

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**JOSEPH'S HOUSE, INC.
(A NON-PROFIT ORGANIZATION)**

September 30, 2011 and 2010

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INDEPENDENT AUDITORS REPORT

January 31, 2012

To the Board of Directors of:

Joseph's House, Inc. (A Non-Profit Organization)
Washington, D.C.

We have audited the accompanying statements of financial position of Joseph's House, Inc. (a non-profit organization) as of September 30, 2011 and 2010 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Joseph's House, Inc. as of September 30, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Farmer & First, PC

Warren, RI

Joseph's House, Inc. (A Non-Profit Organization)
STATEMENTS OF FINANCIAL POSITION
September 30,

| | 2011 | 2010 |
|------------------------------------|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 155,332 | \$ 79,856 |
| Accounts receivable | 6,603 | 8,918 |
| Grants receivable | 199,536 | 483,374 |
| Prepaid expenses | 43,036 | 23,208 |
| Total current assets | 404,507 | 595,356 |
| PROPERTY AND EQUIPMENT: | | |
| Buildings and improvements | 1,143,360 | 1,117,234 |
| Automobile | 23,730 | 23,730 |
| Furniture and fixtures | 39,384 | 39,384 |
| Office equipment | 30,587 | 30,587 |
| Donated equipment | 500 | 500 |
| Household and medical equipment | 30,842 | 30,842 |
| Total property and equipment | 1,268,403 | 1,242,277 |
| Less: accumulated depreciation | 645,473 | 610,633 |
| Property and equipment, net | 622,930 | 631,644 |
| OTHER ASSETS | | |
| Cash Surrender Value | 3,252 | 3,012 |
| TOTAL | \$ 1,030,689 | \$ 1,230,012 |

The accompanying notes are an integral part of these statements.

Joseph's House, Inc. (A Non-Profit Organization)
STATEMENTS OF FINANCIAL POSITION (continued)
September 30,

| | 2011 | 2010 |
|--|---------------------|---------------------|
| CURRENT LIABILITIES: | | |
| Accounts payable and employee withholdings | \$ 11,287 | \$ 64,056 |
| Accrued expenses | 47,732 | 43,496 |
| Line of credit | - | 260 |
| Deferred support | 110,226 | 338,500 |
| Total current liabilities | <u>169,245</u> | <u>446,312</u> |
| NET ASSETS: | | |
| Unrestricted | | |
| Operating | 843,367 | 742,660 |
| Board designated - contingency | 10,577 | 10,577 |
| | <u>853,944</u> | <u>753,237</u> |
| Temporarily restricted | 7,500 | 30,463 |
| Total net assets | <u>861,444</u> | <u>783,700</u> |
| TOTAL | <u>\$ 1,030,689</u> | <u>\$ 1,230,012</u> |

The accompanying notes are an integral part of these statements.

Joseph's House, Inc. (A Non-Profit Organization)

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2011

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|----------------------|
| SUPPORT & REVENUE: | | | |
| Grants and Contributions | | | |
| Government grants | \$ 411,137 | \$ - | \$ 411,137 |
| Foundation, non-profit and corporate grants | 305,796 | 7,500 | 313,296 |
| Individual and religious organizations | <u>327,760</u> | <u>-</u> | <u>327,760</u> |
| Total grants and contributions | 1,044,693 | 7,500 | 1,052,193 |
| Program service revenue | 350 | - | 350 |
| Interest income | 415 | - | 415 |
| Increase in cash surrender value | 240 | - | 240 |
| Miscellaneous income | 46,806 | - | 46,806 |
| Net assets releases from restrictions | <u>30,464</u> | <u>(30,464)</u> | <u>-</u> |
| Total unrestricted support and reclassifications | <u>1,122,968</u> | <u>(22,964)</u> | <u>1,100,004</u> |
| EXPENSES: | | | |
| Program services | | | |
| Joseph House, Inc | 754,937 | - | 754,937 |
| Management and general | 152,320 | - | 152,320 |
| Fundraising | <u>115,004</u> | <u>-</u> | <u>115,004</u> |
| Net expenses | <u>1,022,261</u> | <u>-</u> | <u>1,022,261</u> |
| Change in net assets | 100,707 | (22,964) | 77,743 |
| Net assets, October 1, 2010 | <u>753,237</u> | <u>30,464</u> | <u>783,701</u> |
| Net assets, September 30, 2011 | <u>\$ 853,944</u> | <u>\$ 7,500</u> | <u>\$ 861,444</u> |

The accompanying notes are an integral part of these statements.

