

Financial Statements

**Hospital Hospitality House of  
Southwest Michigan, Inc.**

*Year ended December 31, 2007*

Hospital Hospitality House of  
Southwest Michigan, Inc.

Year ended December 31, 2007

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## Report of Independent Auditors

Board of Directors  
Hospital Hospitality House of Southwest Michigan, Inc.

We have audited the accompanying statement of financial position of Hospital Hospitality House of Southwest Michigan, Inc. (a nonprofit organization) as of December 31, 2007, 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. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated July 12, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 Hospital Hospitality House of Southwest Michigan, Inc. as of December 31, 2007, 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.

*Jansen Valk Thompson & Reahm PC*

September 8, 2008

Hospital Hospitality House of  
Southwest Michigan, Inc.

Statement of Financial Position  
(With Comparative Totals for 2006)

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash	\$ 96,712	\$ 54,996
Promises to give receivable	26,500	26,500
Prepaid expenses	6,200	8,368
Beneficial interest in assets held by Kalamazoo Community Foundation	28,377	29,231
Investments	304,769	395,682
Cash restricted for investment in property and equipment	900	4,233
Property and equipment, less accumulated depreciation	210,681	435,751
Total assets	<u>\$ 674,139</u>	<u>\$ 954,761</u>
<b>Liabilities</b>		
Accounts payable	\$ 3,149	\$ 6,545
Wages payable	1,229	553
Security deposits	—	2,605
Long-term debt	—	205,600
Total liabilities	<u>4,378</u>	<u>215,303</u>
<b>Net assets</b>		
Unrestricted	628,861	695,225
Temporarily restricted	25,900	29,233
Permanently restricted—endowment funds	15,000	15,000
Total net assets	<u>669,761</u>	<u>739,458</u>
Total liabilities and net assets	<u>\$ 674,139</u>	<u>\$ 954,761</u>

*See accompanying notes to financial statements.*

Hospital Hospitality House of  
Southwest Michigan, Inc.

Statement of Activities  
(With Comparative Totals for 2006)

	Year ended December 31				2006
	2007			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
				Total	
Support and revenue:					
Contributions	\$ 191,727	\$ 25,000	\$ —	\$ 216,727	\$ 208,863
Investment return	14,199	—	—	14,199	40,539
Special events	43,572	—	—	43,572	27,346
Appreciation in beneficial interest	437	—	—	437	3,616
Rental income	22,894	—	—	22,894	28,460
Other	1,411	—	—	1,411	507
Total support and revenue	274,240	25,000	—	299,240	309,331
Net assets released from restrictions	28,333	(28,333)	—	—	—
Total support, revenue and reclassifications	302,573	(3,333)	—	299,240	309,331
Expenses and losses:					
Program services	192,711	—	—	192,711	186,095
Management and general	70,313	—	—	70,313	72,963
Fund raising	55,406	—	—	55,406	36,300
Total expenses	318,430	—	—	318,430	295,358
Loss on sale of property and equipment	50,507	—	—	50,507	—
Total expenses and losses	368,937	—	—	368,937	295,358
Change in net assets	(66,364)	(3,333)	—	(69,697)	13,973
Net assets, beginning of year	695,225	29,233	15,000	739,458	725,485
Net assets, end of year	\$ 628,861	\$ 25,900	\$ 15,000	\$ 669,761	\$ 739,458

*See accompanying notes to financial statements.*

Hospital Hospitality House of  
Southwest Michigan, Inc.

Statement of Functional Expenses  
(With Comparative Totals for 2006)

	Year ended December 31				2006
	2007				
	Program Services	Management and General	Fund Raising	Total	Total
Salaries and wages	\$ 94,401	\$ 19,458	\$ 19,894	\$ 133,753	\$ 120,452
Payroll taxes and health insurance	7,937	2,028	1,930	11,895	10,774
Cleaning and garbage removal	2,114	444	—	2,558	1,442
Conferences and membership	—	3,878	—	3,878	3,908
Depreciation	22,787	6,955	—	29,742	30,434
Groceries	2,787	—	—	2,787	2,877
Household supplies	6,411	—	—	6,411	9,577
Insurance	8,846	2,677	—	11,523	12,382
Office supplies	3,667	104	—	3,771	2,827
Postage and printing	6,124	—	—	6,124	11,953
Professional services	12,991	—	—	12,991	5,600
Advertising	—	118	—	118	719
Public relations	738	—	—	738	1,122
Repairs and maintenance	10,880	10,335	—	21,215	24,848
Security	347	—	—	347	622
Special events	—	—	33,582	33,582	17,052
Utilities	8,094	4,414	—	12,508	13,494
Real estate taxes	—	7,147	—	7,147	7,566
Interest expense	—	10,417	—	10,417	11,791
Computer maintenance expense	—	2,268	—	2,268	—
Miscellaneous	4,587	70	—	4,657	5,918
Total	\$ 192,711	\$ 70,313	\$ 55,406	\$ 318,430	\$ 295,358

*See accompanying notes to financial statements.*

Hospital Hospitality House of  
Southwest Michigan, Inc.

