

FREEDOM HOUSE

Financial Statements

For the years ended
June 30, 2011 and 2010

FREEDOM HOUSE

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Report of Independent Certified Public Accountants

The Board of Directors
Freedom House
Richmond, Virginia

We have audited the accompanying statements of financial position of Freedom House as of June 30, 2011 and 2010 and the related statements of activities, cash flows, and functional expenses for the year ended June 30, 2011. 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. The prior-year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated September 29, 2010; we expressed an unqualified opinion on those financial statements.

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 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 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 Freedom House as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the year ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

Barcalow & Hart, PLLC

Richmond, Virginia
September 28, 2011

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Statements of Financial Position

June 30, 2011 and 2010

Assets	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 35 462	\$ 45 579
Residents' escrow	20 630	19 793
Contributions receivable	27 693	12 527
Pledges receivable, net	9 342	39 415
Other assets	28 143	17 465
Land, buildings, property and equipment, net of accumulated depreciation \$664,138 and \$601,733	<u>1 530 719</u>	<u>1 612 980</u>
Total assets	\$ <u>1 651 989</u>	\$ <u>1 747 759</u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 15 891	\$ 3 941
Accrued expenses	43 571	43 829
Residents' escrow	20 630	19 793
Loan payable	-	25 000
Lines of credit	87 317	40 000
Mortgages payable	<u>1 097 143</u>	<u>1 123 922</u>
Total liabilities	<u>1 264 552</u>	<u>1 256 485</u>
Commitment and contingencies		
Net assets		
Unrestricted	(102 174)	(59 976)
Property and equipment	<u>433 576</u>	<u>489 058</u>
Total unrestricted	331 402	429 082
Temporarily restricted	<u>56 035</u>	<u>62 192</u>
Total net assets	<u>387 437</u>	<u>491 274</u>
Total liabilities and net assets	\$ <u>1 651 989</u>	\$ <u>1 747 759</u>

See notes to financial statements.

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Statement of Activities

For the year ended June 30, 2011

(With Summarized Financial Information for the year ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Support and revenue				
Contributions and grants	\$ 500 637	\$ 19 000	\$ 519 637	\$ 507 085
Contributions – capital campaign	-	-	-	9 983
Contributions – in-kind	130 201	-	130 201	129 222
United Way Services	38 955	12 527	51 482	63 120
Special events	111 745	19 000	130 745	66 180
Client fees	83 481	-	83 481	100 167
Governmental awards	147 980	-	147 980	94 152
Contract services	15 659	-	15 719	26 439
Miscellaneous income	<u>41 003</u>	<u>-</u>	<u>41 003</u>	<u>13 473</u>
Total support and revenue	1 069 721	50 527	1 120 248	1 009 821
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>56 684</u>	<u>(56 684)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1 126 405</u>	<u>(6 157)</u>	<u>1 120 248</u>	<u>1 009 821</u>
Expenses				
Program services				
Conrad Center	627 674	-	627 674	560 085
Sean’s Place	73 919	-	73 919	71 057
Community Shelter	<u>268 312</u>	<u>-</u>	<u>268 312</u>	<u>314 105</u>
Supporting services				
Management and general	135 556	-	135 556	95 754
Fundraising	<u>118 624</u>	<u>-</u>	<u>118 624</u>	<u>82 118</u>
Total expenses	<u>1 224 085</u>	<u>-</u>	<u>1 224 085</u>	<u>1 123 119</u>
Change in net assets	(97 680)	(6 157)	(103 837)	(113 298)
Net assets at beginning of year	<u>429 082</u>	<u>62 192</u>	<u>491 274</u>	<u>604 572</u>
Net assets at end of year	\$ <u><u>331 402</u></u>	\$ <u><u>56 035</u></u>	\$ <u><u>387 437</u></u>	\$ <u><u>491 274</u></u>

See notes to financial statements.

