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HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2008

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.

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Independent Auditor's Report

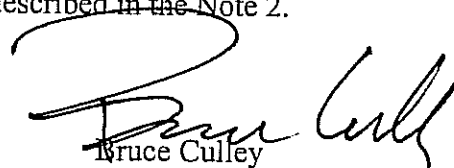
To the Board of Directors
Hillcrest Transitional Housing of Kansas, Inc.

I have audited the accompanying combined statements of assets, liabilities and net assets – cash basis of Hillcrest Transitional Housing of Kansas, Inc. as of December 31, 2008 and December 31, 2007, and the related statements of revenue, support and expenses – cash basis, functional expenses – cash basis and cash flows – cash basis for the years then ended. These financial statements are the responsibility of the management of Hillcrest Transitional Housing of Kansas, Inc. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan the audits 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. I believe that my audits provide a reasonable basis for my opinion.

As described in Note 2, these financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly in all material respects, the assets, liabilities and net assets – cash basis of Hillcrest Transitional Housing of Kansas, Inc. as of December 31, 2008, and December 31, 2007, its revenue, support, and expenses – cash basis, functional expenses – cash basis, and cash flows – cash basis for the year then ended, on the basis of accounting described in the Note 2.


Bruce Culley
Certified Public Accountant

Gladstone, Missouri
August 1, 2009

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF ASSETS, LIABILITIES
AND NET ASSETS - CASH BASIS
DECEMBER 31,

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 95,601	\$ 32,653
Total Current Assets	<u>95,601</u>	<u>32,653</u>
Property, Plant and Equipment		
Land	18,000	18,000
Buildings and Improvements	<u>283,274</u>	<u>167,909</u>
	301,274	185,909
Less Accumulated Depreciation	<u>(8,872)</u>	<u>(2,953)</u>
Total Property, Plant and Equipment	<u>292,402</u>	<u>182,956</u>
Other Assets		
Advance Due from Affiliate	3,604	-
Deposit - Real Estate Acquisition	<u>25,000</u>	<u>-</u>
Total Other Assets	<u>28,604</u>	<u>-</u>
Total Assets	<u>\$ 416,607</u>	<u>\$ 215,609</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payroll Advance	\$ -	\$ 4,244
Security Deposit	1,600	1,600
Current Portion of Mortgage Note Payable	<u>2,533</u>	<u>7,531</u>
Total Current Liabilities	4,133	13,375
Mortgage Note Payable, Net of Current Portion	<u>146,430</u>	<u>169,124</u>
Total Liabilities	<u>150,563</u>	<u>182,499</u>
Net Assets		
Unrestricted	174,108	33,110
Temporarily Restricted	<u>91,936</u>	<u>-</u>
Total Net Assets	<u>266,044</u>	<u>33,110</u>
Total Liabilities and Net Assets	<u>\$ 416,607</u>	<u>\$ 215,609</u>

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

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF REVENUE, SUPPORT AND EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Capital Campaign	\$ 292,426	\$ 31,430	\$ 323,856
Church Contributions	9,777	-	9,777
Corporate Contributions	400	-	400
Individual Contributions	7,703	-	7,703
Grants Received	-	60,506	60,506
Gala Event Receipts	20,901	-	20,901
Walk-a-thon Receipts	16,034	-	16,034
Scholarship Contributions	4,950	-	4,950
Investment Income	1,410	-	1,410
Other Income	134	-	134
Net Assets Released From Restrictions	-	-	-
Total Revenue and Support	353,735	91,936	445,671
EXPENSES			
Program Service			
Transitional Housing Ministry	195,114	-	195,114
Supporting Services			
Administrative and General	8,093	-	8,093
Fundraising	9,530	-	9,530
Total Expenses	212,737	-	212,737
Increase in Net Assets	140,998	91,936	232,934
Net Assets, Beginning of Year	33,110	-	33,110
Net Assets, End of Year	\$ 174,108	\$ 91,936	\$ 266,044

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

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF REVENUE, SUPPORT AND EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Capital Campaign	\$ 12,505	\$ -	\$ 12,505
Church Contributions	17,299	-	17,299
Corporate Contributions	14,500	-	14,500
Individual Contributions	7,570	-	7,570
Grants Received	49,245	-	49,245
Gala Event Receipts	23,856	-	23,856
Walk-a-thon Receipts	12,402	-	12,402
Investment Income	1,063	-	1,063
Total Revenue and Support	138,440	-	138,440
EXPENSES			
Program Service			
Transitional Housing Ministry	124,100	-	124,100
Supporting Services			
Administrative and General	4,357	-	4,357
Fundraising	6,873	-	6,873
Total Expenses	135,330	-	135,330
Increase in Net Assets	3,110	-	3,110
Net Assets, Beginning of Year	30,000	-	30,000
Net Assets, End of Year	\$ 33,110	\$ -	\$ 33,110

