

(ACCOUNTANT’S LETTERHEAD)

INDEPENDENT ACCOUNTANT’S REPORT (REVIEW)

To the Board of Directors
Habitat House, Inc.
City, State

We have reviewed the accompanying statements of financial position of Habitat House, Inc. (a nonprofit corporation) as of June 30, 20X7 and 20X6, and the related statements of activities, functional expenses, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Habitat House, Inc.

A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying schedules of unrestricted contributions is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
Habitat House, Inc.
City, State

We have audited the accompanying statement of financial position of Habitat House, a not-for-profit organization, as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Habitat House’s 2005 financial statements and, in our report dated September 6, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U. S. generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Habitat House as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

(Firm’s Signature)

September 15, 20X7 (date audit fieldwork substantially completed)

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

HABITAT HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 20X7 and 20X6

	20X7	20X6
ASSETS		
Cash and cash equivalents	\$ 29,907	\$ 15,655
Short-term investments	62,378	24,833
Accounts receivable	—	1,355
Prepaid expenses	6,402	8,845
Unconditional promises to give	198,188	190,304
Cash restricted to purchase of equipment	30,000	—
Long-term investments	64,875	13,282
Contribution receivable—charitable lead trust	206,800	230,000
Deposits on leased and other property	1,000	1,500
Property and equipment	<u>648,410</u>	<u>664,342</u>
TOTAL ASSETS	<u>\$ 1,247,960</u>	<u>\$ 1,150,116</u>
LIABILITIES		
Accounts payable	\$ —	\$ 3,445
Compensation	4,284	8,145
Refundable advances	2,132	—
Long-term debt	<u>79,991</u>	<u>85,930</u>
TOTAL LIABILITIES	86,407	97,520
NET ASSETS		
Unrestricted		
Designated for new program development	50,000	—
Undesignated	612,559	612,499
Temporarily restricted	492,125	435,932
Permanently restricted	<u>6,869</u>	<u>4,165</u>
TOTAL NET ASSETS	<u>1,161,553</u>	<u>1,052,596</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,247,960</u>	<u>\$ 1,150,116</u>

See accompanying notes and accountant's report.

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

HABITAT HOUSE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 20X7

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions				
United Way Services	\$ —	\$ 156,275	\$ —	\$ 156,275
New men’s shelter	—	46,193	—	46,193
Capital campaign	—	4,771	—	4,771
Equipment acquisition	—	30,000	—	30,000
Endowment	—	—	2,704	2,704
Other	89,736	—	—	89,736
Federal financial assistance	43,473	—	—	43,473
Program service fees	22,417	—	—	22,417
Investment return	5,766	497	—	6,263
Change in value of split-interest agreement	—	1,800	—	1,800
Other	2,777	—	—	2,777
Net assets released from restrictions				
Expiration of time restriction—United Way Services	146,465	(146,465)	—	—
Restrictions satisfied by charitable lead trust receipts	25,000	(25,000)	—	—
Restrictions satisfied by payments	<u>11,878</u>	<u>(11,878)</u>	<u>—</u>	<u>—</u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	347,512	56,193	2,704	406,409
EXPENSES				
Program services				
Women and children	134,051	—	—	134,051
Men	94,231	—	—	94,231
Supporting services				
Management and general	55,629	—	—	55,629
Fund-raising	<u>13,541</u>	<u>—</u>	<u>—</u>	<u>13,541</u>
TOTAL EXPENSES	<u>297,452</u>	<u>—</u>	<u>—</u>	<u>297,452</u>
CHANGE IN NET ASSETS	50,060	56,193	2,704	108,957
NET ASSETS AT BEGINNING OF YEAR	<u>612,499</u>	<u>435,932</u>	<u>4,165</u>	<u>1,052,596</u>
NET ASSETS AT END OF YEAR	<u>\$ 662,559 =</u>	<u>\$ 492,125 =</u>	<u>\$ 6,869 =</u>	<u>\$ 1,161,553</u>

See accompanying notes and accountant’s report.

