

**DENVER AREA BETTER BUSINESS
BUREAU**
(including consolidated foundation)

FINANCIAL STATEMENTS

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DECEMBER 31, 2007

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Denver Area Better Business Bureau
Denver, Colorado

We have audited the accompanying consolidated statement of financial position of Denver Area Better Business Bureau 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 consolidated financial statements and, in our opinion dated July 6, 2007, we issued an unqualified opinion on those financial statements.

We conducted our audit in accordance with 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Denver Area Better Business Bureau as of December 31, 2007 and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Davis & Co., CPAs, P.C.
Certified Public Accountants

Highlands Ranch, Colorado
July 8, 2008

DENVER AREA BETTER BUSINESS BUREAU
(including consolidated foundation)
Consolidated Statement of Financial Position
December 31, 2007
(With Comparative Totals for 2006)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 508,903	\$ 17,635	\$ 526,538	\$ 131,880
Dues and accounts receivable, less allowance for bad debts of \$41,915	205,714	--	205,714	90,588
Prepaid expenses and other	<u>70,773</u>	<u>--</u>	<u>70,773</u>	<u>46,948</u>
	785,390	17,635	803,025	269,416
Property and equipment				
Land	350,000	--	350,000	350,000
Building & improvements	900,040	--	900,040	900,040
Furnishings, equipment & software	<u>380,641</u>	<u>--</u>	<u>380,641</u>	<u>359,515</u>
	1,630,681	--	1,630,681	1,609,555
Less accumulated depreciation	<u>(318,613)</u>	<u>--</u>	<u>(318,613)</u>	<u>(244,827)</u>
	<u>1,312,068</u>	<u>--</u>	<u>1,312,068</u>	<u>1,364,728</u>
	<u>\$2,097,458</u>	<u>\$17,635</u>	<u>\$2,115,093</u>	<u>\$1,634,144</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 64,325	\$ --	\$ 64,325	\$ 70,499
Accrued payroll expenses	135,084	--	135,084	32,013
Accrued compensated absences	35,459	--	35,459	19,015
Mortgage notes payable, current	<u>22,490</u>	<u>--</u>	<u>22,490</u>	<u>20,974</u>
	257,358	--	257,358	142,501
Mortgage notes payable, long-term	1,029,477	--	1,029,477	1,051,967
NET ASSETS	<u>810,623</u>	<u>17,635</u>	<u>828,258</u>	<u>439,676</u>
	<u>\$2,097,458</u>	<u>\$17,635</u>	<u>\$2,115,093</u>	<u>\$1,634,144</u>

The accompanying notes are a part of this statement.

DENVER AREA BETTER BUSINESS BUREAU
(including consolidated foundation)

Consolidated Statement of Activity
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
PUBLIC SUPPORT AND REVENUE				
PUBLIC SUPPORT				
Contributions	\$ 148,740	\$ 12,300	\$ 161,040	\$ 183,890
Private grants	<u>15,385</u>	<u>--</u>	<u>15,385</u>	<u>--</u>
	<u>164,125</u>	<u>12,300</u>	<u>176,425</u>	<u>183,890</u>
REVENUE				
Member dues and assessments	3,243,853	--	3,243,853	2,894,146
Member advertising	109,856	--	109,856	81,465
Program service fees	135,557	--	135,557	133,941
Interest, dividends & royalties	147,414	--	147,414	80,238
Other	<u>600</u>	<u>--</u>	<u>600</u>	<u>2,712</u>
	<u>3,637,280</u>	<u>--</u>	<u>3,637,280</u>	<u>3,192,502</u>
Total public support and revenue	3,801,405	12,300	3,813,705	3,376,392
Net assets released from restrictions due to the satisfaction of program restrictions	<u>4,665</u>	<u>(4,665)</u>	<u>--</u>	<u>--</u>
TOTAL PUBLIC SUPPORT, REVENUE, AND RECLASSIFICATIONS	3,806,070	7,635	3,813,705	3,376,392
FUNCTIONAL EXPENSES				
PROGRAM SERVICES				
Member services	753,836	--	753,836	684,265
Operational programs	934,462	--	934,462	784,785
Public affairs & education	190,957	--	190,957	134,425
BBB Foundation	122,199	--	122,199	248,639
Membership development	<u>1,083,525</u>	<u>--</u>	<u>1,083,525</u>	<u>1,123,331</u>
	3,084,979	--	3,084,979	2,975,445
SUPPORTING SERVICES				
Management and general	292,729	--	292,729	352,244
Financial development	<u>47,415</u>	<u>--</u>	<u>47,415</u>	<u>121,963</u>
	<u>340,144</u>	<u>--</u>	<u>340,144</u>	<u>474,207</u>
TOTAL EXPENSES	3,425,123	--	3,425,123	3,449,652
CHANGE IN NET ASSETS	380,947	7,635	388,582	(73,260)
NET ASSETS				
Beginning of year	<u>429,676</u>	<u>10,000</u>	<u>439,676</u>	<u>512,936</u>
End of year	<u>\$810,623</u>	<u>\$17,635</u>	<u>\$828,258</u>	<u>\$439,676</u>

