

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2013 and 2012

HILLCREST TRANSITIONALHOUSING OF KANSAS, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 -2
Statements of Assets, Liabilities and Net Assets – Cash Basis	3
Statement of Revenue, Support and Expenses- Cash Basis, December 31, 2013	4
Statement of Revenue, Support and Expenses- Cash Basis, December 31, 2012	5
Statement of Functional Expenses- Cash Basis, December 31, 2013	6
Statement of Functional Expenses- Cash Basis, December 31, 2012	7
Notes to Financial Statements	8-11



EMERICK & COMPANY, P.C.

David Emerick
Rick Hann

CERTIFIED PUBLIC ACCOUNTANTS & AUDITING PROFESSIONALS

Board of Directors

Hillcrest Transitional Housing of Kansas, Inc.

We have audited the accompanying financial statements of Hillcrest Transitional Housing of Kansas Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets-cash basis as of December 31, 2013, and the related statements of revenue, support and expenses-cash basis and functional expenses-cash basis for the year 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our 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, 2013, and its revenue, support and expenses and functional expenses for the year then ended in accordance with the cash basis of accounting as described in Note 2.

Basis of Accounting

We 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. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements for the year ended December 31, 2012 were audited by a predecessor auditor. That opinion, dated August 1, 2013, stated that the financial statements presented fairly, in all material respect, the assets, liabilities and net assets of Hillcrest Transitional Housing of Kansas, Inc. as of December 31, 2012, and its support, revenue and expenses for the year then ended in accordance with the cash basis of accounting.

Kansas City, Missouri
September 24, 2014

Ernst & Company, P.C.

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

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 321,984	\$ 533,854
Total Current Assets	321,984	533,854
Property, Plant and Equipment		
Land	36,500	18,000
Buildings and Improvements, including furniture and equipment	1,864,168	1,660,037
Vehicle	2,700	2,700
	1,903,368	1,680,737
Less Accumulated Depreciation	(170,352)	(119,762)
Total Property, Plant and Equipment.	1,733,016	1,560,975
Total Assets	\$ 2,055,000	\$ 2,094,829
 LIABILITIES AND NET ASSETS		
Current Liabilities	\$ -	\$ -
Net Assets		
Unrestricted	2,031,007	2,094,829
Temporarily restricted	23,993	-
Total Net Assets	2,055,000	2,094,829
Total Liabilities and Net Assets	\$ 2,055,000	\$ 2,094,829

See Notes to Financial Statements

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF REVENUE, SUPPORT AND EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Capital Campaign	\$ 62,993	\$ -	\$ 62,993
Contributions:			
Church Contributions	46,834	-	46,834
Corporate Contributions	31,680	-	31,680
Individual Contributions	13,838	-	13,838
Scholarship Contributions	2,500	-	2,500
Service Organization Contributions	3,031	-	3,031
Grants received	378,640	29,800	408,440
Special Events			
Gala Event Receipts	41,936	-	41,936
Walk-a-thon Receipts	14,084	-	14,084
RYE Event Income	2,327	-	2,327
Special Event Expenses	(23,918)	-	(23,918)
Total Special Events	<u>34,429</u>	<u>-</u>	<u>34,429</u>
Rent Income	20,738	-	20,738
Other Income	12,221	-	12,221
Total Revenue and Support	<u>606,904</u>	<u>29,800</u>	<u>636,704</u>
Net Assets Released From Restrictions			
Restrictions Satisfied by Payments	5,807	(5,807)	-
Total Revenues	<u>612,711</u>	<u>23,993</u>	<u>636,704</u>
EXPENSES			
Program services:			
Transitional Housing Ministry	582,476	-	582,476
Supporting services:			
Administrative and General	32,782	-	32,782
Fundraising	61,275	-	61,275
Total Expenses	<u>676,533</u>	<u>-</u>	<u>676,533</u>
INCREASE (DECREASE) IN NET ASSETS	(63,822)	23,993	(39,829)
NET ASSETS, BEGINNING OF YEAR	<u>2,094,829</u>	<u>-</u>	<u>2,094,829</u>
NET ASSETS, END OF YEAR	<u>\$ 2,031,007</u>	<u>\$ 23,993</u>	<u>\$ 2,055,000</u>

See Notes to Financial Statements

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF REVENUE, SUPPORT AND EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Capital Campaign	\$ 28,316	\$ -	\$ 28,316
Contributions			
Church and Service Organization Contributions	79,187	-	79,187
Corporate Contributions	27,468	-	27,468
Individual Contributions	30,386	-	30,386
Service Organization Contributions	2,067	-	2,067
Grants received	1,030,159	-	1,030,159
Special Events			
Gala Event Receipts	47,127	-	47,127
Walk-a-thon Receipts	34,647	-	34,647
Special Event Expenses	(16,560)	-	(16,560)
Total Special Events	<u>65,214</u>	<u>-</u>	<u>65,214</u>
Rent Income	10,752		10,752
Other income	601		601
Total Revenue and Support	<u>1,274,150</u>	<u>-</u>	<u>1,274,150</u>
Net Assets Released From Restrictions			
Restrictions Satisfied by Payments	-	-	-
Total Revenues	<u>1,274,150</u>	<u>-</u>	<u>1,274,150</u>
EXPENSES			
Program services:			
Transitional Housing Ministry	494,238	-	494,238
Supporting services:			
Administrative and General	30,854	-	30,854
Fundraising	45,192	-	45,192
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>

