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

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 and 2011**

## 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 financial statements of Hillcrest Transitional Housing of Kansas, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – cash basis as of December 31, 2012 and 2011, and the related statements of support, revenue, and expenses – cash basis, functional expenses – cash basis and cash flows – cash basis for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Hillcrest Transitional Housing of Kansas, Inc. as of December 31, 2012 and 2011, and its support, revenue, and expenses for the years then ended in accordance with the cash basis of accounting as described in Note 2.

**Basis of Accounting**

I draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with respect to that matter.

Bruce Culley  
Certified Public Accountant

Gladstone, Missouri  
August 1, 2013

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

	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 533,854	\$ 331,737
Total Current Assets	533,854	331,737
Property, Plant and Equipment		
Land	18,000	18,000
Buildings and Improvements	1,660,037	1,351,016
Vehicle	2,700	-
	1,680,737	1,369,016
Less Accumulated Depreciation	(119,762)	(82,695)
Total Property, Plant and Equipment	1,560,975	1,286,321
Total Assets	\$ 2,094,829	\$ 1,618,058
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Due to Affiliate	\$ -	\$ 85,000
Total Current Liabilities	-	85,000
Long-term Liabilities		
Mortgage Notes Payable	-	142,095
Total Long-term Liabilities	-	142,095
Total Liabilities	-	227,095
Net Assets		
Unrestricted	2,094,829	1,390,963
Total Net Assets	2,094,829	1,390,963
Total Liabilities and Net Assets	\$ 2,094,829	\$ 1,618,058

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, 2012**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Capital Campaign Contributions	\$ 28,316	\$ -	\$ 28,316
Church and Service Organization Contributions	79,187	-	79,187
Corporate Contributions	27,468	-	27,468
Individual Contributions	30,386	-	30,386
Service Organizations	2,067	-	2,067
Grants Received	1,030,159	-	1,030,159
Special Events			
Gala Event Receipts	47,127	-	47,127
Walk Income	34,647	-	34,647
Special Event Expenses	<u>(16,560)</u>	<u>-</u>	<u>(16,560)</u>
Total Special Events	65,214	-	65,214
Rent	10,752	-	10,752
Non Profit Income	270	-	270
Other Income	<u>331</u>	<u>-</u>	<u>331</u>
Total Revenue and Support	1,274,150	-	1,274,150
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Restrictions Satisfied by Payments	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	1,274,150	-	1,274,150
<b>EXPENSES</b>			
Program Service			
Transitional Housing Ministry	494,238	-	494,238
Supporting Services			
Administrative and General	30,854	-	30,854
Fundraising	<u>45,192</u>	<u>-</u>	<u>45,192</u>
Total Expenses	<u>570,284</u>	<u>-</u>	<u>570,284</u>
Increase in Net Assets	703,866	-	703,866
Net Assets, Beginning of Year	<u>1,390,963</u>	<u>-</u>	<u>1,390,963</u>
Net Assets, End of Year	<u>\$ 2,094,829</u>	<u>\$ -</u>	<u>\$ 2,094,829</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
<b>REVENUE AND SUPPORT</b>			
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	<u>(19,576)</u>	<u>-</u>	<u>(19,576)</u>
Total Special Events	25,771	-	25,771
Rent Income	175	3,700	3,875
Interest Income	<u>1,270</u>	<u>-</u>	<u>1,270</u>
Total Revenue and Support	970,782	204,316	1,175,098
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Restrictions Satisfied by Payments	<u>419,316</u>	<u>(419,316)</u>	<u>-</u>
Total Revenue and Support	1,390,098	(215,000)	1,175,098
<b>EXPENSES</b>			
Program Service			
Transitional Housing Ministry	278,860	-	278,860
Supporting Services			
Administrative and General	25,942	-	25,942
Fundraising	<u>24,663</u>	<u>-</u>	<u>24,663</u>
Total Expenses	<u>329,465</u>	<u>-</u>	<u>329,465</u>
Increase (Decrease) in Net Assets	1,060,633	(215,000)	845,633
Net Assets, Beginning of Year	<u>330,330</u>	<u>215,000</u>	<u>545,330</u>
Net Assets, End of Year	<u>\$ 1,390,963</u>	<u>\$ -</u>	<u>\$ 1,390,963</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, 2012**