Statement of Cash Flows  
(With Comparative Totals for 2006)

	Year ended December 31	
	2007	2006
<b>Operating activities</b>		
Change in net assets	\$ (69,697)	\$ 13,973
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	29,742	30,434
Loss on sale of property and equipment	50,507	—
Net realized and unrealized (gain) loss on investments	17,371	(20,960)
Contributions received—equipment	(830)	(1,466)
Contributions restricted for investment in property and equipment	—	(500)
Change in beneficial interest in assets held by Kalamazoo Community Foundation	854	(2,250)
Changes in operating assets and liabilities:		
Accounts receivable	—	150
Prepaid expenses	2,168	1,493
Payables	(2,720)	(33)
Security deposits	(2,605)	1,325
Total adjustments	94,487	8,193
Net cash provided by operating activities	24,790	22,166
<b>Investing activities</b>		
Decrease in cash restricted for investment in property and equipment	3,333	24,797
Proceeds from sales of investments	105,000	—
Purchase of investments	(31,458)	(19,338)
Proceeds from sale of property and equipment, net of closing costs of \$22,975	177,025	—
Property and equipment expenditures	(31,374)	(47,186)
Net cash provided by (used in) investing activities	222,526	(41,727)
<b>Financing activities</b>		
Proceeds from contributions restricted for investment in property and equipment	—	500
Principal payments on long-term debt	(205,600)	—
Net cash provided by (used in) financing activities	(205,600)	500
Net increase (decrease) in cash	41,716	(19,061)
Cash, beginning of year	54,996	74,057
Cash, end of year	\$ 96,712	\$ 54,996

*See accompanying notes to financial statements.*

# Hospital Hospitality House of Southwest Michigan, Inc.

## Notes to Financial Statements

December 31, 2007

### **Note A—Summary of Accounting Policies**

#### **Nature of Activities**

Hospital Hospitality House of Southwest Michigan, Inc. (the “Organization”) provides housing for families of critically ill patients using Kalamazoo area medical facilities. The Organization is supported primarily through donor contributions. Approximately 33% and 38% of the Organization’s support in 2007 and 2006, respectively, was provided by contributions from two Kalamazoo hospitals and one individual donor.

#### **Basis of Presentation**

The Organization follows net asset accounting methods, whereby revenues are classified for accounting and reporting purposes into one of three net asset classes:

- Unrestricted net assets—net assets which are not subject to donor-imposed restrictions.
- Temporarily restricted net assets—net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.
- Permanently restricted net assets—net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

#### **Basis of Accounting**

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables and payables.

#### **Use of Estimates**

Management uses estimates and assumptions in preparing the Organization’s financial statements. 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 results could differ from those estimates.

Hospital Hospitality House of  
Southwest Michigan, Inc.

Notes to Financial Statements (continued)

**Note A—Summary of Accounting Policies (continued)**

**Summarized Prior Year Information**

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 December 31, 2006 from which the summarized information was derived.

**Cash**

Cash received with donor imposed restrictions limiting its use to long-term purposes is not considered cash for purposes of the statement of cash flows.

**Promises to Give/Contribution Revenue**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contribution revenue that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution revenue is recognized. All other donor restricted contribution revenue 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.

**Donated Materials and Equipment**

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. These contributions totaled \$24,788 in 2007 and \$22,534 in 2006.

Hospital Hospitality House of  
Southwest Michigan, Inc.

Notes to Financial Statements (continued)

**Note A—Summary of Accounting Policies (continued)**

**Income Tax**

The Organization is exempt from federal income tax under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies as a charitable organization as described in Section 170(c) and has been classified under Section 509(a)(2) as an organization that is not a private foundation.

