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**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 and 2008**

# HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.

## *Table of Contents*

Independent Auditor’s Report.....	1
Statements of Assets, Liabilities and Net Assets – Cash Basis .....	2
Statement of Revenue, Support and Expenses – Cash Basis, December 31, 2009 .....	3
Statement of Revenue, Support and Expenses – Cash Basis, December 31, 2008 .....	4
Statement of Functional Expenses – Cash Basis, December 31, 2009.....	5
Statement of Functional Expenses – Cash Basis, December 31, 2008.....	6
Statements of Cash Flows – Cash Basis .....	7
Notes to Financial Statements.....	8 – 13

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Independent Auditor's Report

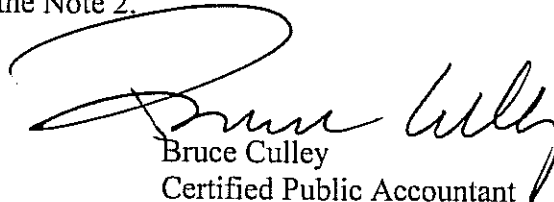
To the Board of Directors  
Hillcrest Transitional Housing of Kansas, Inc.

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, 2009 and 2008, 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, 2009 and 2008, 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  
July 10, 2010

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

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 41,104	\$ 95,601
Total Current Assets	41,104	95,601
Property, Plant and Equipment		
Land	18,000	18,000
Buildings and Improvements	986,576	283,274
	1,004,576	301,274
Less Accumulated Depreciation	(32,552)	(8,872)
Total Property, Plant and Equipment	972,024	292,402
Other Assets		
Advance Due from Affiliate	3,604	3,604
Deposit - Real Estate Acquisition	-	25,000
Total Other Assets	3,604	28,604
Total Assets	<u>\$ 1,016,732</u>	<u>\$ 416,607</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Rent Deposits	\$ -	\$ 1,600
Current Portion of Mortgage Note Payable	20,000	2,533
Total Current Liabilities	20,000	4,133
Long-term Liabilities		
Mortgage Notes Payable	623,317	148,996
Less: Current Portion	(20,000)	(2,533)
Total Long-term Liabilities	603,317	146,463
Total Liabilities	623,317	150,596
Net Assets		
Unrestricted	359,734	174,108
Temporarily Restricted	33,681	91,936
Total Net Assets	393,415	266,044
Total Liabilities and Net Assets	<u>\$ 1,016,732</u>	<u>\$ 416,640</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, 2009**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Contributions:			
Capital Campaign	\$ -	\$ 340,276	\$ 340,276
Church Contributions	32,640	-	32,640
Corporate Contributions	7,480	-	7,480
Individual Contributions	7,676	-	7,676
Scholarship Contributions	5,240	-	5,240
Grants Received	63,666	-	63,666
Special Events:			
Gala Event Receipts	39,507	-	39,507
Walk-a-thon Receipts	16,492	-	16,492
Special Event Expenses	(15,217)	-	(15,217)
Total Special Events Revenue	40,782	-	40,782
Investment Income	43	-	43
Total Revenue and Support	157,527	340,276	497,803
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Restrictions Satisfied by Payments	398,531	(398,531)	-
Total Revenues	556,058	(58,255)	497,803
<b>EXPENSES</b>			
Program Service			
Transitional Housing Ministry	356,614	-	356,614
Supporting Services			
Administrative and General	7,418	-	7,418
Fundraising	6,400	-	6,400
Total Expenses	370,432	-	370,432
Increase in Net Assets	185,626	(58,255)	127,371
Net Assets, Beginning of Year	174,108	91,936	266,044
Net Assets, End of Year	\$ 359,734	\$ 33,681	\$ 393,415

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**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Contributions:			
Capital Campaign	\$ 292,426	\$ 31,430	\$ 323,856
Church Contributions	9,777	-	9,777
Corporate Contributions	400	-	400
Individual Contributions	7,703	-	7,703
Scholarship Contributions	4,950	-	4,950
Grants Received	-	60,506	60,506
Special Events:			
Gala Event Receipts	20,901	-	20,901
Walk-a-thon Receipts	16,034	-	16,034
Special Event Expenses	<u>(13,577)</u>	<u>-</u>	<u>(13,577)</u>
Total Special Events Revenue	23,358	-	23,358
Investment Income	1,410	-	1,410
Other Income	<u>134</u>	<u>-</u>	<u>134</u>
Total Revenue and Support	340,158	91,936	432,094
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	340,158	91,936	432,094
<b>EXPENSES</b>			
Program Service			
Transitional Housing Ministry	184,930	-	184,930
Supporting Services			
Administrative and General	8,093	-	8,093
Fundraising	<u>6,137</u>	<u>-</u>	<u>6,137</u>
Total Expenses	<u>199,160</u>	<u>-</u>	<u>199,160</u>
Increase in Net Assets	140,998	91,936	232,934
Net Assets, Beginning of Year	<u>33,110</u>	<u>-</u>	<u>33,110</u>
Net Assets, End of Year	<u>\$ 174,108</u>	<u>\$ 91,936</u>	<u>\$ 266,044</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, 2009**