Joseph's House, Inc. (A Non-Profit Organization)

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|-----------------------|-----------------------------------|-----------------------|
| SUPPORT & REVENUE: | | | |
| Grants and Contributions | | | |
| Government grants | \$ 460,140 | \$ - | \$ 460,140 |
| Foundation, non-profit and corporate grants | 231,202 | 37,285 | 268,487 |
| Individual and religious organizations | 225,947 | - | 225,947 |
| Total grants and contributions | 917,289 | 37,285 | 954,574 |
| Program service revenue | 1,244 | - | 1,244 |
| Interest income | 1,145 | - | 1,145 |
| Increase in cash surrender value | 231 | - | 231 |
| Miscellaneous income | 38 | - | 38 |
| Net assets releases from restrictions | 28,571 | (28,571) | - |
| Total unrestricted support and reclassifications | <u>948,518</u> | <u>8,714</u> | <u>957,232</u> |
| EXPENSES: | | | |
| Program services | | | |
| Joseph House, Inc | 738,206 | - | 738,206 |
| Management and general | 98,047 | - | 98,047 |
| Fundraising | 89,383 | - | 89,383 |
| Net expenses | <u>925,636</u> | <u>-</u> | <u>925,636</u> |
| Change in net assets | 22,882 | 8,714 | 31,596 |
| Net assets, October 1, 2009 | <u>730,355</u> | <u>21,750</u> | <u>752,105</u> |
| Net assets, September 30, 2010 | <u>\$ 753,237</u> | <u>\$ 30,464</u> | <u>\$ 783,701</u> |

The accompanying notes are an integral part of these statements.

Joseph's House, Inc. (A Non-Profit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2011

| | Program | | Supporting Services | | Functional <u>Expenses</u> |
|-------------------------------------|---------------------------|-------------------------------|--------------------------|--------------------------|-------------------------------|
| | <u>Joseph's House</u> | <u>Mgmt & General</u> | <u>Fund- Raising</u> | <u>Total Support</u> | |
| Salaries & labor | \$ 438,753 | \$ 47,971 | \$ 36,020 | \$ 83,991 | \$ 522,744 |
| Payroll taxes | 30,651 | 3,379 | 2,538 | 5,917 | 36,568 |
| Fringe benefits | 37,785 | 4,165 | 3,128 | 7,293 | 45,078 |
| Total payroll related expenses | 507,189 | 55,515 | 41,686 | 97,201 | 604,390 |
| Legal and accounting | - | 58,513 | - | 58,513 | 58,513 |
| Consultants | 10,578 | 925 | 45,390 | 46,315 | 56,893 |
| Volunteer expenses | 52,376 | - | - | - | 52,376 |
| Depreciation | 33,202 | 819 | 819 | 1,638 | 34,840 |
| Repairs and maintenance | 36,874 | 801 | - | 801 | 37,675 |
| Insurance | 7,821 | 2,193 | 531 | 2,724 | 10,545 |
| Food | 25,714 | - | - | - | 25,714 |
| Contracted services | 16,484 | 3,956 | - | 3,956 | 20,440 |
| Utilities | 14,478 | 882 | 451 | 1,333 | 15,811 |
| Meeting and staff costs | 18,745 | 4,816 | 151 | 4,967 | 23,712 |
| Telephone | 3,628 | 5,626 | 78 | 5,704 | 9,332 |
| Office | 2,603 | 5,007 | - | 5,007 | 7,610 |
| Household supplies | 5,400 | - | - | - | 5,400 |
| Rent | 5,433 | 604 | 1,630 | 2,234 | 7,667 |
| Miscellaneous development | - | - | 19,355 | 19,355 | 19,355 |
| Printing and copying | - | 7,504 | 1,035 | 8,539 | 8,539 |
| Postage and delivery | 9 | 1,573 | 3,878 | 5,451 | 5,460 |
| Transportation | 4,334 | 1,413 | - | 1,413 | 5,747 |
| Education and training | 141 | - | - | - | 141 |
| Miscellaneous program | 5,398 | 1,046 | - | 1,046 | 6,444 |
| Dues and subscriptions | 613 | 306 | - | 306 | 919 |
| Funeral expenses | 1,248 | - | - | - | 1,248 |
| Medical supplies | 1,669 | - | - | - | 1,669 |
| Interest and loan acquisition costs | - | 2 | - | 2 | 2 |
| Miscellaneous expenses | 1,000 | 819 | - | 819 | 1,819 |
| Totals | <u>\$ 754,937</u> | <u>\$ 152,320</u> | <u>\$ 115,004</u> | <u>\$ 267,324</u> | <u>\$ 1,022,261</u> |

The accompanying notes are an integral part of these statements.

