

SEVEN HOMES, INC.
FINANCIAL STATEMENTS
December 31, 2013

**Seven Homes, Inc.
Table of Contents
December 31, 2013**

Page

1 Independent Auditor's Report on the Financial Statements

Financial Statements

3 Statement of Financial Position

4 Statement of Activities

5 Statement of Functional Expenses Year Ended December 31, 2013

6 Statement of Cash Flows

7 Notes to the Financial Statements

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Independent Auditor's Report

To the Board of Directors
Seven Homes, Inc.
High Point, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Seven Homes, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

The 2012 financial statements of Seven Homes, Inc. are presented for comparison and were audited by other accountants, whose report dated November 5, 2013, stated that they had audited the 2012 financial statements and, accordingly expressed an opinion that the financial statements present fairly, in all material respects, the financial position of Seven Homes, Inc. as of December 31, 2012 and the changes in its net position and its cash flows for the year ended is in conformity with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seven Homes, Inc. as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 5 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.

Rouse, Rouse, Penn & Rouse, LLP
Eden, North Carolina

August 11, 2014

Seven Homes, Inc.
 Statements of Financial Position
 as of December 31, 2013 and December 31, 2012

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Cash and cash equivalents	81,219.30	47,771.90
Accounts receivable	67,123.11	43,881.00
Deposit	<u>1,700.00</u>	<u>725.00</u>
Total current assets	<u>150,042.41</u>	<u>92,377.90</u>
Child profile project software	20,000.00	-
Furniture and office equipment	10,122.22	5,741.65
Vehicles	31,950.00	10,000.00
Less accumulated depreciation	<u>(14,589.67)</u>	<u>(5,196.41)</u>
Net property and equipment	<u>47,482.55</u>	<u>10,545.24</u>
Total assets	<u><u>197,524.96</u></u>	<u><u>102,923.14</u></u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable	1,127.77	20,466.33
Payable to foster parents	21,882.44	15,827.37
Advance payment on asset sale	1,500.00	-
Accrued expenses	<u>7,600.00</u>	<u>-</u>
Total liabilities	<u>32,110.21</u>	<u>36,293.70</u>
 Net Assets		
Unrestricted	143,217.41	22,629.44
Temporarily restricted	<u>22,197.34</u>	<u>44,000.00</u>
Total net assets	<u>165,414.75</u>	<u>66,629.44</u>
Total liabilities and net assets	<u><u>197,524.96</u></u>	<u><u>102,923.14</u></u>

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

Seven Homes, Inc.
Statement of Activities
For the Year Ended December 31, 2013
And for the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2013</u>	<u>Total 2012</u>
Support and revenue:				
Public Support:				
Special events	6,868.58			
Special event expenses, direct to donors	(905.01)			
Special events, net of expenses	5,963.57		5,963.57	2,775.93
Contributions, individuals	936.10		936.10	6,018.52
Contributions, businesses and churches	11,440.00		11,440.00	51,500.00
Board support	955.20		955.20	628.55
Net assets released from restriction (Note F)	21,802.66	(21,802.66)	-	
Total support	41,097.53	(21,802.66)	19,294.87	60,923.00
Revenues:				
Foster care fees	636,608.53		636,608.53	347,664.50
Adoption fees	49,658.00		49,658.00	21,600.00
Other revenue	3,594.99		3,594.99	2,319.14
Total revenue	689,861.52	-	689,861.52	371,583.64
Total support and revenue	730,959.05	(21,802.66)	709,156.39	432,506.64
Expenses:				
Program services:				
Foster Care	411,195.47		411,195.47	267,983.30
Adoption	121,676.89		121,676.89	87,048.30
Total program services	532,872.36	-	532,872.36	355,031.60
Management and general	61,726.67		61,726.67	26,164.80
Fundraising	15,772.05		15,772.05	12,521.81
Total expenses	610,371.08	-	610,371.08	393,718.21
Changes in net assets	120,587.97	(21,802.66)	98,785.31	38,788.43
Net assets:				
Beginning of year	22,629.44	44,000.00	66,629.44	27,841.01
End of year	143,217.41	22,197.34	165,414.75	66,629.44

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

Seven Homes, Inc.
Statement of Functional Expenses
For Year Ended December 31, 2013
And for the Year Ended December 31, 2012