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

HILLCREST TRANSITIONAL HOUSING OF KANSAS , INC.
STATEMENT OF FUNCTIONAL EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Program Service</u>	<u>Supporting Services</u>		
	Transitional Housing Ministry	Administrative and General	Fundraising	Total Expenses
Salaries and Payroll Taxes	\$ 65,013	\$ -	\$ 3,232	\$ 68,245
Contract Labor	40	-	-	40
Office Expense	4,230	1,410	-	5,640
Gala Revenue	8,016	-	2,671	10,687
Walk-a-thon	2,168	-	722	2,890
Maintenance	2,417	-	-	2,417
Travel Expense	8,911	-	-	8,911
Staff Development	470	-	-	470
Dues and Subscriptions	2,129	-	-	2,129
Insurance - Health	4,063	-	-	4,063
Insurance - Other	10,809	-	-	10,809
Resident Needs	11,208	-	-	11,208
Rehabilitation	10,201	-	-	10,201
Donor Communications and Meetings	2,574	-	-	2,574
Telephone	1,966	-	-	1,966
Utilities	21,881	-	-	21,881
Volunteers	139	-	-	139
Depreciation	5,919	-	-	5,919
Interest Expense	12,623	-	-	12,623
Bank Charges	-	873	-	873
Advocacy Expenses Allocated By Affiliate	<u>20,337</u>	<u>5,810</u>	<u>2,905</u>	<u>29,052</u>
Total Expenses	<u><u>\$ 195,114</u></u>	<u><u>\$ 8,093</u></u>	<u><u>\$ 9,530</u></u>	<u><u>\$ 212,737</u></u>

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

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Program</u> <u>Service</u>	<u>Supporting Services</u>		
	Transitional Housing Ministry	Administrative and General	Fundraising	Total Expenses
Salaries and Payroll Taxes	\$ 36,195	\$ 2,010	\$ 2,010	\$ 40,215
Contract Labor	1,816	-	-	1,816
Office Expense	709	1,652	-	2,361
Gala Revenue	2,662	-	2,661	5,323
Walk-a-thon	1,458	-	1,458	2,916
Maintenance	6,103	-	-	6,103
Travel Expense	900	-	-	900
Staff Development	101	-	-	101
Dues and Subscriptions	1,204	-	301	1,505
Insurance - Health	4,102	-	-	4,102
Insurance - Other	5,543	-	-	5,543
Resident Needs	10,367	-	-	10,367
Donor Communications and Meetings	107	-	-	107
Telephone	1,080	-	-	1,080
Utilities	16,080	-	-	16,080
Volunteers	35	-	-	35
Depreciation	2,067	443	443	2,953
Interest Expense	8,739	-	-	8,739
Bank Charges	-	252	-	252
Miscellaneous	272	-	-	272
Advocacy Expenses Allocated By Affiliate	<u>24,560</u>	<u>-</u>	<u>-</u>	<u>24,560</u>
Total Expenses	<u>\$ 124,100</u>	<u>\$ 4,357</u>	<u>\$ 6,873</u>	<u>\$ 135,330</u>

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

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF CASH FLOWS - CASH BASIS
DECEMBER 31,

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions and Grants Received	\$ 78,386	\$ 101,119
Capital Campaign	323,856	-
Events	36,935	36,258
Scholarship Contributions	4,950	-
Investment Income	1,410	1,063
Other Income	134	5,824
Salaries	(68,245)	(40,215)
Interest Paid	(12,623)	(8,739)
Paid to Affiliate in Reimbursement of Cost Allocated	(29,052)	(24,560)
Expenditures for Ministry, Administration and Fundraising	<u>(96,898)</u>	<u>(58,863)</u>
Net Cash Provided (Used) by Operations	238,853	11,887
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase Improvements of Land and Building	(115,365)	(185,909)
Other	<u>-</u>	<u>20</u>
Net Cash Provided (Used) by Investing Activities	(115,365)	(185,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Mortgage Proceeds for Property Acquisition	-	182,000
Repayments of Mortgage Notes	(27,693)	(5,345)
Deposit - Real Estate Acquisition	(25,000)	-
Advance to Affiliate	(3,604)	-
Payroll Advance	<u>(4,244)</u>	<u>-</u>
Net Cash Provided (Used) for Financing Activities	(60,541)	176,655
Net Increase in Cash and Cash Equivalents	62,947	2,653
Cash and Cash Equivalents, Beginning of Year	<u>32,653</u>	<u>30,000</u>
Cash and Cash Equivalents, End of Year	<u>\$ 95,600</u>	<u>\$ 32,653</u>
Reconciliation of Increase in Net Assets to Cash		
Provided by Operating Activities		
Net Increase in Net Assets	\$ 232,934	\$ 3,110
Adjustments to Reconcile Net Increase in Net Assets to Cash Provided (Used) in Operations:		
Depreciation	5,919	2,953
Payroll Advance	-	4,224
Rent Deposits	<u>-</u>	<u>1,600</u>
Net Cash Provided by Operations	<u>\$ 238,853</u>	<u>\$ 11,887</u>

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

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 – ORGANIZATION

Hillcrest Transitional Housing of Kansas, Inc. was incorporated in the state of Kansas in 2005. Hillcrest is a nonprofit transitional housing ministry providing a Christian environment for homeless families for the purpose of helping them become self-supporting, self-reliant contributors to society. It operates in Wyandotte County, Kansas.