The accompanying notes are a part of this statement.

DENVER AREA BETTER BUSINESS BUREAU
(including consolidated foundation)
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

	<u>Program Services</u>					<u>Supporting Services</u>				
	<u>Member Services</u>	<u>Operational Programs</u>	<u>Public Affairs</u>	<u>BBB Foundation</u>	<u>Membership Development</u>	<u>Program Total</u>	<u>Management & General</u>	<u>Financial Development</u>	<u>2007 Total</u>	<u>2006 Total</u>
Personnel costs	\$418,436	\$577,254	\$115,430	\$ 28,857	\$115,430	\$1,255,407	\$158,717	\$ 28,762	\$1,442,886	\$1,539,910
Commissions	--	--	--	--	854,255	854,255	--	--	854,255	784,269
Advertising and promotion	73,696	--	443	--	36,713	110,852	190	--	111,042	127,803
Contract & professional services	43,523	59,067	12,435	3,108	12,435	130,568	21,761	3,111	155,440	106,974
Printing and postage	44,849	60,867	12,814	3,202	12,814	134,546	22,424	3,207	160,177	160,683
Recognition, awards & outreach	829	3,162	551	74,711	2,594	81,847	3,385	--	85,232	100,139
Occupancy costs	35,070	47,596	10,020	2,505	10,020	105,211	17,536	2,506	125,253	122,548
Travel, conferences & meetings	29,991	40,702	8,568	2,142	8,568	89,971	14,995	2,146	107,112	151,968
Dues, subscriptions & supplies	28,536	38,728	8,153	2,038	8,153	85,608	14,268	2,041	101,917	110,696
Equipment rent & maintenance	35,658	48,393	10,188	2,547	10,188	106,974	17,829	2,547	127,350	96,359
Insurance and miscellaneous	13,202	17,917	3,772	943	3,772	39,606	6,601	944	47,151	37,779
Telecommunications & internet	<u>9,386</u>	<u>12,738</u>	<u>2,681</u>	<u>670</u>	<u>2,681</u>	<u>28,156</u>	<u>4,693</u>	<u>673</u>	<u>33,522</u>	<u>42,096</u>
Expenses before depreciation	733,176	906,424	185,055	120,723	1,077,623	3,023,001	282,399	45,937	3,351,337	3,381,224
Depreciation	<u>20,660</u>	<u>28,038</u>	<u>5,902</u>	<u>1,476</u>	<u>5,902</u>	<u>61,978</u>	<u>10,330</u>	<u>1,478</u>	<u>73,786</u>	<u>68,428</u>
Total expenses	<u>\$753,836</u>	<u>\$934,462</u>	<u>\$190,957</u>	<u>\$122,199</u>	<u>\$1,083,525</u>	<u>\$3,084,979</u>	<u>\$292,729</u>	<u>\$47,415</u>	<u>\$3,425,123</u>	<u>\$3,449,652</u>

The accompanying notes are a part of this statement.