	Program Services			Support Services			2012 Total Expenses
	Foster Programs	Adoption Programs	Total Programs	Management and General	Fund Raising	Total Support Services	
Salaries and wages	63,905.01	35,977.88	99,882.89	33,353.70	13,935.33	47,289.03	119,674.49
Employee benefits			-			-	13,155.26
Payroll taxes	6,475.01	2,326.29	8,801.30	8,486.06	805.55	9,291.61	632.52
Total salaries and related expenses	70,380.02	38,304.17	108,684.19	41,839.76	14,740.88	56,580.64	133,462.27
Foster parent fees	232,846.53		232,846.53				132,247.48
Outing and visitations	9,611.32		9,611.32				6,856.69
Employee licensing and training	2,441.20		2,441.20				1,734.23
Recruitment and retention	2,438.90	1,980.00	4,418.90				433.15
Program supplies	15,536.88	220.69	15,757.57				2,871.33
Program advertising	3,666.49	50,710.42	54,376.91				37,620.51
Program food	7,990.04	368.76	8,358.80				7,578.71
Tutoring	3,834.33		3,834.33				3,834.33
Psychiatric services	4,745.00		4,745.00				4,745.00
Counseling	1,745.00		1,745.00				1,745.00
Repairs and maintenance	4,318.00	3,778.25	8,096.25	2,159.00	539.75	2,698.75	8,917.50
Utilities	1,359.58	1,201.67	2,561.25	679.79	169.95	849.74	1,034.99
Mileage reimbursement	1,172.22	1,025.69	2,197.91	586.10	146.53	732.63	2,203.78
Meetings, travel, other	1,592.24		1,592.24	346.46		346.46	3,915.77
Auto insurance	2,104.98	240.55	2,345.53	3,064.57		3,064.57	6,585.28
General insurance	2,469.34	493.87	2,963.21	329.24		329.24	1,198.09
Vehicle maintenance	4,764.09	4,764.09	9,528.18	1,058.70		1,058.70	5,699.53
Professional fees	15,832.26	801.99	16,634.25	590.99		590.99	12,692.86
Background check services	7,795.14	8,935.14	16,730.28	3,907.58		3,907.58	12,765.90
Bank fees	2,596.59	71.91	2,668.50				2,620.20
Telephone	1,399.52	1,224.58	2,624.10	954.73		954.73	493.28
Office supplies	5,382.17	2,828.15	8,210.32	699.75	174.94	874.69	2,546.70
Dues and subscriptions	335.00	500.00	835.00	2,413.79		2,413.79	4,284.78
Other	611.67		611.67	162.00		162.00	-
				1,994.88		1,994.88	1,513.56
Total expenses before depreciation	406,968.51	117,449.93	524,418.44	60,787.34	15,772.05	76,559.39	392,036.59
Depreciation	4,226.96	4,226.96	8,453.92	939.33		939.33	1,682.36
Total	411,195.47	121,676.89	532,872.36	61,726.67	15,772.05	77,498.72	393,718.95

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

Seven Homes, Inc.
Statement of Cash Flows
For The Year Ended December 31, 2013
And For The Year Ended December 31, 2012

	<u>Year Ended December 31, 2013</u>	<u>Year Ended December 31, 2012</u>
Cash flows from operating activities		
Change in net assets	98,785.31	38,788.43
Adjustments to reconcile change in net assets to net cash Provided (used in) operating activities:		
Depreciation and amortization	9,393.25	1,682.36
Change in assets and liabilities:		
Accounts receivable and loans to employees	(23,242.11)	(9,977.28)
Deposit	(975.00)	
Prepaid expenses		12,500.00
Promise to give		1,500.00
Accounts payable and payable to foster parents	(13,283.49)	3,767.85
Accrued expenses	7,600.00	(560.22)
Deferred inflows	1,500.00	
	<u>79,777.96</u>	<u>47,701.14</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(46,330.56)</u>	<u>(1,541.87)</u>
	<u>(46,330.56)</u>	<u>(1,541.87)</u>
Net cash used in investing activities		
	33,447.40	46,159.27
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning of year	<u>47,771.90</u>	<u>1,612.63</u>
Cash and Cash Equivalents, end of year	<u><u>81,219.30</u></u>	<u><u>47,771.90</u></u>
Supplemental Disclosures and Cash Flow Information		
Cash paid during the year for interest	<u><u>36.32</u></u>	<u><u>-</u></u>

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

Seven Homes, Inc.
Notes to Financial Statements
December 31, 2013

A. REPORTING ENTITY

Seven Homes, Inc. is a not-for-profit corporation organized under the laws of the State of North Carolina. The mission of Seven Homes, Inc. is to provide youth in crisis with love, safety and stability, by providing foster care to children through licensed foster care families and by finding permanency through adoption for children who are unable to reunite with their birth families. Seven Homes, Inc. earns fees for supervising foster parents and assisting with adoptive services.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Seven Homes, Inc. reports net assets, revenues, expenses, gains, and losses in accordance with the provisions of FASB Accounting Standards Codification (ASC) 958-205, "*Presentation of Financial Statements*". Under ASC 958-205, financial information is classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Seven Homes, Inc. and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets comprise those assets upon which donors have placed no restrictions on the expenditure of the principal or income.