	<u>Program</u> <u>Service</u>	<u>Supporting Services</u>		
	Transitional	Administrative		
	Housing	and		Total
	<u>Ministry</u>	<u>General</u>	<u>Fundraising</u>	<u>Expenses</u>
Salaries and Payroll Taxes	\$ 67,990	\$ -	\$ 3,579	\$ 71,569
Contract Labor	1,000	-	-	1,000
Office Expense	1,759	586	-	2,345
Maintenance	8,559	-	-	8,559
Travel Expense	10,826	-	-	10,826
Staff Development	565	-	-	565
Dues and Subscriptions	1,933	-	-	1,933
Insurance - Health	8,827	-	-	8,827
Insurance - Other	17,389	-	-	17,389
Resident Needs	12,543	-	-	12,543
Communications	3,295	-	-	3,295
Rehab Expenditures	92,429	-	-	92,429
Retirement	306	-	-	306
Telephone	3,630	-	-	3,630
Utilities	43,804	-	-	43,804
Volunteers	181	-	-	181
Depreciation	23,680	-	-	23,680
Interest Expense	38,147	-	-	38,147
Bank Charges	-	1,189	-	1,189
Advocacy Expenses Allocated by Affiliate	<u>19,751</u>	<u>5,643</u>	<u>2,821</u>	<u>28,215</u>
Total Expenses	<u>\$ 356,614</u>	<u>\$ 7,418</u>	<u>\$ 6,400</u>	<u>\$ 370,432</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, 2008**

	Program			Total
	<u>Service</u>	<u>Supporting Services</u>		
	Transitional	Administrative		
	Housing	and		Expenses
	<u>Ministry</u>	<u>General</u>	<u>Fundraising</u>	
Salaries and Payroll Taxes	\$ 65,013	\$ -	\$ 3,232	\$ 68,245
Contract Labor	40	-	-	40
Office Expense	4,230	1,410	-	5,640
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>\$ 184,930</u>	<u>\$ 8,093</u>	<u>\$ 6,137</u>	<u>\$ 199,160</u>

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



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

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions and Grants Received	\$ 456,978	\$ 407,192
Events	40,782	36,935
Investment Income	43	1,410
Other Income	-	134
Salaries	(71,569)	(68,245)
Interest Paid	(1,189)	(12,623)
Rehabilitation Expenses	(92,429)	-
Paid to Affiliate in Reimbursement of Cost Allocated	(28,245)	(29,052)
Expenditures for Ministry, Administration and Fundraising	<u>(154,887)</u>	<u>(96,898)</u>
Net Cash Provided (Used) by Operations	149,484	238,853
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase Improvements of Land and Building	<u>(678,302)</u>	<u>(115,365)</u>
Net Cash Provided (Used) by Investing Activities	(678,302)	(115,365)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Mortgage Proceeds for Property Acquisition	476,709	-
Repayments of Mortgage Note	(2,388)	(27,693)
Deposit - Real Estate Acquisition	-	(25,000)
Advance to Affiliate	-	(3,604)
Payroll Advance	<u>-</u>	<u>(4,244)</u>
Net Cash Provided (Used) for Financing Activities	474,321	(60,541)
Net Increase in Cash and Cash Equivalents	(54,497)	62,947
Cash and Cash Equivalents, Beginning of Year	<u>95,601</u>	<u>32,654</u>
Cash and Cash Equivalents, End of Year	<u>\$ 41,104</u>	<u>\$ 95,601</u>
Reconciliation of Increase in Net Assets to Cash		
Provided by Operating Activities		
Net Increase in Net Assets	\$ 127,371	\$ 232,934
Adjustments to Reconcile Net Increase in Net Assets		
to Cash Provided (Used) in Operations:		
Depreciation	23,680	5,919
Decrease in Rent Deposits	(1,600)	-
Other	<u>33</u>	<u>-</u>
Net Cash Provided (Used) by Operations	<u>\$ 149,484</u>	<u>\$ 238,853</u>

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

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**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 8 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, 2009**

**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, 2009 and 2008, cash equivalents consisted of money market accounts.

One or more of the financial institutions holding the Organization's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under the program, through June 30, 2010, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account.

For financial institutions opting out of the FDIC's Transaction Account Guarantee Program or interest-bearing cash accounts, the FDIC's insurance limits increased to \$250,000, effective October 3, 2008. The increase in federally insured limits is currently set to expire December 31, 2013. At December 31, 2009, the Organization's cash accounts did not exceed federally insured limits.

***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

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2009**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Contributed Services – Continued***

individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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***

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2006.

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2009**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***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.

***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 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the change in net assets.

***Subsequent Events***

Subsequent events have been evaluated through July 10, 2010, which is the date the financial statements were issued.

**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, 2009, the balance of the note was \$146,608.

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009**

**NOTE 3 – MORTGAGE NOTE PAYABLE – CONTINUED**

*Mortgage Note 1 – Continued*

Principal payments due on the note are as follows:

2010	\$ 2,917
2011	2,956
2012	<u>140,735</u>
	<u>\$ 146,608</u>

*Mortgage Note 2*

During 2009 Hillcrest Transitional Housing of Kansas, Inc. borrowed \$476,709 on a mortgage note to acquire two properties in Kansas. The note is structured as an interest only note until the property has been renovated. The interest rate on the note is 5.5% and matured on January 22, 2010, when it was refinanced for another year. The new maturity date on the note is January 22, 2011.

**NOTE 4 – RELATED ENTITY – AFFILIATE TRANSACTIONS**

Hillcrest Transitional Housing of Kansas, Inc. had allocated by Hillcrest of Mid-America \$28,215 in costs in 2009 and \$29,052 in 2008. Hillcrest of Mid-America performs various program, administrative and fundraising 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 lease, \$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:

	<u>2009</u>	<u>2008</u>
Net Assets Restricted for the Capital Campaign	<u>\$ 33,681</u>	<u>\$ 91,936</u>

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2009**

**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 8 – 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.

**NOTE 9 – RETIREMENT PLAN**

Hillcrest Ministries of Kansas, Inc. and all the affiliates sponsor a 403b retirement plan. Employees must wait one year before enrolling in the plan with a company match. After one year of employment, the company provides a 50% match up to 6% of the employee's salary. A total of \$306 was expended on the retirement benefits in 2009.