Hillcrest Transitional Housing of Kansas, Inc. operates 3 apartments for homeless families. A case manager provides ongoing personal attention to each resident family during and after their stay at Hillcrest. Each family participates in an educational program that includes training in financial management, homemaking, employment and community living skills. Hillcrest also offers programs for youth residents.

Hillcrest Transitional Housing of Kansas, Inc. is one of four separate 501(c)(3) corporations engaged directly in the mission of providing housing for the homeless. These corporations are also referred to as affiliates. A fifth entity, Hillcrest Ministries of MidAmerica, provides administrative services to the other entities. All of the corporations have their own Board of Directors. Each Hillcrest Affiliate in good standing is authorized to provide one elected representative to the Board of Hillcrest Ministries of MidAmerica. At all times, a majority of the officers, directors, or trustees of Hillcrest Ministries of MidAmerica will be appointed or elected by the Hillcrest Ministries Affiliates. A Hillcrest Ministries Affiliate is considered to be a member in good standing and entitled to send an elected representative to the Hillcrest Ministries of MidAmerica meetings when the Affiliate has met their financial commitments to Hillcrest Ministries of MidAmerica and agrees to and adheres to a covenant with and be bound by the principles and policies of Hillcrest Ministries of MidAmerica.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the cash basis of accounting, certain revenues and support are recognized when received rather than when earned and certain expenses and purchases of assets are recognized when the cash is disbursed rather than when the obligation to make the expenditure is incurred.

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2008 and 2007, cash equivalents consisted of money market accounts.

The financial institutions holding the Organization's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transactions are fully guaranteed by the FDIC for the entire amount in the account.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with donor stipulations that limit their use are reported as temporarily restricted revenue and net assets. When a donor 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. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Contributed Services

Hillcrest recognizes as contributions those donated services that create or enhance non-financial assets and those that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Unpaid volunteers have made significant contributions of their time to Hillcrest's program, administrative, and fundraising efforts. The value of this time is not reflected in these statements since it does not meet the above criteria. However, because recognition of contributed services, as revenue would also involve recognition of corresponding expenses, there would be no effect on net assets.

Property, Plant and Equipment

Property, plant and equipment is stated at cost and depreciated over the estimated useful lives of the assets using the straight-line and accelerated methods of depreciation.

Useful lives are as follows:

Office and Computer Equipment	3 to 5 years
Real Estate	40 years
Real Estate Improvements	40 years

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Revenue, Support and Expenses – Cash Basis. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Income Taxes

Hillcrest is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. No income tax expense has been provided. The Internal Revenue Service has classified Hillcrest as a publicly supported charitable organization.

Functional Expenses

The Organization allocates on a functional basis between its program, administrative and fundraising services. The allocations are based upon management's estimate of usage.

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

NOTE 3 – MORTGAGE NOTE PAYABLE

Mortgage Note 1

Hillcrest entered into a note during 2007 for the purpose of acquiring a residential facility in Wyandotte County, Kansas. The original balance of the note, secured by a mortgage on the property acquired with the proceeds, was \$153,000. The note bears interest at 8.25% and calls for monthly payments of \$1,167. As of December 31, 2008, the balance of the note was \$148,963.

Principal payments due on the note are as follows:

2009	\$ 2,533
2010	2,736
2011	2,956
2012	<u>140,738</u>
	<u>\$ 148,963</u>

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2008

NOTE 3 – MORTGAGE NOTE PAYABLE - CONTINUED

Mortgage Note 2

Hillcrest Transitional Housing of Kansas, Inc. signed a mortgage note during 2007 for the purpose of property acquisition. The original amount of the note was \$29,000. During 2008 the note was paid off.

NOTE 4 – RELATED ENTITY – AFFILIATE TRANSACTIONS

Hillcrest Transitional Housing of Kansas, Inc. had allocated by Hillcrest of Mid-America \$29,052 in costs in 2008 and \$24,560 in 2007. Hillcrest of Mid-America performs various administrative duties for all of the affiliates.

NOTE 5 – HOUSE LEASE

Hillcrest Transitional Housing of Kansas, Inc. leases two duplexes, with 3 apartments for the homeless and 1 apartment for live-in staff from St Luke's Lutheran Church in Kansas City, Kansas. The term of the lease is \$1 per unit, per year, for 10 years. Hillcrest paid the full amount of the least, \$40, at the time of the lease signing.

NOTE 6 – DONOR IMPOSED RESTRICTIONS

Donors have made contributions to the capital campaign which are temporarily restricted as follows:

Net Assets Restricted for the Capital Campaign	<u>\$ 91,936</u>
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HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2008

NOTE 7 – SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates.

Current Economic Conditions

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue could have an adverse impact on Hillcrest's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for contributions receivable that could negatively impact Hillcrest's ability to maintain sufficient liquidity.

NOTE 7 – NAME CHANGE

During 2008 the name of the Organization was changed from Hillcrest Transitional Housing of Wyandotte County to Hillcrest Transitional Housing of Kansas, Inc. A legal DBA still exists for the Organization to operate under the name of Hillcrest Transitional Housing of Wyandotte County.