**Property, Equipment and Depreciation**

The Organization capitalizes all expenditures for property and equipment in excess of \$500. Expenditures for property and equipment are stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	20-40
Furniture	5-10
Equipment	5-10

Donations of property and equipment are recorded as support at their estimated fair values on the date of the gift. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose or has stipulated how long those donated assets must be maintained. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in unrestricted net assets if the restriction expires or an asset is acquired in the reporting period in which the support is recognized.

**Note B—Cash**

The Organization maintains all of its cash balances in one financial institution located in Kalamazoo, Michigan. The bank balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Organization's cash balances are at times in excess of the \$100,000 insured limit.

Hospital Hospitality House of  
Southwest Michigan, Inc.

Notes to Financial Statements (continued)

**Note C—Funds at Kalamazoo Community Foundation**

During 1996, the Organization established the Kalamazoo Community Foundation/Hospital Hospitality House of Southwest Michigan Endowment Fund (the “Fund”) at Kalamazoo Community Foundation (the “Foundation”). This Fund has been established to act as a depository for gifts, conveyances, and other transfers intended to assist the Organization in achieving its goals and purposes. Any distributions of income made from the Fund can be made only with the approval and authorization of the Foundation. Contributions to the Fund from outside contributors totaled \$3,690 in 2007 and \$3,656 in 2006. Distributions from the Fund to the Organization totaled \$4,539 in 2007 and \$4,455 in 2006. The Fund had a fair market value of \$128,195 at December 31, 2007 and \$127,197 at December 31, 2006. The Foundation maintains legal ownership of the Fund and continues to report the Fund as an asset of the Foundation. The Organization has not recognized the fund as an asset.

When a nonprofit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the organization must account for the transfer of such assets as a beneficial interest in assets held by the community foundation. Community foundations refer to such funds as agency endowment funds. The Organization has such a fund at the Foundation. The Foundation maintains variance power and legal ownership of its agency endowment funds and continues to report the funds as assets of the Foundation. However, the Organization has recognized a beneficial interest in assets held by the Foundation for the fair value of its agency endowment fund, which is generally equivalent to the present value of future payments expected to be received by the Organization.

The following table summarizes the activity in the Organization’s agency endowment fund at the Foundation during the year ended December 31, 2007:

Beneficial interest in assets held in the agency endowment fund, beginning of year	\$ 29,231
Contributions received	—
Grants made to the Organization	(1,291)
Investment return	437
Beneficial interest in assets held in the agency endowment fund, end of year	<u>\$ 28,377</u>

Hospital Hospitality House of  
Southwest Michigan, Inc.

Notes to Financial Statements (continued)

**Note D—Investments**

Investments consist of the following (at market):

	<u>2007</u>	<u>2006</u>
Mutual funds	\$ 298,364	\$ 389,590
Money market funds	6,405	6,092
Total	<u>\$ 304,769</u>	<u>\$ 395,682</u>

**Note E—Property and Equipment**

Property and equipment are summarized by major classifications as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 15,000	\$ 40,000
Buildings	135,000	364,523
Building improvements	225,312	202,320
Furniture and equipment	192,028	183,646
Total	<u>567,340</u>	790,489
Less accumulated depreciation	356,659	354,738
Net property and equipment	<u>\$ 210,681</u>	<u>\$ 435,751</u>

**Note F—Long-Term Debt**

In June 2004, the Organization borrowed \$205,600 from a bank under a commercial real estate mortgage. The terms of the loan called for interest-only payments for five years from the closing date. Interest was to be paid at the bank's prime rate with a floor of 4% and a ceiling of 6%. The debt was paid in full in 2007.

Hospital Hospitality House of  
Southwest Michigan, Inc.

Notes to Financial Statements (continued)

**Note G—Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>2007</b>	<b>2006</b>
Subsequent years' operations	<b>\$ 25,000</b>	\$ 25,000
Property and equipment	<b>900</b>	4,233
Total	<b><u>\$ 25,900</u></b>	<b><u>\$ 29,233</u></b>

**Note H—Investment Return**

Investment return consists of the following:

	<b>2007</b>	<b>2006</b>
Interest and dividend income	<b>\$ 31,570</b>	\$ 19,579
Gain on sale of investments	<b>2,948</b>	—
Net unrealized gain (loss) on investments	<b>(20,319)</b>	20,960
Total	<b><u>\$ 14,199</u></b>	<b><u>\$ 40,539</u></b>

**Note I—Supplemental Cash Flow Information**

Cash paid for interest totaled \$10,417 in 2007 and \$11,791 in 2006.