

JOSEPH HOUSE, INC.

FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Joseph House, Inc.

We have audited the accompanying statement of financial position of Joseph House, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year 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 audit.

We conducted our audit 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 audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 House, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2011, on our consideration of Joseph House, Inc.'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Activities by Program on pages 13 and 14 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 audit 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.

Rudler, PSC

Fort Wright, Kentucky
August 25, 2011

CERTIFIED PUBLIC ACCOUNTANTS

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JOSEPH HOUSE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		\$ 134,887
Accounts Receivable:		
Fees		73,288
HUD Grant		157,796
Other		<u>1,250</u>
Total Current Assets		<u>367,221</u>
PROPERTY, PLANT AND EQUIPMENT, NET		<u>822,221</u>
Total Assets		<u><u>\$ 1,189,442</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of notes payable		\$ 7,925
Accounts payable		19,738
Accrued liabilities		59,902
Unearned HUD Grant revenue		<u>157,796</u>
Total Current Liabilities		<u>245,361</u>
LONG-TERM LIABILITIES		
Notes payable		<u>284,252</u>
Total Long Term Liabilities		<u>284,252</u>
Total Liabilities		<u>529,613</u>
NET ASSETS		
Unrestricted net assets		<u>659,829</u>
Total Net Assets		<u>659,829</u>
Total Liabilities and Net Assets		<u><u>\$ 1,189,442</u></u>

The accompanying notes are an integral part of these financial statements.

JOSEPH HOUSE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Fees	\$ 951,545	\$ 0	\$ 951,545
Individual contributions	109,042	0	109,042
Foundations and organizations contributions	21,061	0	21,061
Grants	20,880	243,899	264,779
Interest income and other	915	0	915
Net assets released from restrictions satisfaction of program restrictions	<u>243,899</u>	<u>(243,899)</u>	<u>0</u>
Total Support and Revenue	<u>1,347,342</u>	<u>0</u>	<u>1,347,342</u>
Expenses			
Program Service	1,208,869	0	1,208,869
Management and general	118,061	0	118,061
Fundraising	<u>18,756</u>	<u>0</u>	<u>18,756</u>
Total Expenses	<u>1,345,686</u>	<u>0</u>	<u>1,345,686</u>
Increase (Decrease) in Net Assets	<u>1,656</u>	<u>0</u>	<u>1,656</u>
Net Assets at Beginning of Year	<u>658,173</u>	<u>0</u>	<u>658,173</u>
Net Assets at End of Year	<u>\$ 659,829</u>	<u>\$ 0</u>	<u>\$ 659,829</u>

The accompanying notes are an integral part of these financial statements.

JOSEPH HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	Program Service	Management and General	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 642,841	\$ 46,607	\$ 0	\$ 689,448
Utilities	127,700	224	0	127,924
Depreciation	107,170	1,063	0	108,233
Food and supplies	55,206	2,690	3,156	61,052
Insurance	32,642	10,892	0	43,534
Fundraising and public relations	0	0	15,600	15,600
Psychological consulting	30,000	0	0	30,000
Program materials	19,730	0	0	19,730
Repairs and maintenance-building	86,849	0	0	86,849
Safety and security	6,960	0	0	6,960
Conventions	4,323	0	0	4,323
Auto expense	26,342	1,571	0	27,913
Office supplies	38,498	0	0	38,498
Interest expense	0	15,556	0	15,556
Rent	4,352	5,160	0	9,512
Professional fees	2,837	30,051	0	32,888
Training and morale	2,884	1,270	0	4,154
Property taxes	0	743	0	743
Miscellaneous	6,111	1,960	0	8,071
HUD grant administration	14,324	0	0	14,324
Bank service charges	0	274	0	274
Casual labor	100	0	0	100
Total functional expenses	\$ 1,208,869	\$ 118,061	\$ 18,756	\$ 1,345,686

The accompanying notes are an integral part of these financial statements.

JOSEPH HOUSE, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ 1,656
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	108,233
(Increase) decrease in accounts receivables	(20,928)
Increase (decrease) in accounts payable	(13,729)
Increase (decrease) in accrued liabilities	(4,882)
	<u>68,694</u>
Total Adjustments	
Net Cash Provided (Used) By Operating Activities	<u>70,350</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	<u>(66,661)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net borrowings (payments) on line of credit	(18,000)
Payments on notes payable	<u>(22,734)</u>
Net Cash Provided (Used) By Financing Activities	<u>(40,734)</u>
Net Increase (decrease) in Cash	(37,045)
Cash, Beginning of Year	<u>171,932</u>
Cash, End of Year	<u><u>\$ 134,887</u></u>
CASH PAID DURING THE YEAR FOR:	
Interest	<u><u>\$ 15,556</u></u>

The accompanying notes are an integral part of these financial statements.

