtain new grant agreements and based on their relationships with the funders. The Organization's services are funded primarily by the U.S. Department of Housing and Urban Development, which represents approximately 70% of grant income and 48% of total revenue and support for the year ended June 30, 2013, and 75% of grant income and 59% of total revenue and support for the year ended June 30, 2012. The Organization is required to comply with U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other federal audit requirements. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, civil penalties, and could have an adverse effect on the Organization's financial position and operations.

12. Related Party Transactions

Total contributions received from individual members of the board of directors for the years ended June 30, 2013 and 2012 totaled $118,947 and $16,100, respectively.

13. Subsequent Events

Management has evaluated subsequent events through December 10, 2013, which is the date the financial statements were made available to be issued. No events have occurred subsequent to June 30, 2013 requiring recording or disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

ASCENCIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Name	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Awards Expenditures	
U.S. Department of Housing and Urban Development:				
Passed through the City of Glendale:				
Emergency Shelter Grant	14.231	C105149B	$ 91,394	
Community Development Block Grant / Community Outreach Program	14.218	C105279	30,000	
Supportive Housing Program / Access Center	14.235	C105155 & C105282	699,741	*
Supportive Housing Program / Scattered Site Family Transitional	14.235	C105182 & C105292	170,957	*
Supportive Housing Program / Next Step Permanent Supportive	14.235	C105257 & C105372	148,532	*
Corporation for National and Community Service:				
Social Innovation Fund Initiative	94.019	11SIHNY001	30,250	
U.S. Department of Veteran Families:				
Supportive Services for Veteran Families Program	64.033	11-CA-327 & R12-CA-327	95,402	
Federal Emergency Management Agency:				
Passed through United Way Foundation:				
Emergency Food and Shelter Program	97.024		7,500	
Total expenditures of federal awards			$ 1,273,776	

* Major programs

See accompanying note to schedule of expenditures of federal awards.

ASCENCIA

Note to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

JLK Rosenberger
Certified Public Accountants

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Ascencia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ascencia (a nonprofit organization), 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 the financial statements, and have issued our report thereon dated December 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ascencia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ascencia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ascencia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-1.

Ascencia's Response to Findings

Ascencia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ascencia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JLK Rosenberger, LLP

Glendale, California
December 10, 2013

JLK Rosenberger
Certified Public Accountants

JLK Rosenberger, LLP

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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Ascencia

Report on Compliance for Each Major Federal Program

We have audited Ascencia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ascencia's major federal programs for the year ended June 30, 2013. Ascencia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Ascencia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ascencia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ascencia's compliance.

Opinion on Each Major Federal Program

In our opinion, Ascencia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to these matters.

Ascencia's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ascencia's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Ascencia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ascencia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ascencia's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

JLK Rosenberger, LLP

Glendale, California
December 10, 2013

ASCENCIA

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Organization.

2. No significant deficiency is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the auditee were disclosed during the audit.

4. No significant deficiency relating to the audit of the major federal programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for the Organization expresses an unqualified opinion on all major programs.

6. Audit findings relative to major federal award programs are reported in Part B of this Schedule.

7. The programs tested as major programs include:

	CFDA Number
Supportive Housing Program	14.235

8. The threshold for distinguishing Type A and B programs was $300,000 or 3% of total federal awards expended or not a low-risk auditee.

9. The Organization qualifies as a low-risk auditee.

B. Current Year Findings – Major Federal Award Programs Audit

2013-1

Federal Awarding Agency:	U.S. Department of Housing and Urban Development
CFDA Number and Title:	14.235 Supportive Housing Program
Applicable Compliance Component:	Cost Principle

Statement of Condition

The Organization does not track or report actual hours worked for either of these programs.

Criteria

Salary and wage expense should be allocated based on actual time spent on specific programs as specified in OMB Circular A-122, Cost Principles for Non-Profit Organizations.

Effect

Not following federal requirements for salaries to multiple programs, grantors cannot ensure charges to federal grants are accurate, and may result in questioned or disallowed costs.

Cause

The Organization allocates salary expenditures based on an allocation method that was approved by the pass-through grantor which is not a method outlined in OMB Circular A-122.

Recommendation

Time entry systems for both exempt and non-exempt employees should account for actual time spent on specific programs. Expanding the actual hours reported for other programs would enable the actual costs to be allocated over all of the programs served.

Management's Response

Every year, before preparing the budget, management will talk to each employee to best estimate the time spent on each program. Due to the limitation of revising the budget for the U.S. Department of Housing and Urban Development and other grants, management asked employees to track time spent on each program daily, and adjust their work if too much is spent on one program or another.

C. Prior Year Findings – Major Federal Award Programs Audit

2012-1

Federal Awarding Agency:	U.S. Department of Housing and Urban Development	
CFDA Number and Title:	14.235	Supportive Housing Program
	14.262	Homeless Prevention and Rapid Re-Housing Program
Applicable Compliance Component:	Cost Principle	

Statement of Condition

The Organization does not track or report actual hours worked for either of these programs.

Criteria

Salary and wage expense should be allocated based on actual time spent on specific programs as specified in OMB Circular A-122, Cost Principles for Non-Profit Organizations.

Effect

Not following federal requirements for salaries to multiple programs, grantors cannot ensure charges to federal grants are accurate, and may result in questioned or disallowed costs.

Cause

The Organization allocates salary expenditures based on an allocation method that was approved by the pass-through grantor which is not a method outlined in OMB Circular A-122.

Recommendation

Time entry systems for both exempt and non-exempt employees should account for actual time spent on specific programs. Expanding the actual hours reported for other programs would enable the actual costs to be allocated over all of the programs served.

Management's Response

The Organization researched alternative timekeeping tools and has implemented a process on some federal programs to have all staff track actual time expended.

Current Year Status

This item has not been sufficiently cleared and was a repeat finding.