

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

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

September 30, 2012 and 2011

CONTENTS

	Page
Report of Independent Certified Public Accountants	1
Financial Statements:	
Statements of Financial Position	2
Statement of Activities – For the year ended September 30, 2012	4
Statement of Activities – For the year ended September 30, 2011	5
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9

Farmer & First, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

"Grow Your Business With Us"

INDEPENDENT AUDITORS REPORT

January 15, 2013

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, 2012 and 2011 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, 2012 and 2011, 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 (continued)
September 30,

	2012	2011
CURRENT LIABILITIES:		
Accounts payable and employee withholdings	\$ 14,730	\$ 11,287
Accrued expenses	46,100	47,732
Capital lease obligation - current portion	775	-
Line of credit	-	-
Deferred support	94,676	110,226
Total current liabilities	<u>156,281</u>	<u>169,245</u>
LONG-TERM LIABILITIES		
Capital lease obligation	2,705	-
NET ASSETS:		
Unrestricted		
Operating	685,027	843,367
Board designated - contingency	10,577	10,577
	<u>695,604</u>	<u>853,944</u>
Temporarily restricted	11,250	7,500
Total net assets	<u>706,854</u>	<u>861,444</u>
TOTAL	<u><u>\$ 865,840</u></u>	<u><u>\$ 1,030,689</u></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, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT & REVENUE:			
Grants and Contributions			
Government grants	\$ 443,271	\$ -	\$ 443,271
Foundation, non-profit and corporate grants	205,242	15,000	220,242
Individual and religious organizations	<u>318,234</u>	<u>-</u>	<u>318,234</u>
Total grants and contributions	966,747	15,000	981,747
Program service revenue	2,590	-	2,590
Interest income	4	-	4
Increase in cash surrender value	230	-	230
Miscellaneous income	147	-	147
Net assets releases from restrictions	<u>11,250</u>	<u>(11,250)</u>	<u>-</u>
 Total unrestricted support and reclassifications	 <u>980,968</u>	 <u>3,750</u>	 <u>984,718</u>
 EXPENSES:			
Program services			
Joseph House, Inc	921,302	-	921,302
Management and general	124,580	-	124,580
Fundraising	<u>93,426</u>	<u>-</u>	<u>93,426</u>
Net expenses	<u>1,139,308</u>	<u>-</u>	<u>1,139,308</u>
 Change in net assets	 (158,340)	 3,750	 (154,590)
Net assets, October 1, 2011	<u>853,944</u>	<u>7,500</u>	<u>861,444</u>
Net assets, September 30, 2012	<u>\$ 695,604</u>	<u>\$ 11,250</u>	<u>\$ 706,854</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	807,441	-	807,441
Management and general	124,879	-	124,879
Fundraising	<u>89,941</u>	<u>-</u>	<u>89,941</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 FUNCTIONAL EXPENSES
For the Year Ended September 30, 2012