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

HABITAT HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 20X7

	Program Services		Supporting Services		Total
	Women and Children	Men	Management and General	Fund-raising	
Compensation and related expenses					
Compensation					
Full-time	\$ 27,530	\$ 26,049	\$ 31,579	\$ 7,894	\$ 93,052
Part-time	42,531	41,316	7,141	—	90,988
Employee benefits					
Medical	2,020	1,010	861	189	4,080
Other	94	108	254	43	499
Payroll taxes	<u>5,354</u>	<u>5,200</u>	<u>2,926</u>	<u>731</u>	<u>14,211</u>
	77,529	73,683	42,761	8,857	202,830
Conferences and training	215	144	502	—	861
Depreciation	20,644	—	2,534	634	23,812
Food	3,039	76	—	—	3,115
Insurance					
Property and casualty	1,295	515	—	—	1,810
Vehicles	3,785	—	—	—	3,785
Worker's compensation	—	—	1,548	387	1,935
Interest	—	—	248	—	248
Maintenance of equipment	324	—	733	—	1,057
Occupancy					
Electricity	10,964	1,715	975	243	13,897
Gas	1,081	601	105	15	1,802
Heating oil	—	2,054	—	—	2,054
Maintenance	3,449	938	371	24	4,782
Rent	—	8,388	—	—	8,388
Water and sewer	1,502	1,282	135	32	2,951
Postage	68	39	997	996	2,100
Printing	434	138	968	1,450	2,990
Specific assistance	1,012	274	—	—	1,286
Supplies					
Cleaning	3,271	2,243	—	—	5,514
Office	357	365	1,779	432	2,933
Other	971	14	303	27	1,315
Telephone	2,293	874	581	387	4,135
Transportation					
Fuel	409	208	—	—	617
Repairs and other	1,385	680	869	—	2,934
Other	<u>24</u>	<u>—</u>	<u>220</u>	<u>57</u>	<u>301</u>
	<u>\$ 134,051</u>	<u>\$ 94,231</u>	<u>\$ 55,629</u>	<u>\$ 13,541</u>	<u>\$ 297,452</u>

See accompanying notes and accountant's report.

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

HABITAT HOUSE, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 20X7 and 20X6

	20X7	20X6
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 108,957	\$ 461,356
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	23,812	14,787
Amortization of discount on split-interest agreement	(1,800)	—
Donated vehicle included in contributions	—	(837)
Unrealized gains on investments	(3,256)	(192)
(Increase) decrease in operating assets:		
Accounts receivable	1,355	(677)
Prepaid expenses	2,443	(1,169)
Unrestricted unconditional promises to give	5,748	(2,874)
United Way Services funding for the next fiscal year	(19,682)	(5,563)
Contributions receivable—charitable lead trust	25,000	(230,000)
Increase (decrease) in operating liabilities:		
Accounts payable	(3,445)	300
Compensation	(3,861)	354
Refundable advances	2,132	—
Contributions restricted for long-term purposes:		
Contributions	(79,897)	(195,082)
Amortization of discount on unconditional promises to give	<u>(3,771)</u>	<u>(4,827)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,735	35,576
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments, net	(37,545)	(13,982)
Purchases of long-term investments	(60,837)	(22,749)
Proceeds from maturity of long-term investments	12,500	11,000
Payments for property and equipment	(2,129)	(501,365)
Purchase of assets restricted to investment in property and equipment	(30,000)	—
Other	<u>—</u>	<u>(500)</u>
NET CASH USED BY INVESTING ACTIVITIES	(118,011)	(527,596)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for long-term purposes:		
Capital Campaign	17,771	362,946
New men’s shelter	39,243	—
Purchase of equipment	30,000	—
Endowment	2,704	4,165
Payments on Lane Bank note	(876)	—
Payments on SHDA note	<u>(10,314)</u>	<u>(10,314)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>78,528</u>	<u>356,797</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,252	(135,223)
BEGINNING CASH AND CASH EQUIVALENTS	<u>15,655</u>	<u>150,878</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 29,907 =</u>	<u>\$ 15,655</u>

Noncash investing and financing activities in 20X7 consist of financing the cost of acquiring a copier through a long-term note of \$5,251, payable to Lane Bank. There were no such activities in 20X6.

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

See accompanying notes and accountant's report.