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Statement of Cash Flows

For the year ended June 30, 2011

Cash flows from operating activities

Change in net assets	\$ (103 837)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	90 030
Loss from disposal	1 200
Donated contributions in-kind	(130 201)
Donated expenses in-kind	130 201
Changes in assets and liabilities:	
Decrease (increase) in contributions receivables	(15 166)
Decrease (increase) in pledges receivables	30 073
Decrease (increase) in other assets	(10 678)
(Decrease) increase in accounts payable and accrued expenses	<u>11 692</u>

Net cash provided by (used in) operating activities 3 314

Cash flows provided by (used in) investing activities

Additions to property and equipment	<u>(8 969)</u>
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Cash flows provided by (used in) financing activities

Proceeds from lines of credit	49 000
Payments on other loans	(25 000)
Payments on mortgages payable	(26 779)
Reductions of lines of credit	<u>(1 683)</u>

Net cash provided by (used in) operating activities (4 462)

Net increase (decrease) in cash and cash equivalents (10 117)

Cash and cash equivalents

Beginning of year	<u>45 579</u>
End of year	\$ <u><u>35 462</u></u>

See notes to financial statements.

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Statement of Functional Expenses

For the Year Ended June 30, 2011
(With Summarized Financial Information for the year ended June 30, 2010)

	Program Services			Community Shelter	Total	Management and General	Fundraising	2011 Total	2010 Total
	Sean's Place		Total						
	Conrad Center	Sean's Place							
Salaries	\$ 244,803	\$ 13,800	\$ 151,966	\$ 410,569	\$ 93,379	\$ 46,822	\$ 550,770	\$ 531,054	
Employee health and other benefits	22,457	-	9,442	31,899	10,492	(2,277)	40,114	30,765	
Payroll taxes	17,309	1,056	10,596	28,961	7,143	2,752	38,856	37,042	
Total personnel expenses	284,569	14,856	172,004	471,429	111,014	47,297	629,740	598,861	
Transportation and auto	14,673	6	2,106	16,785	970	1,022	18,777	6,893	
Food expense	110,723	-	-	110,723	32	-	110,755	108,185	
Insurance	12,387	3,482	5,340	21,209	2,321	2,089	25,619	23,215	
Interest	77,841	-	165	78,006	5,189	121	83,316	74,645	
Maintenance	16,098	6,688	10,059	32,845	-	2,056	34,901	26,705	
Miscellaneous	2,641	-	2,188	4,829	60	206	5,095	9,174	
Outside services	-	-	-	-	1,163	-	1,163	7,807	
Postage	35	-	630	665	523	2,254	3,442	3,525	
Printing	1,153	-	140	1,293	695	8,105	10,093	9,070	
Professional fees	10,910	4,217	9,367	24,494	5,660	5,096	35,250	11,193	
Rent - facility	-	30,240	-	30,240	-	-	30,240	30,240	
Supplies	2,880	1,016	11,805	15,701	1,159	46,332	63,192	33,548	
Communications	4,498	334	3,768	8,600	6,208	-	14,808	9,528	
Mental Health Services	-	-	10,870	10,870	-	4,046	14,916	15,480	
Utilities	21,323	12,241	19,185	52,749	-	-	52,749	64,214	
Depreciation	67,943	839	20,685	89,467	562	-	90,029	90,836	
Total expenses	\$ 627,674	\$ 73,919	\$ 268,312	\$ 969,905	\$ 135,556	\$ 118,624	\$ 1,224,085	\$ 1,123,119	

See notes to the financial statements.

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Notes to Financial Statements June 30, 2011

Note 1 - Organization and summary of significant accounting policies

Nature of the Organization

Freedom House offers a continuum of services ranging from direct, life sustaining food and shelter to home ownership. The goal of these services is to empower and assist homeless men, women, and children in their transition from street life to permanent, independent and self-sufficient living in the community. Freedom House is a social service that recognizes the importance of compassion and strives to affirm each person's dignity, abilities and self worth. The provision of hope and revitalization of self-esteem is the foundation of all our services. The Organization's operations are conducted in the Richmond, Virginia metropolitan area and are supported primarily through donor contributions and government grants.