DENVER AREA BETTER BUSINESS BUREAU
(including consolidated foundation)
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$388,582	\$ (73,260)
Adjustments to reconcile to net cash provided by operating activities		
Depreciation	73,786	68,428
Changes in operating assets and liabilities		
(Increase) in dues and accounts receivable	(115,126)	(2,223)
(Increase) decrease in prepaid expenses and other	(23,825)	1,130
(Decrease) in accounts payable	(6,174)	(63,497)
Increase (decrease) in accrued payroll expenses	103,071	(59,174)
Increase in accrued compensated absences	<u>16,444</u>	<u>2,527</u>
Net cash flow from operating activities	436,758	(126,068)
CASH FLOW USED BY INVESTING ACTIVITIES		
Purchase of building improvements	--	(5,457)
Purchases of furnishings, equipment & software	<u>(21,126)</u>	<u>(103,861)</u>
	(21,126)	(109,318)
CASH FLOW USED BY FINANCING ACTIVITIES		
Proceeds from issuance of mortgage note payable	--	--
Payments decreasing mortgage note payable	<u>(20,974)</u>	<u>(20,974)</u>
	(20,974)	(20,974)
NET CHANGE IN CASH AND CASH EQUIVALENTS	394,658	(254,946)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>131,880</u>	<u>386,826</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$526,538</u>	<u>\$131,880</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest expense – cash basis	<u>\$74,441</u>	<u>\$75,855</u>
Interest income – cash basis	<u>\$68,414</u>	<u>\$48,831</u>

The accompanying notes are a part of this statement.

DENVER AREA BETTER BUSINESS BUREAU

Notes to Consolidated Financial Statements

December 31, 2007

Note 1: Summary of Significant Accounting Policies

Significant accounting policies are as follows:

a. Organization

Denver Area Better Business Bureau, Inc., (the "Bureau"), was incorporated under the laws of the state of Colorado on June 14, 1951. The Bureau is a not-for-profit membership organization whose mission is to promote and foster the highest ethical marketplace relationships. The Bureau's core services include:

- Inquiry into "Business Reliability Reports" compiled for both members and nonmembers available free to the public.
- Consumer-business complaint engagement and resolution.
- Alternative dispute resolution via arbitration/mediation.
- Education to the general public about wise business and consumer practices.

The Business and Consumer Foundation of the Better Business Bureau of the Denver/Boulder Area, Inc., (the "Foundation"), was incorporated under the laws of the state of Colorado on April 5, 2001. The Foundation is a not-for-profit corporation whose purpose is to advise vulnerable consumers in underserved communities about unethical marketplace practices. The Foundation also recognizes businesses with consistent excellence in marketplace ethics and customer satisfaction. Both the Bureau and Foundation are under common control.

b. Financial statement presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. The financial statements herein include the accounts of the Foundation and all significant transactions and accounts between the two entities have been eliminated.

Net assets, support, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Unrestricted - Resources not subject to donor-imposed restrictions.

Temporarily restricted - Resources subject to donor-imposed restrictions that will be satisfied by actions of the Organization or the passage of time.

Permanently restricted - Resources held in perpetuity in accordance with donor imposed restrictions. (None in existence at December 31, 2007)

c. Cash equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible into cash within ninety (90) days of purchase and are not legally restricted as to withdrawal.

d. Property and equipment

Expenditures for property and equipment in excess of \$500 are capitalized at cost. Expenditures for maintenance, repairs and other renewals of items are charged to expense. When items are disposed of, the cost and accumulated

(Continued)

DENVER AREA BETTER BUSINESS BUREAU

Notes to Consolidated Financial Statements

December 31, 2007

Note 1: Summary of Significant Accounting Policies (Continued)

d. Property and equipment (continued)

depreciation are eliminated from the accounts and any gain or loss is included in the results of operations.

The provision for depreciation is calculated using the straight-line method based upon estimated useful lives as follows:

<u>Category</u>	<u>Life</u>
Furniture, equipment and computers	Five years
Customized software	Five years
Buildings and building improvements	Thirty-nine years

e. Revenue recognition

All contributions to the Foundation are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted either for future periods or for specific purposes by the donor are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a donor-imposed restriction is satisfied in the same accounting period that the revenue is received, the Foundation reports the revenue as "unrestricted."

The Bureau receives the majority of its support from member dues and assessments which are "in substance" contributions and are recognized as support in the same time period that the Bureau is entitled to them. Program service fees and advertising revenues are recognized as income in the same period that the related services are performed.

f. Accrued vacation and sick leave payable

In accordance with the Financial Accounting Standards Board Statement No. 43, *Accounting for Compensated Absences*, the Organization accrues vacation and sick pay when earned.

g. Donated materials, services and use of facilities

The Bureau relies upon the services of numerous volunteers to carry out its mission. The value of donated volunteer services is recorded if it is technical in nature and would have been purchased if not provided by donation. \$15,385 of donated services met these criteria during 2007 and are recorded herein under contract & professional services.

h. Functional allocation of expenses

Expenses directly identified with a functional area are charged to such area. If an expense affects more than one area, it is allocated by the time expended or another reasonable basis.