HABITAT HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A—NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Habitat House, Inc. (the Organization) provides temporary housing for the temporarily homeless in Anytown, Georgia. Women and children stay in facilities owned by the Organization, and men stay in rented facilities. Residents are provided with counseling services to help them obtain permanent housing, employment, and financial assistance and to help them with substance abuse problems. The Organization is supported primarily through donor contributions, grants, and the United Way. Approximately 38% and 20% of the Organization's support for the years ended June 30, 20X7 and 20X6, respectively, came from allocations from the United Way.

Promises To Give

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

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.

Contributed Services

During the years ended June 30, 20X7 and 20X6, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the residents' facilities. The Organization receives more than 3,000 volunteer hours per year.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

The organization capitalizes all property and equipment with a cost of \$2,000 if purchased, and a fair value of \$2,000 at date of donation if received by contribution. 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. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Financial Statement Presentation

Under Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, the Organization is required to report information regarding its financial position and activities

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Investments

Under SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE B—RESTRICTIONS ON NET ASSETS

Substantially all of the restrictions on net assets at the end of 20X7 and 20X6 related to funds raised through the Capital Campaign, a drive to raise funds to purchase a new men's shelter, funds restricted for the purchase of equipment, a charitable lead trust for which the Organization is a beneficiary, and United Way Services funding for the next year.

In October 20X3, the Organization acquired the land and building that it uses to provide housing for women and children and as administrative offices; renovation of the building was completed in January 20X6. The Organization solicited contributions for those facilities through the Capital Campaign. The cost of acquiring and renovating the facilities exceeded public support by \$48,425. Support from the Capital Campaign includes a SHARE energy grant of \$98,900 from SHDA that will be converted to debt if the Organization changes the use of the facilities within a prescribed period. The Organization does not intend to change their use. Cash and promises to give raised through the Capital Campaign are restricted to payment of the long-term notes secured by the land and building. Those restrictions are considered to expire when payments are made. Interest earned on the temporary investment of such support is unrestricted.

The Organization intends to acquire facilities to provide housing for men. To fund the acquisition and renovation costs, the Organization has raised support of \$46,193, of which \$300 has been spent, and it has a commitment for a loan of \$124,000 from Central State Bank. Renovation of the facilities is expected to begin in the summer of 20X8. Cash and promises to give are restricted to payment of the cost of acquiring and renovating the facility.

Temporarily restricted net assets are available for the following purposes or periods:

	<u>20X7</u>	<u>20X6</u>
Charitable lead trust split-interest agreement	\$ 206,800	\$ 230,000

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

Payment of long-term debt	53,157	59,467
Purchase of the new men’s shelter	45,893	—
Purchase of equipment	30,000	—
For subsequent periods	<u>156,275</u>	<u>146,465</u>
	\$ 492,125	\$ 435,932

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expendable to support women and children’s program services.

NOTE C—PROMISES TO GIVE

Unconditional promises to give consists of the following:

	<u>20X7</u>	<u>20X6</u>
Unrestricted promises	\$ —	\$ 5,748
United Way Services	154,938	135,256
Restricted to payment of long-term debt	41,400	58,171
Restricted to purchase of the new men’s shelter	<u>6,950</u>	<u>—</u>
Gross unconditional promises to give	203,288	199,175
Less: Unamortized discount	<u>(5,100)</u>	<u>(8,871)</u>
Net unconditional promises to give	\$ 198,188	\$ 190,304
Amounts due in:		
Less than one year	\$ 178,488	
One to five years	<u>24,800</u>	
	\$ 203,288	

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 6%.

The amount due from United Way Services consists of the following:

	<u>20X7</u>	<u>20X6</u>
Allocation for the next fiscal year		
General allocation	\$ 120,719	\$ 114,803
Donor designations	<u>35,556</u>	<u>31,662</u>
	156,275	146,465
Partial receipt of donor designations	<u>(1,337)</u>	<u>(11,209)</u>
	\$ 154,938	\$ 135,256

Although donor designations to the United Way may vary, differences between the amounts allocated and collected from the United Way have historically been insignificant. Accordingly, no provision has been made for uncollectible amounts. Uncollectible amounts for other unconditional promises to give are also expected to be insignificant.

The Organization had a conditional promise of \$14,500 at June 30, 20X7, representing a challenge grant from a community foundation to match support raised from new sources.

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

NOTE D—INVESTMENTS

The Organization held \$62,378 and \$24,833 at June 30, 20X7 and 20X6, respectively, in U.S. government securities with original maturity dates of greater than three months. Short-term investments are stated at fair value.