Joseph's House, Inc. (A Non-Profit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2010

| | Program | | Supporting Services | | | Functional Expenses |
|-------------------------------------|-------------------|------------------|---------------------|-------------------|-----------|---------------------|
| | Joseph's House | Mgmt & General | Fund-Raising | Total Support | | |
| Salaries & labor | \$ 402,088 | \$ 5,325 | \$ 37,272 | \$ 42,597 | \$ | 444,685 |
| Payroll taxes | 27,663 | 367 | 2,564 | 2,931 | | 30,594 |
| Fringe benefits | 57,399 | 762 | 5,320 | 6,082 | | 63,481 |
| Total payroll related expenses | 487,150 | 6,454 | 45,156 | 51,610 | | 538,760 |
| Legal and accounting | - | 61,508 | - | 61,508 | | 61,508 |
| Consultants | 19,817 | - | 26,420 | 26,420 | | 46,237 |
| Volunteer expenses | 45,172 | - | - | - | | 45,172 |
| Depreciation | 32,539 | 803 | 802 | 1,605 | | 34,144 |
| Repairs and maintenance | 32,724 | 110 | - | 110 | | 32,834 |
| Insurance | 17,958 | 5,035 | 1,220 | 6,255 | | 24,213 |
| Food | 23,003 | - | - | - | | 23,003 |
| Contracted services | 14,723 | 5,029 | - | 5,029 | | 19,752 |
| Utilities | 16,271 | 880 | 385 | 1,265 | | 17,536 |
| Meeting and staff costs | 10,627 | 2,844 | 89 | 2,933 | | 13,560 |
| Telephone | 8,182 | 3,388 | 178 | 3,566 | | 11,748 |
| Office | 2,593 | 4,988 | - | 4,988 | | 7,581 |
| Household supplies | 7,509 | - | - | - | | 7,509 |
| Rent | 4,950 | 550 | 1,485 | 2,035 | | 6,985 |
| Miscellaneous development | - | - | 6,638 | 6,638 | | 6,638 |
| Printing and copying | - | 2,165 | 3,599 | 5,764 | | 5,764 |
| Postage and delivery | 11 | 1,382 | 3,411 | 4,793 | | 4,804 |
| Transportation | 4,408 | 282 | - | 282 | | 4,690 |
| Education and training | 3,925 | - | - | - | | 3,925 |
| Miscellaneous program | 3,420 | 50 | - | 50 | | 3,470 |
| Dues and subscriptions | 1,090 | 544 | - | 544 | | 1,634 |
| Funeral expenses | 869 | - | - | - | | 869 |
| Medical supplies | 753 | - | - | - | | 753 |
| Interest and loan acquisition costs | - | 652 | - | 652 | | 652 |
| Miscellaneous expenses | 512 | 1,383 | - | 1,383 | | 1,895 |
| Totals | <u>\$ 738,206</u> | <u>\$ 98,047</u> | <u>\$ 89,383</u> | <u>\$ 187,430</u> | <u>\$</u> | <u>925,636</u> |

The accompanying notes are an integral part of these statements.

Joseph's House, Inc. (A Non-Profit Organization)
STATEMENTS OF CASH FLOWS
For the Years Ended September 30,

| | 2011 | 2010 |
|---|------------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 77,744 | \$ 31,595 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 34,840 | 34,144 |
| Increase in cash surrender value due to earnings on the policy | (240) | (231) |
| Decrease (increase) in operating assets: | | |
| Accounts receivable | 2,315 | (8,268) |
| Grants receivable | 283,838 | (206,526) |
| Prepaid expenses | (19,828) | (1,348) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and employee withholdings | (52,769) | 32,902 |
| Accrued expenses | 4,236 | 4,555 |
| Deferred support | (228,274) | 233,597 |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 101,862 | 120,420 |
| CASH FLOWS USED BY INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (26,126) | (151,304) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net advance (payment) on loans and line of credit | (260) | (3,740) |
| | <hr/> | <hr/> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | 75,476 | (34,624) |
| Cash and cash equivalents, beginning of year | 79,856 | 114,480 |
| | <hr/> | <hr/> |
| Cash and cash equivalents, end of year | \$ 155,332 | \$ 79,856 |
| | <hr/> | <hr/> |
| Interest paid during the year | \$ 2 | \$ 2 |
| | <hr/> | <hr/> |

The accompanying notes are an integral part of these statements.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

Joseph's House, Inc. (a non-profit organization) was incorporated on June 18, 1990 in the District of Columbia. The Organization was formed to meet the following objectives:

- To create a home and community for homeless men with AIDS in the District of Columbia;
- To provide health care and related services for residents in the house;
- To coordinate those same services for other homeless in the Washington, D.C. Metropolitan area; and
- To educate the public on the needs of the poor and homeless people with AIDS.

