

**TRANSITIONAL LIVING
SERVICES, INC.**

FINANCIAL STATEMENTS

Year Ended December 31, 2009

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1
Statement of Assets, Liabilities and Net Assets-Modified Cash Basis	2
Statement of Revenues, Expenses and Other Changes in Net Assets- Modified Cash Basis	3
Statement of Functional Expenses-Modified Cash Basis	4
Statement of Cash Flows-Modified Cash Basis	5
Notes to Financial Statements	6

Independent Auditor's Report

To the Board of Directors
Transitional Living Services, Inc.
Hebron, Illinois

We have audited the accompanying statement of assets, liabilities, and net assets-modified cash basis of Transitional Living Services, Inc. (a nonprofit organization) as of December 31, 2009, and the related statement of revenues, expenses, and other changes in net assets-modified cash basis, statement of functional expenses-modified cash basis, and statement of cash flows-modified cash basis, for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Transitional Living Services, Inc. as of December 31, 2009, and its revenues and expenses for the year then ended, on the basis of accounting described in Note 1.

Erboe & Associates, CPA's

May 20, 2010

Illinois State Registration #066-004204

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS-
MODIFIED CASH BASIS
December 31, 2009

Assets

Assets:

Unrestricted cash and cash equivalents	\$ 128,300
Temporarily restricted cash (Note 2)	8
Property and equipment (Note 3)	<u>919,462</u>
Total assets	<u>1,047,770</u>

Restricted Funded Reserves:

IHDA operating reserve (Note 5)	28,190
IHDA tax and insurance reserve (Note 5)	1,731
IHDA replacement reserve (Note 5)	<u>38,887</u>
Total restricted funded reserves	<u>68,808</u>

\$1,116,578

Liabilities and Net Assets

Liabilities:

Current maturities of long-term debt (Note 4)	\$ 14,421
Long-term debt, less current maturities (Note 4)	<u>649,633</u>
Total liabilities	<u>664,054</u>

Net Assets:

Temporarily restricted	68,816
Unrestricted	<u>383,708</u>
Total net assets	<u>452,524</u>

\$1,116,578

The accompanying notes are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF REVENUES, EXPENSES AND OTHER
CHANGES IN NET ASSETS-MODIFIED CASH BASIS
For the Year Ended December 31, 2009

Unrestricted net assets:	
Unrestricted revenues and gains:	
Grants:	
708 Board-fee for service	\$117,232
Department of Human Services (DHS)	13,677
Department of Human Services (DHS)-tax checkoff	3,000
Department of Housing & Urban Development (HUD)	74,898
IL Department of Commerce & Economic Opportunity (IDCEO)	18,848
Veterans Administration Per Diem (VA)	223,531
Community Development Block Grant (CDBG)	45,000
FEMA Grant	11,713
HVRP-DOL	58,368
Mental Health VA	10,160
Willow Springs Foundation	50,000
Contributions	21,149
Fundraising	3,087
Interest income	3,285
Miscellaneous	3,603
Resident rent	<u>50,523</u>
Total unrestricted revenues and gains	<u>708,074</u>
Expenses and losses:	
Direct program expenses	554,057
Management and general expenses	93,588
Fundraising expenses	<u>4,777</u>
Total expenses and losses	<u>652,422</u>
Increase in net assets	55,652
Prior period adjustment (Note 7)	(100,000)
Net assets, beginning of year	<u>496,872</u>
Net assets, end of year	<u>\$452,524</u>

The accompanying notes are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES-
MODIFIED CASH BASIS
For the Year Ended December 31, 2009

	<u>Direct Program Expenses</u>	<u>Management and General Expenses</u>	<u>Fund Raising Expenses</u>	<u>Total All Funds</u>
Accounting	\$ 9,852	\$ 9,852	\$ -	\$ 19,704
Bank service charges	-	693	-	693
Depreciation	62,584	-	-	62,584
Dues and subscriptions	459	-	-	459
Fundraising expenses	-	-	4,777	4,777
Insurance	30,024	-	-	30,024
Interest	5,975	-	-	5,975
Licenses and fees	-	354	-	354
Miscellaneous	-	5,178	-	5,178
Office expense	2,939	-	-	2,939
Payroll	260,355	65,089	-	325,444
Payroll taxes	30,609	7,652	-	38,261
Professional fees	49,959	-	-	49,959
Program expenses	12,098	-	-	12,098
Repairs and maintenance	14,060	-	-	14,060
Supplies	9,566	2,391	-	11,957
Telephone	9,514	2,379	-	11,893
Training	9,330	-	-	9,330
Travel	946	-	-	946
Utilities	24,121	-	-	24,121
Vehicle expense	<u>21,666</u>	<u>-</u>	<u>-</u>	<u>21,666</u>
 Total functional expenses	 <u>\$554,057</u>	 <u>\$ 93,588</u>	 <u>\$ 4,777</u>	 <u>\$652,422</u>

The accompanying notes are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF CASH FLOWS-
MODIFIED CASH BASIS
For the Year Ended December 31, 2009

<i>Cash flows from operating activities:</i>	
Increase in net assets	\$ <u>55,652</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Prior period adjustment (Note 7)	(100,000)
Depreciation	62,583
(Increase) decrease in restricted funded reserves	(3,982)
Total adjustments	(41,399)
Net cash provided by operating activities	<u>14,253</u>
 <i>Cash flows from operating activities:</i>	
Payments for fixed assets	(24,640)
Net cash used by investing activities	(24,640)
 <i>Cash flows from financing activities:</i>	
Principle payments on long-term borrowing	(45,544)
Net cash used by financing activities	(45,544)
 Net decrease in cash	(55,931)
 Cash - beginning of year	<u>184,239</u>
 Cash - end of year	<u>\$128,308</u>
 <i>Supplemental disclosure of cash flow information:</i>	
Cash paid during the year for interest	\$ <u>5,975</u>

The accompanying notes are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Transitional Living Services, Inc. is an Illinois corporation organized October 17, 1996 for the purpose of supplying basic needs, shelter, and a number of transitional services to homeless veterans. Support is offered in the areas of grief counseling, career counseling, education and vocational training, mental health treatment, anger management, financial counseling and substance abuse treatment.