	<u>Program</u> <u>Service</u>	<u>Supporting Services</u>		<u>Total</u> <u>Expenses</u>
	Transitional Housing Ministry	Administrative and General	Fund- raising	
Salaries and Payroll Taxes	\$ 176,763	\$ -	\$ 31,193	\$ 207,956
Advocacy Expenses				
Allocated by Affiliate	56,000	23,333	13,999	93,332
Contract Labor	19,793	-	-	19,793
Office Expense	-	249	-	249
Maintenance	40,210	-	-	40,210
Travel Expense	8,311	-	-	8,311
Staff Development	861	-	-	861
Dues and Subscriptions	3,306	-	-	3,306
HMIS	1,777	-	-	1,777
Insurance - Health	16,586	-	-	16,586
Insurance - Other	17,651	-	-	17,651
Telephone	942	-	-	942
Communications	3,062	-	-	3,062
Utilities	71,081	-	-	71,081
Volunteers	246	-	-	246
Depreciation	36,615	-	-	36,615
Interest Expense	(1,249)	-	-	(1,249)
Bank Charges	-	1,958	-	1,958
Real Estate Tax	1,484	-	-	1,484
Resident Fund	23,345	-	-	23,345
Supplies	15,945	5,314	-	21,259
Miscellaneous	1,509	-	-	1,509
	<u>\$ 494,238</u>	<u>\$ 30,854</u>	<u>\$ 45,192</u>	<u>\$ 570,284</u>
Total Expenses	<u>\$ 494,238</u>	<u>\$ 30,854</u>	<u>\$ 45,192</u>	<u>\$ 570,284</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**

	Program Service	Supporting Services		Total Expenses
	Transitional Housing Ministry	Administrative and General	Fund- raising	
Salaries and Payroll Taxes	\$ 64,327	\$ -	\$ 11,352	\$ 75,679
Advocacy Expenses				
Allocated by Affiliate	53,245	22,410	13,311	88,966
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
	<u>50</u>	<u>-</u>	<u>-</u>	<u>50</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.**  
**STATEMENTS OF CASH FLOWS - CASH BASIS**  
**DECEMBER 31,**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Increase in Net Assets	\$ 703,866	\$ 845,633
Adjustments to Reconcile Net Increase in Net Assets to Cash Provided in Operations		
Depreciation	37,067	25,346
Forgiveness of Debt by Affiliate	<u>-</u>	<u>(674,000)</u>
Net Cash Provided by Operations	740,933	196,979
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase Improvements of Land and Building	<u>(311,721)</u>	<u>(364,940)</u>
Net Cash Used by Investing Activities	(311,721)	(364,940)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advance from Affiliate	(85,000)	85,000
Repayments of Mortgage Note	(142,095)	(2,159)
Advance from Affiliate	<u>-</u>	<u>3,604</u>
Net Cash Provided (Used) for Financing Activities	<u>(227,095)</u>	<u>86,445</u>
Net Increase (Decrease) in Cash and Cash Equivalents	202,117	(81,516)
Cash and Cash Equivalents, Beginning of Year	<u>331,737</u>	<u>413,253</u>
Cash and Cash Equivalents, End of Year	<u>\$ 533,854</u>	<u>\$ 331,737</u>

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

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**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 17 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, 2012**

**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, 2012 and 2011, cash equivalents consisted of money market accounts.

Bank balances are insured up to \$250,000 per institution effective December 31, 2012. Hillcrest had balances in excess of the FDIC limit amounting to \$238,254.

*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 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.

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2012**

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

***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

***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 2009.

***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.

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2012**

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

*Reclassifications*

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

*Subsequent Events*

Subsequent events have been evaluated through August 1, 2013, 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 was paid off during 2012.

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

Hillcrest had allocated by Hillcrest of MidAmerica \$93,332 in costs in 2012 and \$88,966 in 2011. 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.

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2012**

**NOTE 6 – 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. Retirement benefits in 2012 totaled \$938 and \$255 in 2011.

**NOTE 7 – ACCOUNTS PAYABLE – HILLCREST OF PLATTE COUNTY**

During 2011, Hillcrest Ministries of Platte County loaned \$85,000 to Hillcrest. The amount was paid off in 2012.