Long-term investments are stated at fair value and consist of U.S. Treasury notes. Fair values and unrealized appreciation (depreciation) at June 30, 20X7 and 20X6, are summarized as follows:

	June 30, 20X7			June 30, 20X6		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Investments restricted to:						
Payment of the long-term notes	\$ 16,857	\$ 15,709	\$ (1,148)	\$ 10,167	\$ 9,085	\$ (1,082)
Purchase of the new men’s shelter	38,943	41,962	3,019	—	—	—
Permanent endowment	<u>6,869</u>	<u>7,204</u>	<u>335</u>	<u>4,165</u>	<u>4,197</u>	<u>32</u>
	\$ 62,669	\$ 64,875	\$ 2,206	\$ 14,332	\$ 13,282	\$ (1,050)

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended:

	June 30, 20X7			June 30, 20X6		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest income	\$ 2,510	\$ 497	\$ 3,007	\$ 15,823	\$ 352	\$ 16,175
Net realized and unrealized gains	<u>3,256</u>	<u>—</u>	<u>3,256</u>	<u>192</u>	<u>—</u>	<u>192</u>
Total investment return	\$ 5,766	\$ 497	\$ 6,263	\$ 16,015	\$ 352	\$ 16,367

NOTE E—CHARITABLE LEAD TRUST SPLIT-INTEREST AGREEMENT

During 20X6, a donor established a trust with a local bank naming the Organization as the lead beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, the Organization is to receive \$25,000 annually for its unrestricted use until the donor’s death. At the time of the donor’s death, the trust is to terminate, and remaining trust assets are to be distributed to others. Based on donor life expectancy and a 6% discount rate, the present value of future benefits expected to be received by the Organization was estimated to be \$230,000, which was recorded in 20X6 as a temporarily restricted contribution and as contribution receivable—charitable lead trust. The Organization received \$25,000 from the trust in 20X7, which was recorded as a reduction in the receivable and a corresponding reclassification from temporarily restricted to unrestricted net assets. The Organization also recorded amortization of the discount on the estimated present value of future distributions of \$1,800 in 20X7.

NOTE F—PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	20X7	20X6
Land	\$ 65,000	\$ 65,000
Building	592,177	591,335
Construction in progress on the new men’s shelter	840	—

Sample Financial Statements from PPC –Preparing Nonprofit Financial Statements

Equipment	20,747	14,290
Furnishings	22,247	27,555
Leasehold improvements	—	10,522
Vehicles	<u>20,432</u>	<u>20,432</u>
	721,443	729,134
Accumulated depreciation	<u>(73,033)</u>	<u>(64,792)</u>
	\$ 648,410	\$ 664,342

NOTE G— LONG-TERM DEBT

The Organization’s long-term debt consists of the following:

	<u>20X7</u>	<u>20X6</u>
Interest-free note payable to SDHA, due in monthly installments of \$1,146, secured by land and buildings	\$ 75,616	\$ 85,930
Note payable to Lane Bank, due in monthly installments of \$109 plus interest at an annual rate of prime plus 1.5%, secured by copier	<u>4,375</u>	<u>—</u>
	\$ 79,991	\$ 85,930

Future scheduled maturities of long-term debt are as follows:

Years ending June 30:	<u>20X7</u>	<u>20X6</u>
20X8		\$ 15,060
20X9		15,060
20Y0		15,060
20Y1		14,203
20Y2		13,752
Thereafter		<u>6,856</u>
		\$ 79,991

NOTE H—FEDERAL FINANCIAL ASSISTANCE

The Organization has been awarded a grant from the U.S. Department of Health and Human Services to provide counseling services to residents. The grant is considered to be an exchange transaction. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. Grant activity for the years ended June 30, 20X7 and 20X6 was as follows:

	<u>20X7</u>	<u>20X6</u>
Refundable advances, beginning of year	\$ —	\$ —
Grant receipts	45,605	38,547
Grant expenditures	<u>(43,473)</u>	<u>(38,547)</u>
Refundable advances, end of year	\$ 2,132	\$ —

NOTE I—DESCRIPTION OF LEASING ARRANGEMENTS

The facilities presently used to provide housing for men are leased under a short-term arrangement.