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HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

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, 2011 and 2010, 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, 2011 and 2010, 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
September 1, 2012

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

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 331,737	\$ 413,253
Total Current Assets	<u>331,737</u>	<u>413,253</u>
Property, Plant and Equipment		
Land	18,000	18,000
Buildings and Improvements	<u>1,351,016</u>	<u>986,076</u>
	1,369,016	1,004,076
Less Accumulated Depreciation	<u>(82,695)</u>	<u>(57,349)</u>
Total Property, Plant and Equipment	<u>1,286,321</u>	<u>946,727</u>
Other Assets		
Due from Affiliate	<u>-</u>	<u>3,604</u>
Total Other Assets	<u>-</u>	<u>3,604</u>
Total Assets	<u>\$ 1,618,058</u>	<u>\$ 1,363,584</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current Portion of Mortgage Note Payable	\$ -	\$ 20,000
Accounts Payable - Hillcrest-Platte County	<u>85,000</u>	<u>674,000</u>
Total Current Liabilities	<u>85,000</u>	<u>694,000</u>
Long-term Liabilities		
Mortgage Notes Payable	142,095	144,254
Less: Current Portion	<u>-</u>	<u>(20,000)</u>
Total Long-term Liabilities	<u>142,095</u>	<u>124,254</u>
Total Liabilities	<u>227,095</u>	<u>818,254</u>
Net Assets		
Unrestricted	1,390,963	330,330
Temporarily Restricted	<u>-</u>	<u>215,000</u>
Total Net Assets	<u>1,390,963</u>	<u>545,330</u>
Total Liabilities and Net Assets	<u>\$ 1,618,058</u>	<u>\$ 1,363,584</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, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions			
Church Contributions	\$ 69,276	\$ 35,835	\$ 105,111
Corporate Contributions	3,185	-	3,185
Individual Contributions	23,108	370	23,478
Scholarship Contributions	1,000	-	1,000
Service Organizations	1,174	-	1,174
Grants Received			
Affiliates	674,000	-	674,000
Other	171,823	164,411	336,234
Special Events			
Gala Event Receipts	35,780	-	35,780
Walk-a-thon Receipts	9,567	-	9,567
Special Event Expenses	(19,576)	-	(19,576)
Total Special Events	25,771	-	25,771
Rent Income	175	3,700	3,875
Interest Income	1,270	-	1,270
Total Revenue and Support	970,782	204,316	1,175,098
NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions Satisfied by Payments	419,316	(419,316)	-
Total Revenue and Support	1,390,098	(215,000)	1,175,098
EXPENSES			
Program Service			
Transitional Housing Ministry	278,860	-	278,860
Supporting Services			
Administrative and General	25,942	-	25,942
Fundraising	24,663	-	24,663
Total Expenses	329,465	-	329,465
Increase in Net Assets	1,060,633	(215,000)	845,633
Net Assets, Beginning of Year	330,330	215,000	545,330
Net Assets, End of Year	\$ 1,390,963	\$ -	\$ 1,390,963

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, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions			
Church and Service Organization Contributions	\$ 26,404	\$ 97,835	\$ 124,239
Corporate Contributions	10,627	-	10,627
Individual Contributions	23,871	500	24,371
Scholarship Contributions	4,983	-	4,983
Grants Received	53,009	25,000	78,009
Rent	-	10,130	10,130
Affiliate Contributions	-	50,000	50,000
Special Events			
Gala Event Receipts	30,745	-	30,745
Walk-a-thon Receipts	14,356	-	14,356
Special Event Expenses	<u>(16,563)</u>	<u>-</u>	<u>(16,563)</u>
Total Special Events Revenue	28,538	-	28,538
Legal Settlement	-	43,838	43,838
Other Income	<u>913</u>	<u>-</u>	<u>913</u>
Total Revenue and Support	148,345	227,303	375,648
NET ASSETS RELEASED FROM RESTRICTIONS			
Restrictions Satisfied by Payments	<u>45,984</u>	<u>(45,984)</u>	<u>-</u>
Total Revenue and Support	194,329	181,319	375,648
EXPENSES			
Program Service			
Transitional Housing Ministry	217,568	-	217,568
Supporting Services			
Administrative and General	3,430	-	3,430
Fundraising	<u>2,735</u>	<u>-</u>	<u>2,735</u>
Total Expenses	<u>223,733</u>	<u>-</u>	<u>223,733</u>
Increase in Net Assets	(29,404)	181,319	151,915
Net Assets, Beginning of Year	<u>359,734</u>	<u>33,681</u>	<u>393,415</u>
Net Assets, End of Year	<u>\$ 330,330</u>	<u>\$ 215,000</u>	<u>\$ 545,330</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, 2011**

	<u>Program Service</u>	<u>Supporting Services</u>		
	Transitional Housing Ministry	Administrative and General	Fund- raising	Total Expenses
Salaries and Payroll Taxes	\$ 64,327	\$ -	\$ 11,352	\$ 75,679
Contract Labor	941	-	-	941
Office Expense	2,535	845	-	3,380
Maintenance	25,961	-	-	25,961
Travel Expense	3,144	-	-	3,144
Staff Development	461	-	-	461
Dues and Subscriptions	4,214	-	-	4,214
Insurance - Health	10,983	-	-	10,983
Insurance - Other	9,847	-	-	9,847
Telephone	1,424	-	-	1,424
Communications	3,143	-	-	3,143
Rehab Expenditures	3,939	-	-	3,939
Utilities	50,903	-	-	50,903
Volunteers	815	-	-	815
Depreciation	25,297	-	-	25,297
Interest Expense	6,004	-	-	6,004
Bank Charges	-	2,687	-	2,687
Resident Fund	11,627	-	-	11,627
Miscellaneous	50	-	-	50
Advocacy Expenses Allocated by Affiliate	<u>53,245</u>	<u>22,410</u>	<u>13,311</u>	<u>88,966</u>
Total Expenses	<u>\$ 278,860</u>	<u>\$ 25,942</u>	<u>\$ 24,663</u>	<u>\$ 329,465</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, 2010