See Notes to Financial Statements

**HILLCREST TRANSITIONAL HOUSING OF KANSAS INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013**

	Program Service	Supporting Services		Total Expenses
	Transitional Housing Ministry	Administrative and General	Fund Raising	
Salaries and Payroll Taxes	\$ 221,161	\$ -	\$ 39,028	\$ 260,189
Contract Labor	7,464	-	-	7,464
Advocacy Expenses				
Allocated by Affiliate	58,800	24,500	14,700	98,000
Total Personnel Costs	287,425	24,500	53,728	365,653
Office Expense	-	2,829	-	2,829
Maintenance	31,683	-	-	31,683
Mileage and Travel Expense	9,164	-	-	9,164
Staff Development	1,828	-	-	1,828
Dues and Subscriptions	5,381	-	-	5,381
Equipment	6,803	-	-	6,803
Garden Expense	5,807	-	-	5,807
Insurance- Health	22,462	-	3,964	26,426
Insurance - Other	25,458	-	415	25,873
Telephone	3,711	-	-	3,711
Donor Communications	-	-	3,014	3,014
Utilities	94,931	-	-	94,931
Volunteers	511	-	-	511
Depreciation	50,590	-	-	50,590
Bank Charges	-	2,112	-	2,112
Real Estate Taxes	2,321	-	-	2,321
Resident Needs	18,409	-	-	18,409
Gifts to Affiliates	5,000	-	-	5,000
Supplies	10,022	3,341	-	13,363
Miscellaneous	97	-	-	97
Retirement Benefits	874	-	154	1,028
Total Expenses	\$ 582,476	\$ 32,782	\$ 61,275	\$ 676,533

See Notes to Financial Statements

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	Program Service	Supporting Services		Total Expenses
	Transitional Housing Ministry	Administrative and General	Fund Raising	
Salaries and Payroll Taxes	\$ 176,763	\$ -	\$ 31,193	\$ 207,956
Contract Labor	19,793	-	-	19,793
Advocacy Expenses				
Allocated by Affiliate	56,000	23,333	13,999	93,332
Total Personnel Costs	252,556	23,333	45,192	321,081
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
Bank Charges	-	1,958	-	1,958
Real Estate Taxes	1,484	-	-	1,484
Resident Needs	23,345	-	-	23,345
Supplies	15,945	5,314	-	21,259
Miscellaneous	260	-	-	260
Total Expenses	\$ 494,238	\$ 30,854	\$ 45,192	\$ 570,284

See Notes to Financial Statements

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 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 and Johnson Counties in Kansas.

Hillcrest operates 27 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 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 Mid America, provides program, administrative and fundraising services to the affiliates. 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 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 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.

Cash and Cash Equivalents

Hillcrest considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted of money market accounts.

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, if any, have been restricted by donors to be maintained by Hillcrest in perpetuity.

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions

Gifts of cash 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 restrictions 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 Goods and Services

Hillcrest recognizes as contributions those donated services that create or enhance non-financial assets and those that require specialized skills, 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 times 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 also receives significant goods for use in its programs. The value of these is not recorded in the financial statements, unless it is the donation is real property. These goods are used for the benefit of participants in the programs and would be recorded as revenue with a corresponding recording of expense, with 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:

Furniture and Equipment	7 years
Real Estate	39 years
Real Estate Improvements	39 years

Income Tax Status and Positions

The organization is a not-for-profit organization that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. In addition, the Organization has qualified for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Management has reviewed all sources of revenue and believes that none of the Organization's activities is subject to tax on unrelated income.

As a tax-exempt organization the Organization is required to file a Form 990, *Return for Organization Exempt from Income Tax*, each year with the Internal Revenue Service which assesses its continuing status as a tax-exempt organization.

**HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012**

NOTE 2 – SUMMARY OF SIGNICANT ACCOUNTING POLICIES- CONTINUED

Income Tax Status and Positions-Continued

Management believes the Organization's operations have been conducted in accordance with its tax-exempt status, that the Organization has adequately addressed all tax positions and that there are no unrecorded tax liabilities.

Functional Expenses

The Organization allocates its expenses on a functional basis between its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated based on management's estimate of usage.

Uses 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.

Subsequent Events

Subsequent events have been evaluated through September 24, 2014, which is the date the financial statements were available to be issued.

NOTE 3 – RELATED ENTITY-AFFILIATE TRANSACTIONS

Hillcrest had allocated Hillcrest of Mid-America \$98,000 in costs in 2013 and \$93,332 in costs in 2012. Hillcrest of Mid-America performs various programs, administrative and fundraising duties for all of the affiliates.

NOTE 4 – RETIREMENT PLAN

Hillcrest Ministries of Mid-America and all 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 \$1,028 was expended on retirement benefits in 2013 and \$938 in 2012.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2013, Hillcrest had \$23,993 donor designated for development of the garden.

HILLCREST TRANSITIONAL HOUSING OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

NOTE 6 – 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 is \$1 per unit, per year for 10 years. Hillcrest paid the full amount of the lease at the time of signing.

NOTE 7 - CAPITAL CAMPAIGN

During 2012, Hillcrest purchased additional property for the housing program. The property was purchased from reserves of the Organization. A Capital Campaign was then started to replace the reserves that had been used for the purchase. The receipts for this campaign include rental income from the tenants occupying the units at the time of purchase.

NOTE 8 – CONCENTRATIONS

For the years ended December 31, 2013 and 2012, the Organization received approximately 60% and 80%, respectively, from governmental agencies. Governmental funding is subject to change depending on the current administration and the budgetary restraints at the time.