(Continued)

DENVER AREA BETTER BUSINESS BUREAU

Notes to Consolidated Financial Statements

December 31, 2007

Note 1: Summary of Significant Accounting Policies (Continued):

i. 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. Actual results could differ from those estimates.

k. Fair value of financial instruments

The Bureau's and Foundation's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, accounts and grants receivable, and a mortgage note payable. Management estimates that the fair value of all financial instruments at December 31, 2007 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

l. Tax status

The Bureau is exempt from federal income taxes under section 501(c)(6) of the Internal Revenue Code. The Foundation is likewise exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

Note 2: Commitment - Mortgage Note Payable

On January 20, 2004, the Foundation exercised an option to purchase the building which the Bureau had previously been renting under a long-term lease. \$1,125,000 of the \$1,250,000 purchase price was financed with the Colorado Housing and Finance Authority under a twenty-five year mortgage note that matures on February 28, 2029. The note carries an interest rate of 7% and is payable in monthly installments of \$7,951. The mortgage debt is collateralized by a first deed of trust on the land and building. Interest expense incurred during the year ended December 31, 2007 of \$74,441 is included as the primary component of "Occupancy Costs" in the statement of functional expenses, herein. Principal payments required by the mortgage note for each of the next five years, and thereafter in total, are as follows:

<u>Year</u>	<u>Total</u>
2008	\$22,490
2009	24,115
2010	25,859
2011	27,728
2012	29,733
Thereafter	<u>922,042</u>
	1,051,967
Less: current portion	<u>(22,490)</u>
Total - long term	<u>\$1,029,477</u>

(Continued)

DENVER AREA BETTER BUSINESS BUREAU

Notes to Consolidated Financial Statements

December 31, 2007

Note 3: Employee Retirement Plan

The Bureau has established a 401(K) Profit Sharing Plan for the benefit of its employees. Under the terms of the plan the Bureau may, but is not required to, make discretionary contributions up to 15% of each participant's annual salary. In addition, each eligible employee can make tax-deferred contributions up to an annual limit. The Bureau's contributions, plus earnings, are vested at a rate of 33% for each year of participation in the plan. There is no liability for benefits under the plan beyond the Bureau's contributions made. The Bureau's contributions for plan years 2007 and 2006 amounted to \$46,182 and \$ -0-, respectively.

Note 4: Contingency - Litigation With Former Member Business

The Bureau is defendant in a lawsuit filed during 2004 by a former business member alleging that the Bureau's reliability reports caused them to suffer a substantial loss of business. The trial date was postponed in June 2005, pending the final outcome of a series of lawsuits which were filed during the same time period by the Colorado Attorney General (against the same business) alleging the frequent use of deceptive advertising practices. The Colorado action was settled early in 2007. Management currently expects that, unless the matter is settled beforehand by arbitration, it will go to trial in the latter part of 2008.

The Bureau's legal counsel is of the opinion that the chance of an adverse ruling against the Bureau in this matter is "less than probable." In addition, the National Bureau's insurance company is paying for the majority of the legal costs not paid for by the Bureau's own insurer; and, taking a very aggressive stance due to the nature and national visibility of the case. The Bureau's total out-of-pocket exposure cannot exceed existing insurance deductibles, which have already been reached. The financial statements, herein, do not include any adjustments that might result from the outcome of this uncertainty.

Note 5: Net Assets Released from Restrictions and Temporarily Restricted Net Assets

The Bureau, primarily through the supporting foundation, periodically receives donor restricted gifts which must be classified as "temporarily restricted net assets" until expended for the donor's stated purpose. The activity corresponding to such items during 2007 was as follows.

<u>Source/Purpose</u>	<u>Balance at Dec 31, 2006</u>	<u>Donor Restricted Gifts</u>	<u>Net Assets Released by:</u>		<u>Balance at Dec 31, 2007</u>
			<u>Expenses Satisfying Restriction</u>	<u>Passage of Time</u>	
Foundation – scholarships	\$10,000	\$12,300	\$(4,665)	--	\$17,635