	Program		Supporting Services		Functional Expenses
	Joseph's House	Mgmt & General	Fund-Raising	Total Support	
Salaries & labor	\$ 495,365	\$ 43,875	\$ 13,404	\$ 57,279	\$ 552,644
Payroll taxes	38,354	3,409	852	4,261	42,615
Fringe benefits	<u>51,701</u>	<u>4,596</u>	<u>1,149</u>	<u>5,745</u>	<u>57,446</u>
Total payroll related expenses	585,420	51,880	15,405	67,285	652,705
Consultants	21,599	14,240	34,176	48,416	70,015
Legal and accounting	13,378	30,183	16,054	46,237	59,615
Volunteer expenses	52,252	-	-	-	52,252
Meeting and staff costs	44,544	3,231	1,627	4,858	49,402
Insurance	37,851	5,051	2,105	7,156	45,007
Repairs and maintenance	36,937	1,495	-	1,495	38,432
Depreciation	29,026	764	764	1,528	30,554
Food	28,969	-	-	-	28,969
Contracted services	23,063	3,120	-	3,120	26,183
Miscellaneous development	-	-	16,355	16,355	16,355
Utilities	14,225	960	432	1,392	15,617
Household supplies	10,265	-	-	-	10,265
Telephone	9,034	800	244	1,044	10,078
Office	2,276	5,789	-	5,789	8,065
Rent	5,389	599	1,620	2,219	7,608
Transportation	4,507	1,175	-	1,175	5,682
Printing and copying	-	1,116	2,993	4,109	4,109
Postage and delivery	48	1,635	1,651	3,286	3,334
Funeral expenses	836	-	-	-	836
Licenses and permits	-	798	-	798	798
Dues and subscriptions	496	248	-	248	744
Medical supplies	662	-	-	-	662
Program expenses	525	-	-	-	525
Interest	-	277	-	277	277
Miscellaneous expenses	<u>-</u>	<u>1,219</u>	<u>-</u>	<u>1,219</u>	<u>1,219</u>
Totals	<u>\$ 921,302</u>	<u>\$ 124,580</u>	<u>\$ 93,426</u>	<u>\$ 218,006</u>	<u>\$ 1,139,308</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 Expenses
	Joseph's House	Mgmt & General	Fund-Raising	Total Support		
Salaries & labor	\$ 458,753	\$ 47,971	\$ 16,020	\$ 63,991	\$	522,744
Payroll taxes	32,092	3,357	1,119	4,476		36,568
Fringe benefits	39,560	4,138	1,380	5,518		45,078
Total payroll related expenses	530,405	55,466	18,519	73,985		604,390
Legal and accounting	13,378	29,081	16,054	45,135		58,513
Consultants	21,926	7,734	27,233	34,967		56,893
Volunteer expenses	52,376	-	-	-		52,376
Repairs and maintenance	36,874	801	-	801		37,675
Depreciation	33,202	819	819	1,638		34,840
Food	25,714	-	-	-		25,714
Meeting and staff costs	18,745	4,816	151	4,967		23,712
Contracted services	16,484	3,956	-	3,956		20,440
Miscellaneous development	-	-	19,355	19,355		19,355
Utilities	14,478	882	451	1,333		15,811
Insurance	7,821	2,193	531	2,724		10,545
Telephone	8,190	857	285	1,142		9,332
Printing and copying	-	7,504	1,035	8,539		8,539
Rent	5,433	604	1,630	2,234		7,667
Office	2,603	5,007	-	5,007		7,610
Miscellaneous program	5,398	1,046	-	1,046		6,444
Transportation	4,334	1,413	-	1,413		5,747
Postage and delivery	9	1,573	3,878	5,451		5,460
Household supplies	5,400	-	-	-		5,400
Medical supplies	1,669	-	-	-		1,669
Funeral expenses	1,248	-	-	-		1,248
Dues and subscriptions	613	306	-	306		919
Education and training	141	-	-	-		141
Interest and loan acquisition costs	-	2	-	2		2
Miscellaneous expenses	1,000	819	-	819		1,819
Totals	<u>\$ 807,441</u>	<u>\$ 124,879</u>	<u>\$ 89,941</u>	<u>\$ 214,820</u>	<u>\$</u>	<u>1,022,261</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,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) Increase in net assets	\$ (154,590)	\$ 77,744
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,554	34,840
Increase in cash surrender value due to earnings on the policy	(230)	(240)
Decrease (increase) in operating assets:		
Accounts receivable	5,403	2,315
Grants receivable	35,589	283,838
Prepaid expenses	17,610	(19,828)
Increase (decrease) in operating liabilities:		
Accounts payable and employee withholdings	3,443	(52,769)
Accrued expenses	(1,632)	4,236
Deferred support	(15,550)	(228,274)
Net cash (used) provided by operating activities	<u>(79,403)</u>	<u>101,862</u>
CASH FLOWS USED BY INVESTING ACTIVITIES:		
Purchases of property and equipment	(21,943)	(26,126)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advance (payment) on capital lease obligation	3,480	-
Net advance (payment) on loans and line of credit	<u>-</u>	<u>(260)</u>
Net cash provided (used) by operating activities	<u>3,480</u>	<u>(260)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	(97,866)	75,476
Cash and cash equivalents, beginning of year	<u>155,332</u>	<u>79,856</u>
Cash and cash equivalents, end of year	<u>\$ 57,466</u>	<u>\$ 155,332</u>
Interest paid during the year	<u>\$ 277</u>	<u>\$ 2</u>

The accompanying notes are an integral part of these statements.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2012 and 2011

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 and women dying of AIDS and cancer 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 those who are homeless and dying.

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, 2012 and 2011.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2012 and 2011

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, 2012 and 2011.

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, 2012 and 2011

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, 2012 and 2011

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, 2012 and 2011

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 20, 2013, the date which the financial statements were available to be issued.

NOTE B – GOVERNMENT GRANTS

For the years ended September 30, 2012 and 2011, the Organization received approximately 45% and 37% 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.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2012 and 2011

NOTE C – 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, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Operational for future periods	<u>\$11,250</u>	<u>\$7,500</u>

NOTE D – 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 E – 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 F – 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, 2012 and 2011 was \$3,482 and \$3,252, respectively.

Joseph's House, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2012 and 2011

NOTE G – 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 line of credit limit is \$50,000. The interest rate as of September 30, 2012 and 2011 was 6.5% and the balance due on the note was \$-0-, respectively.

NOTE H - CAPITAL LEASE OBLIGATION

The Organization entered into a capital lease obligation on December 6, 2011 to purchase a phone system. The lease requires monthly lease payments of \$78 and expires on November 6, 2016.

Under the terms of this lease, the Organization has the option to purchase the property for \$1 on November 6, 2016.

The total future minimum lease payments at September 30, 2012 are as follows:

2013	\$	936
2014		936
2015		936
2016		936
2017		<u>156</u>
		<u>\$3,900</u>

NOTEI – RECLASSIFICATIONS

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 financial statement presentation.