2. Basis of Accounting

The Organization recognizes income on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

3. Basis of Presentation

The financial statements are presented are in accordance with FASB Accounting Standard Codification (FASB ASC) 958, Not-for-Profit Entities. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The Organization had no permanently restricted net assets as of September 30, 2011 and 2010.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated for financial statement purposes using the straight-line method based on the property's estimated life. Additions and improvements that add materially to productive capacity or extend the life of an asset are capitalized. Normal repairs and maintenance are charged against income. When facilities are retired or sold, their cost and accumulated depreciation are removed from the accounts and related gains or losses are included in income. In case of trade items, any remaining book value increases the basis of the new acquisitions. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The estimated lives used in determining depreciation are:

| | |
|------------------------------------|------------|
| Building and building improvements | 7 – 30 yrs |
| Automobiles | 8 yrs |
| Personal property | 5 – 7 yrs |

5. Income Taxes

The Organization is a not-for-profit organization that is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the organization has been classified as an organization that is not a private foundation under Section 590(a)(1). Income that is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes. The Organization did not have any unrelated business income for the years ended September 30, 2011 and 2010.

6. Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Organization considers all unrestricted highly liquid investments, with an initial maturity of three months or less, to be considered cash.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Contributed Services

Several unpaid volunteers have made significant contributions of their time to the management of the Organization and to the health care operations. The value of this donated time is not recognizable and is not reflected in these financial statements.

8. Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

9. Grants and Contract Awards

The Organization receives grants and contracts from governmental agencies and private grantors for various purposes. Grants and contract awards not yet received are accrued to the extent that unreimbursed expenses have been incurred for the purposes specified by an approved grant or contract. The Organization defers grants and contract revenues received under approved awards from grantors to the extent they exceed expenses incurred for the purposes specified under the grant restrictions.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Grants and Other Accounts Receivable

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

11. Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All promises to give are due in less than one year.

12. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

13. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Uncertain Tax Provisions

Accounting for uncertain income tax positions, relating to both federal and state income taxes, are required when a more likely than not threshold is attained. If such positions result in uncertainties, then the unrecognized tax liability is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. With the adoption of these new rules, the Organization assessed its tax positions in accordance with the guidance. The Organization has determined that its tax status as a DC non-profit corporation is its only tax position and is highly certain. Therefore, these new rules had no impact on the Organization's financial statements.

15 Subsequent Events

Management has evaluated subsequent events through February 15, 2012, the date which the financial statements were available to be issued.

NOTE B – GOVERNMENT GRANTS

For the years ended September 30, 2011 and 2010, the Organization received approximately 37% and 48% respectively, of its total unrestricted revenue from three government grants. The grants cover one-year periods and are subject to renewal. The Organization relies on continued receipt of government grants in order to provide ongoing and continued operations.

NOTE C – “CAFETERIA PLAN”

The Organization maintains a “Cafeteria Plan” under Section 125 of the Internal Revenue Code. The plan is to provide employees of the Organization a choice between cash, a health care reimbursement plan, dependent care assistance account, or a premium expense account. Each participant may choose under this plan to receive his or her full compensation for any plan year in cash or to have a portion of it applied to one of the plan's optional coverage plans.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE D – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at the end of the year represent grants that have been received and designated as temporarily restricted by the grantor. As these funds are expended, the temporary restrictions expire and the temporarily restricted net assets are reclassified to unrestricted net assets on the statement of activities.

Temporarily restricted net assets, by fund, as of September 30, 2011 and 2010 were as follows:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|-----------------|------------------|
| United Way Grant | \$ -0- | \$ 20,464 |
| Operational for future periods | 7,500 | -0- |
| Morale grant | <u>-0-</u> | <u>10,000</u> |
| Total | <u>\$ 7,500</u> | <u>\$ 30,464</u> |

NOTE E – MINIMUM LEASE PAYMENTS

The Organization leases office space in close proximity to its care facility. The lease on this administrative office space requires payments of \$750 per month and is on a month-to-month basis until either party notifies the other in writing.

NOTE F – CONCENTRATION OF CREDIT RISK – CASH

The Organization has several cash accounts at local banks. These accounts are insured, up to \$250,000, by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses and believes it is not exposed to any significant credit risk on cash.

NOTE G – CASH SURRENDER VALUE

The Organization was a recipient of a life insurance from one of its donors. The Organization is the owner and beneficiary on the life insurance which has a face value of \$26,975. The cash surrender of the policy on September 30, 2011 and 2010 was \$3,252 and \$3,012, respectively.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE H – LINE OF CREDIT

The Organization entered into a line of credit with SunTrust Bank on August 30, 2010. The line of credit which is secured by the real estate owned, bears interest at the rate of the bank prime rate plus 3.25%, interest payable monthly, and is payable on demand. The interest rate as of September 30, 2011 was 6.5% and the balance due on the note was \$-0-.