Temporarily Restricted Net Assets

Net assets subject to donor imposed stipulations that may, or will be met; either by actions of Seven Homes, Inc. and/or the passage of time are classified as temporarily restricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization are classified as permanently restricted. 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 December 31, 2013 Seven Homes, Inc. did not have permanently restricted net assets.

Support and Cash Contributions Revenue – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as unrestricted if the restrictions expire in the fiscal year in which the restrictions are recognized. All other donor-restricted support are 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

Seven Homes, Inc.
Notes to Financial Statements
December 31, 2013

purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions are also recognized when a donor makes a promise to give the Organization that is, in substance, unconditional.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include all monies in banks and highly liquid investments with an original maturity date of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts Receivable: Accounts receivable is stated at unpaid balances, less any allowance for doubtful accounts. Seven Homes, Inc. uses the allowance method to provide for uncollectible accounts receivable. The allowance is based on historical loss experience and management's analysis of receivables. Uncollectible amounts for accounts receivable are expected to be insignificant. Accordingly, no provision is made for uncollectible amounts.

Property and Equipment: Property and equipment are stated at cost or, if donated, fair value at the date of gift. Depreciation is determined by the straight-line method based on the assets' estimated useful lives, which range from two to seven years. Seven Homes, Inc. follows a policy of capitalizing assets costing \$300 or more.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time and expense estimates in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and administrative activities benefited.

Income Taxes: The organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business activities. For the year ended December 31, 2013, the organization has determined that no income taxes are due for its activities. Accordingly, no provision for income tax has been recorded in the accompanying financial statements. The statute of limitations remains open subsequent to and including the year ended December 31, 2010.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and 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. Accordingly, actual results could differ from estimates.

C. CONCENTRATION REVENUE AND CREDIT RISK

Approximately 90% of Seven Homes, Inc.'s revenue in 2013 was derived from foster care and adoption fees earned by placement of children with foster and adoptive families.

Seven Homes, Inc.
Notes to Financial Statements
December 31, 2013

D. CAPITAL ASSETS

Capital assets are recorded at cost on the date of the acquisition, or fair value on the date of donation. Capital asset additions with an original value of \$300 or more, and more than one year of life are capitalized. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization is eliminated from the respective amounts and the resulting gain or loss is reported as revenue or expense.

Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of 2 to 7 years with no salvage value. Vehicles are depreciated using the straight-line method over the estimated useful lives of 3 to 5 years with no salvage value. Buildings are depreciated over estimated useful lives ranging from 15 to 40 years. Furniture, equipment, vehicles, buildings, and land consist of the following for the year ended December 31, 2013.

	December 31, 2013	December 31, 2012
Child Profile Project Software	20,000.00	
Furniture and Office Equipment	10,122.22	5,741.65
Vehicles	31,950.00	10,000.00
	62,072.22	15,741.65
Accumulated Depreciation	(14,589.67)	(5,196.41)
	47,482.55	10,545.24

E. OPERATING LEASE

Seven Homes, Inc. is obligated under a lease agreement for office space that ends October 31, 2015. Rental expense for the year ended December 31, 2013 amounted to \$10,795. The future minimum lease payment required under this lease is \$20,400 and \$17,000 for the years ending December 31, 2014 and December 31, 2015, respectively.

F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted revenues are contributions which are specified by donors or grantors for particular purposes or periods. Amounts that have not been expended at year-end remain classified as temporarily restricted net assets.

In October 2012, Trinity Christian Church donated \$50,000 of temporarily restricted assets to Seven Homes to be used for the following purposes: purchase clothing, shoes, toiletries and hygiene items for children, secure toys and gifts, purchase necessary items for education, provide financial assistance for students engaging in post high school education, foster care board payment expansion for specialized care, purchase specialized

Seven Homes, Inc.
Notes to Financial Statements
December 31, 2013

equipment, tutoring, medical supplies and care for illegal alien children, and mental health psychiatric services.

At December 31, 2013 temporarily restricted net assets were as follows:

Beginning Balance	44,000.00
Releases	21,802.66
Ending Balance	<u>22,197.34</u>

G. CONTRIBUTED SERVICES

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the organization, but these services do not meet the criteria for recognition as contributed services.

H. RELATED PARTIES

In November 2013, Seven Homes sold a vehicle to the Executive Director's son. The sales price was \$1,500 which is the estimated market value of the vehicle. At December 31, 2013, a receivable of \$365.80 was owed on the vehicle.

I. COMPARATIVE STATEMENTS

The financial statements include prior year comparative information. Certain items in the 2012 financial statements may have been reclassified to conform to the 2013 information.

J. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 11, 2014, the financial statement issuance date. No additional disclosures are required.