Freedom House serves approximately 43,000 daily meals a year at the *Conrad Center*. *Sean's Place* is a transitional home which provides a safe and supportive environment, community living, and case management services to a capacity of twelve residents for up to eighteen months. The *Community Shelter* is a thirty-eight bed supportive shelter, which provides meals, supportive services, and a safe environment where stabilization and goal planning can occur.

Recently issued accounting standards

In June 2009, the Financial Accounting Standards (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles* (GAAP), which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions, of FASB ASC 105, Freedom House has updated references to GAAP in its financial statements issued for the year ended June 30, 2011. The adoption of FASB ASC 105 did not impact the Freedom House's financial position or results of operations.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or any restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. Included in this category are gifts held by the Organization pending the use in accordance with donor stipulations, unexpended gifts for capital projects, or allocations from United Way to be used in the next fiscal year.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. At the present time, the Organization does not have any permanently restricted net assets.

Deferred revenue

Deferred revenue consists of grant awards from various funding sources that have been received but yet earned in accordance to the terms of the grant agreement.

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

Notes to Financial Statements June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual events and circumstances could alter those estimates.

Cash and cash equivalents

For cash flows reporting purposes, the Organization's definition of cash and cash equivalents includes all investments with original maturities of three months or less at the date of purchase. Cash and cash equivalents for purposes of the statement of cash flows exclude temporarily restricted cash and cash equivalents.

Property and depreciation

The Organization follows the practice of capitalizing all expenditures for land, buildings and equipment at cost, and all donated property and equipment at fair market value at date of gift. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The estimated lives are as follows: buildings, 30 years; furniture and equipment, 5-7 years; leasehold improvements, 15 years. Generally, the costs of major improvements over \$500 are capitalized, while the costs of maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. The cost and accumulated depreciation on property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in income.

Promises to give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All 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.

Unconditional promises to give, including pledges and contributions receivable, are recognized as revenues or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at risk-free rates applicable to the years in which the promises were received.

Inventory

Inventory consists of U.S. Department of Agriculture (USDA) commodities donated through the Virginia Department of Agriculture and Consumer Services. Inventory is stated as the lower of USDA value or market.

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Notes to Financial Statements June 30, 2011

Note 1 - Summary of significant accounting policies (concluded)

Donated services and other

The Organization recognizes donated services, supplies, assets, and other items. All in-kind contributions are recorded when received at fair value as income and expenses or capitalized as property or equipment.

The Organization does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue. The Organization pays for most services requiring specific expertise. However, many individuals interested in the Organization's programs volunteer their time and perform a variety of tasks. Total gifts for in-kind donations amounted to \$130,201, including \$30,240 for the fair market value of renting the Sean's Place facility, and \$99,961 for donated food and meals for the year ended June 30, 2011. Total gifts for in-kind donations amounted to \$129,222, including \$30,240 for the fair market value of renting the Sean's Place facility, and \$98,982 for donated food and meals for the year ended June 30, 2010.

Functional expenses

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

Income taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code respectively, and is not considered a private foundation within the meaning of section 509(a) of the code.

Note 2 – Property and equipment

A summary of property and equipment at June 30, 2011 and 2010 are as follows:

Land	\$ 13 240	\$ 13 240
Building	1 927 194	1 924 175
Furniture and equipment	128 572	152 066
Leasehold improvements	<u>125 832</u>	<u>125 232</u>
	2 194 838	2 214 713
Less: accumulated depreciation	(<u>664 119</u>)	(<u>601 733</u>)
	<u>\$ 1 530 719</u>	<u>\$ 1 612 980</u>

Depreciation expense for 2011 and 2010 was \$90,030 and \$90,836, respectively.

Note 3 - Concentration of credit risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash, cash equivalents and receivables. The Organization maintains its cash balances with high quality financial institutions located in Richmond, Virginia, which at times may exceed federally insured limits of \$250,000, as of June 30, 2011 and 2010, respectively. The Organization has not experienced any losses in such accounts. There were no uninsured balances at June 30, 2011 and 2010, respectively. The Organization's unsecured receivables are due from pledges, United Way Services, and state agencies for grant reimbursements; therefore, its ability to collect is affected by the financial condition of the debtor.