	<u>Program Service</u>	<u>Supporting Services</u>		
	Transitional Housing Ministry	Administrative and General	Fund- raising	Total Expenses
Salaries and Payroll Taxes	\$ 33,710	\$ -	\$ -	\$ 33,710
Contract Labor	2,731	-	2,500	5,231
Office Expense	2,784	928	-	3,712
Maintenance	22,658	-	-	22,658
Travel Expense	4,575	-	-	4,575
Staff Development	755	-	-	755
Dues and Subscriptions	4,225	-	-	4,225
Insurance - Health	3,753	-	-	3,753
Insurance - Other	8,655	-	-	8,655
Telephone and Communications	7,101	-	-	7,101
Rehab Expenditures	7,509	-	-	7,509
Retirement	255	-	-	255
Utilities	48,639	-	-	48,639
Volunteers	209	-	-	209
Depreciation	25,297	-	-	25,297
Interest Expense	32,568	-	-	32,568
Bank Charges	-	2,032	-	2,032
SBCM Match	10,030	-	-	10,030
Miscellaneous	468	-	-	468
Advocacy Expenses Allocated by Affiliate	1,646	470	235	2,351
Total Expenses	<u>\$ 217,568</u>	<u>\$ 3,430</u>	<u>\$ 2,735</u>	<u>\$ 223,733</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>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Increase in Net Assets	\$ 845,633	\$ 151,915
Adjustments to Reconcile Net Increase in Net Assets to Cash Provided (Used) in Operations		
Depreciation	25,346	24,797
Forgiveness of Debt	<u>(674,000)</u>	<u>-</u>
Net Cash Provided (Used) by Operations	196,979	176,712
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase Improvements of Land and Building	<u>(364,940)</u>	<u>500</u>
Net Cash Provided (Used) by Investing Activities	(364,940)	500
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from Affiliate	85,000	-
Repayments of Mortgage Note	(2,159)	(479,063)
Advance from Affiliate	<u>3,604</u>	<u>674,000</u>
Net Cash Provided (Used) for Financing Activities	<u>86,445</u>	<u>194,937</u>
Net Increase in Cash and Cash Equivalents	(81,516)	372,149
Cash and Cash Equivalents, Beginning of Year	<u>413,253</u>	<u>41,104</u>
Cash and Cash Equivalents, End of Year	<u>\$ 331,737</u>	<u>\$ 413,253</u>

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

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 – ORGANIZATION

Hillcrest Transitional Housing of Kansas, Inc. (Hillcrest) 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 operates 8 apartments for homeless families and 10 apartments for homeless youth. 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 is one of five 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 sixth entity, Hillcrest Ministries of MidAmerica, provides program, administrative and fundraising 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, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash Equivalents

Hillcrest considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted of money market accounts.

One or more of the financial institutions holding Hillcrest'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, 2010, Hillcrest's cash accounts did not exceed federally insured limits.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Hillcrest 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 Hillcrest 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

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributed Services – Continued

by 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

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

Hillcrest files tax returns in the U.S. federal jurisdiction. With a few exceptions, Hillcrest is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Expenses

Hillcrest 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 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through September 1, 2012, which is the date the financial statements were issued.

NOTE 3 – MORTGAGE NOTE PAYABLE

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, 2011, the balance of the note was \$142,095.

Principal payments due on the note are as follows:

2012	<u>\$ 142,095</u>
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HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2011

NOTE 4 – RELATED ENTITY – AFFILIATE TRANSACTIONS

Hillcrest had allocated by Hillcrest of MidAmerica \$88,742 in costs in 2011 and \$2,351 in 2010. Hillcrest of MidAmerica performs various program, administrative and fundraising duties for all of the affiliates.

NOTE 5 – HOUSE LEASE

Hillcrest 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 made contributions to the capital campaign which were temporarily restricted at December 31, 2010:

Net Assets Restricted for the Capital Campaign	\$ 200,000
Youth Transitional Housing	<u>15,000</u>
	<u>\$ 215,000</u>

There were no restrictions at December 31, 2011.

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 Hillcrest.

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2011

NOTE 7 – SIGNIFICANT ESTIMATES AND CONCENTRATIONS – CONTINUED

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 – RETIREMENT PLAN

Hillcrest 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. No funds were expended on retirement benefits in 2011 and \$255 was expended in 2010.

NOTE 9 – DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1 Quoted prices in active markets for identical assets or liabilities

- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2011

NOTE 9 – DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES – CONTINUED

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid money market funds, U.S. Treasuries and exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include fixed income securities and pooled investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and level within the fair value hierarchy in which the fair measurements fall at December 31, 2010.

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<i>December 31, 2011</i>				
Money Market Account	<u>\$ 88,946</u>	<u>\$ 88,496</u>		
<i>December 31, 2010</i>				
Money Market Account	<u>\$ 335,498</u>	<u>\$ 335,498</u>		

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2011**

NOTE 10 – ACCOUNTS PAYABLE – HILLCREST OF PLATTE COUNTY

During 2011, Hillcrest Ministries of Platte County loaned \$85,000 to Hillcrest. Funds were advanced in the amount of \$674,000 in 2010 which was forgiven during 2011 and recognized as income and shown as grants received from affiliates.