JOSEPH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Joseph House, Inc. is presented to assist in understanding the Organization's financial statements. The statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. The accounting policies conform to generally accepted accounting principles.

Nature of Organization

Joseph House, Inc. (the Organization), an Ohio not-for-profit corporation, was formed for the purpose of helping to prevent and to treat drug and alcohol abuse problems in veterans and to try and help them lead a more productive life – drug and alcohol free.

Accounts receivable

The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts receivable is required. If receivables become uncollectible, they will be charged to operations when that determination is made.

Functional expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly certain costs have been allocated between the program service, management and general, and fundraising services.

Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts. The main estimate used by the Organization relates to depreciation.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by a donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in subsequent years, are reported at present value net of estimated uncollectible pledges, using risk-free interest rates applicable to the years in which the promises are to be received.

Recognition of donor restrictions

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, temporarily restricted net assets are reclassified to unrestricted net assets.

Property, plant, and equipment

Property, plant and equipment are recorded at cost if purchased and at fair market value if donated. Upon retirement, the cost is removed from the asset accounts, the related depreciation allowance is adjusted, and the difference, if any, is charged against operations. Expenditures greater than \$1,000 for furniture and equipment are capitalized at cost when acquired.

The assets are depreciated over their estimated useful lives, using the straight-line method, with lives varying from three to thirty years.

JOSEPH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. Summary of Significant Accounting Policies (Continued)

In-kind support

The Organization records various types of in-kind support including contributed equipment and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts included in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or property and equipment.

Classes of net assets

The accompanying financial statements have been prepared in conformity with the requirements of the Financial Accounting Standards Board (FASB) as set forth in FASB Accounting Standards Codification 958-205-05, (formerly Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-for-Profit Organizations"). Accordingly, the net assets of the Organization are reported in each of the following classes: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Net assets of the temporarily restricted class are restricted only by donor-imposed restrictions on their use. All other net assets, including board-designated amounts, are legally unrestricted, and are reportable as part of the unrestricted class.

Tax Exempt Status

The Organization is tax-exempt under Internal Revenue Code Section 501 (c)(3) and has received a favorable determination letter. The Organization is not a private foundation as defined by Section 509(a) of the Internal Revenue Code.

2. Cash and Cash Equivalents

At various times throughout the year, the Organization may have cash in certain financial institutions in excess of insured limits. Total cash on deposit at June 30, 2011 did not exceed insured limits.

For purposes of the cash flows statement, cash includes cash on hand and cash in checking accounts, not including cash and cash equivalents included under the caption investments. The Organization also considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization did not own any cash equivalents at June 30, 2011.

3. Lease Expense

The Organization leases a house from Tender Mercies for \$2,000 a year for 15 years beginning July 1, 2003 and terminating on June 30, 2018. Total rent expense at June 30, 2011 was \$4,352.

Future minimum lease payments are approximated as follows:

2012	\$ 2,000
2013	2,000
2014	2,000
2015	2,000
2016	2,000

JOSEPH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

4. Net Assets Released From Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:	<u>June 30, 2011</u>
Supportive Services and Housing	<u>\$243,899</u>

5. Line of Credit

The Organization maintains a line of credit with a total amount available of \$50,000 of which \$0 was outstanding at June 30, 2011. The line of credit is due on demand and bears interest at the rate of 4.00% and is secured by the Organization's building.

6. Notes Payable

Notes payable consist of the following at June 30, 2011:

6.00% loan payable, collateralized by a building at 1207 Elm Street; monthly payment of \$717 including principal and interest; final payment due August, 2034	\$ 106,632
4.875% loan payable, collateralized by two buildings at 1530 Republic and at 1207 Elm Street; monthly payment of \$607 including principal and interest; final payment due January, 2035	101,855
5.50% loan payable, collateralized by a building; monthly payment of \$330 including principal and interest; final payment due January, 2036	53,340
5.50% loan payable, collateralized by a building; monthly payment of \$228 including principal and interest; final payment due January, 2036	<u>30,350</u>
Total Notes Payable	292,177
Less: Current Maturities	<u>7,925</u>
Total Long Term Liabilities	<u>\$ 284,252</u>

The notes payable mature as follows:

<u>Year Ending June 30,</u>	
2012	\$ 7,925
2013	8,764
2014	9,373
2015	9,765
2016	10,183

JOSEPH HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

7. Property, Plant, and Equipment

Property, plant and equipment consist of the following:

Land, buildings and improvements	\$ 1,556,842
Equipment	9,731
Vehicles	<u>175,904</u>
	1,742,477
Less: Accumulated depreciation	<u>920,256</u>
Total Property, Plant and Equipment	<u>\$ 822,221</u>

8. HUD Grant Revenue

The Organization received two grants from the U.S. Department of Housing and Urban Development in 2011. The first grant was received April 1, 2011 in the amount of \$107,660; the term is for 12 months, with the remaining benefit being received over the next 9 months. The second grant was received June 1, 2011 in the amount of \$77,049; the term is for 12 months, with the balance being received over the next 12 months.