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Notes to Financial Statements June 30, 2011

Note 4 – Lines of Credit

At June 30, 2011, the Organization has a \$50,000 unsecured line of credit with a financial institution to be drawn upon as needed, with an interest rate currently, of 3.75%. The balance at June 30, 2011 and 2010 was \$48,125 and \$40,000, respectively, and interest is payable monthly, with principal due on anniversary date of the note, March 15, 2012. A second line of credit at the above institution was opened January 2008. The outstanding balance at June 30, 2011 and 2010 was \$0, respectively

A line of credit of \$50,000, that may be used for working capital, secured by the deed of trust, was established with second financial institution, and it was renewed on August 30, 2011 and will mature November 2011. Interest is payable monthly, at the Bank's Prime Rate, plus 1.00%, currently 5.25%. The balance at June 30, 2011 was \$39,192. There was no balance at June 30, 2010.

Total interest paid for 2011 and 2010 was \$4,669 and \$1,668, respectively.

Note 5 - Pledges receivable

The pledges receivable from the capital campaign for the meals program and other programs are temporarily restricted net assets. These unconditional promises to give are to be received by the Organization for years subsequent to June 30, 2011 and 2010:

Receivable in less than one year	\$ 6 000	\$ 31 000
Receivable in one to five years	<u>4 000</u>	<u>11 000</u>
	10 000	42 000
Less discounts to net present value	<u>658</u>	<u>2 585</u>
Net pledges receivable	<u>\$ 9 342</u>	<u>\$ 39 415</u>

Unconditional promises to give are primarily from individuals and corporations located in Metropolitan Richmond and are reflected at present value of estimated future cash flows using a discount rate of approximately 5%. The discount will be recognized as contribution income, which is amortized using an effective yield over the duration of the pledge.

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Notes to Financial Statements June 30, 2011

Note 6 - Contributions receivable

Contributions receivable include the allocations from United Way and pledges for operations. These unconditional promises to give are to be received by the Organization for years subsequent to June 30, 2011 and 2010 and at this time, are deemed to be fully collectible by management and are as follows:

United Way allocations	\$ 12 527	\$ 12 527
Operating pledges	<u>15 166</u>	<u>-</u>
Total	<u>\$ 27 693</u>	<u>\$ 12 527</u>

Note 7 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2011 and 2010:

Programs, United Way allocation	\$ 12 527	\$ 12 527
Pledges receivable, operations	19 000	-
Special events	15 166	10 250
Capital campaign	<u>9 342</u>	<u>39 415</u>
	<u>\$ 56 035</u>	<u>\$ 62 192</u>

Net assets released from restrictions during 2011 consisted of the following:

Meal relocation grants/contributions/construction	\$ 30 073
Operations	3 834
Special events	10 250
Programs, United Way allocation	<u>12 527</u>
	<u>\$ 56 684</u>

Note 8 - Comparative totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Note 9 – Meals Program

Freedom House has signed a lease for a parcel of land for its new facility the Conrad Center for providing its Meals Program. This lease is for a period of forty years, commencing December 10, 2004, for an annual rent of forty dollars. Freedom House has the right to renew for four additional five year periods.

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Notes to Financial Statements June 30, 2011

Note 10 – Mortgages payable

Mortgages payable at June 30, 2011 and 2010 consisted of the following:

Bank Loan, due July 2013, principal and interest payable monthly; Payment of \$7,269 interest rate 7.5%, currently; secured by all assets owned by the Organization	\$ 842 147	\$ 862 701
Bank Loan, due July 2013, principal and interest payable monthly; Payment of \$2,201, interest rate 7.5%, currently; secured by all assets owned by the Organization	<u>254 996</u>	<u>261 221</u>
	\$ <u>1 097 143</u>	\$ <u>1 123 922</u>

The following principal payments are due as follows:

2012	\$ 32 898
2013	34 103
2014	<u>1 030 142</u>
	<u>\$1 097 143</u>

Total interest paid on the above mortgages' payable was approximately \$77,000 and \$73,000 for 2011 and 2010.

Note 11 – Subsequent event

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 28, 2011, the date the financial statements were issued.