9. Retirement Plan

The Organization sponsors a Simple IRA retirement plan for all eligible employees. The Organization's contribution to the plan was \$13,296.

10. Subsequent Event

The Organization has evaluated all subsequent events through August 25, 2011, the date the financial statements were available to be issued.



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

Board of Trustees
Joseph House, Inc.

We have audited the financial statements of Joseph House, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated August 25, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Joseph House, Inc. internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Joseph House, Inc. internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Joseph House, Inc.'s financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CERTIFIED PUBLIC ACCOUNTANTS

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This report is intended solely for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rudler, PSC

Fort Wright, Kentucky
August 25, 2011

SUPPLEMENTARY INFORMATION

JOSEPH HOUSE, INC.
STATEMENT OF ACTIVITIES BY PROGRAM
For the Year Ended June 30, 2011

	Joseph House Ready and Forward Program	Halfway House and Transitional Housing Program (HUD & VA Programs)	Total
REVENUES			
Fees			
Residents not on VA	\$ 72,810	\$ 0	\$ 72,810
Residents on VA	0	85,386	85,386
VA per diem	0	793,349	793,349
Total fees	<u>72,810</u>	<u>878,735</u>	<u>951,545</u>
Grants			
Grants	76,880	0	76,880
HUD	0	187,899	187,899
Total grants	<u>76,880</u>	<u>187,899</u>	<u>264,779</u>
Individual contributions	109,042	0	109,042
Foundations and organizations contributions	21,061	0	21,061
Interest income and other	915	0	915
Total revenue	<u>\$ 280,708</u>	<u>\$ 1,066,634</u>	<u>\$ 1,347,342</u>
EXPENSES			
Program Service			
Insurance			
Auto insurance	\$ 0	\$ 12,398	\$ 12,398
Professional liability	1,188	10,693	11,881
Property insurance	2,509	5,854	8,363
Total insurance	3,698	28,944	32,642
Salaries, benefits and payroll taxes	33,659	609,182	642,841
Utilities	21,217	106,483	127,700
Depreciation	30,760	76,410	107,170
Food and supplies	0	55,206	55,206
Psychological consulting	0	30,000	30,000
Program materials	1,973	17,757	19,730
Repairs and maintenance-building	3,913	82,936	86,849
Safety and security	696	6,264	6,960
Office supplies	0	38,498	38,498
Auto expense	0	26,342	26,342
Rent	1,296	3,056	4,352
HUD grant administration	0	14,324	14,324
Training and morale	0	2,884	2,884
Professional fees	28	2,809	2,837
Conventions	0	4,323	4,323
Miscellaneous	611	5,500	6,111

(Forward)

JOSEPH HOUSE, INC.
STATEMENT OF ACTIVITIES BY PROGRAM
For the Year Ended June 30, 2011

	<u>Joseph House Ready and Forward Program</u>	<u>Halfway House and Transitional Housing Program (HUD & VA Programs)</u>	<u>Total</u>
EXPENSES(CONTINUED)			
Program Service(continued)			
Casual labor	10	90	100
Total program service	<u>97,862</u>	<u>1,111,007</u>	<u>1,208,869</u>
Management and General			
Salaries, benefits and payroll taxes	13,982	32,625	46,607
Food and supplies	807	1,883	2,690
Interest expense	4,667	10,889	15,556
Professional fees	9,015	21,036	30,051
Insurance	3,268	7,624	10,892
Rent	1,248	3,912	5,160
Property taxes	223	520	743
Training and morale	1,270	0	1,270
Auto expense	471	1,100	1,571
Utilities	67	157	224
Miscellaneous	588	1,372	1,960
Depreciation	725	338	1,063
Bank service charge	82	192	274
Total management and general	<u>36,413</u>	<u>81,648</u>	<u>118,061</u>
Fundraising			
Fundraising and public relations	15,600	0	15,600
Food and supplies	3,156	0	3,156
Total fundraising	<u>18,756</u>	<u>0</u>	<u>18,756</u>
Total expenses	<u>153,031</u>	<u>1,192,655</u>	<u>1,345,686</u>
CHANGE IN NET ASSETS	<u>\$ 127,677</u>	<u>\$ (126,021)</u>	<u>\$ 1,656</u>