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Basis of Accounting

The corporation's policy is to prepare its' financial statements on the modified basis of cash accounting; consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial statement position and results of operations in conformity with generally accepted accounting principles.

Basis of Presentation

The Organization has adopted Statement of Financial Accounting Standards (FASB) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Contributions

The Organization has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

TRANSITIONAL LIVING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS, continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Donated Services

The Organization receives a substantial amount of services donated by individuals interested in the Organization's programs. The services donated generally involve the contribution of time. These items are generally not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes

Transitional Living Services, Inc. is a not-for-profit organization and claims exemption from income taxes under Internal Revenue Code § 501(c)(3) and similar state provisions. Therefore, income taxes are not provided for in the financial statements. The Organization is not classified as a private foundation.

Property and Equipment

Purchased property and equipment is recorded at cost. It is the policy of the Organization to capitalize betterments which materially add to the value of related assets or materially extend the useful life of assets. Normal maintenance and minor equipment purchases are charged to expense. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in the current period.

Depreciation provisions are determined using the straight line method over the estimated useful lives of the assets ranging from five to twenty-seven years.

TRANSITIONAL LIVING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS, continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue Recognition

Contributions from the public are recognized when received or pledged and are considered available for unrestricted use, unless specifically restricted by the donor.

Grants awarded for specific programs are recognized as income when terms of the grants have substantially been completed or when the grant is pledged unconditionally.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenues, Expenses, and Other Changes in Net Assets as net assets released from restrictions.

Support from Governmental Units

The Organization receives a substantial amount of support from governmental agencies. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Organizations' programs and activities.

Total Columns

Total columns are presented to facilitate financial analysis. Data in these columns do not present financial position, results of operations and changes in net assets in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 2: TEMPORARILY RESTRICTED CASH

The amount in temporarily restricted cash is comprised of a donation from Disabled American Veterans Charitable Service Trust and is restricted to support the costs of initial security deposits, rent fees to secure living quarters, utilities, small household items and bus tokens/cab fares for homeless and needy veterans. The total amount of temporarily restricted cash at December 31, 2009 is \$8.

TRANSITIONAL LIVING SERVICES, INC.
 NOTES TO FINANCIAL STATEMENTS, continued

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment, net, is summarized as follows at December 31, 2009:

Property and equipment	\$1,276,464
Less accumulated depreciation	<u>357,002</u>
Property and equipment, net	<u>\$ 919,462</u>

NOTE 4: LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2009:

	<u>Unpaid Balance</u>	<u>Current Maturities</u>
Mortgage payable, Illinois Housing Development Authority, payable in monthly installments of \$100.00 with no interest, collateralized by real estate, due 2041.	\$634,627	\$ 1,200
Note payable, Home State Bank, payable in monthly installments of \$1,190.79, including interest at 4.5%, due 02/21/12.	<u>29,427</u>	<u>13,221</u>
	<u>\$664,054</u>	<u>\$14,421</u>

Future annual principal maturities required by the above agreements are as follows:

<u>Years Ended December 31,</u>	
2010	\$ 14,421
2011	1,200
2012	1,200
2013	1,200
2014	1,200
Thereafter	<u>644,833</u>
	<u>\$664,054</u>

TRANSITIONAL LIVING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS, continued

NOTE 5: RESTRICTED FUNDED RESERVES

Operating Reserve

The Organization maintains a separate cash account for operating reserve. The amount held in reserve is to be used for initial operating deficits. The amount held in escrow at December 31, 2009 is \$28,190. Withdrawals from this account must be approved by IHDA.

Taxes and Insurance Reserve

The Organization maintains a separate cash account for taxes and insurance reserve. The amount held in escrow can be withdrawn to pay for the property taxes and insurance as they come due with IHDA approval. The amount held in tax and insurance reserve at December 31, 2009 is \$1,731.

Replacement Reserve

Under the terms of the Regulatory Agreement, the Organization is required to set aside specified amounts for the replacement of property and other project expenditures as approved by IHDA. These funds are held in a separate account and generally are not available for operating purposes. The reserve for replacements at December 31, 2009 is \$38,887. Withdrawals from this account must be approved by IHDA.

NOTE 6: SETTLED LAWSUIT

The Organization was involved in a lawsuit. A former employee purchased a computer in the name of Transitional Living Services and charged the purchase to the Organization without their knowledge. The Organization paid for the computer to preserve their credit rating but the former employee still has custody of the computer. The amount the Organization paid for the computer was \$2,157. During 2009, the Organization recovered \$1,850 and the case is now closed.

NOTE 7: PRIOR PERIOD ADJUSTMENT

In 2008, the Organization received funding in the amount of \$100,000 for the long term care project for the men and women severely wounded in Iraq and Afghanistan. During 2009, when it became apparent that the Organization would not be able to use the funds within the allocated time frame, they were returned to the Illinois Department of Veterans Affairs.

NOTE 8: LAND PURCHASE

During 2009, the Organization put \$20,000 down to purchase a parcel of land. The Organization changed their mind and the full \$20,000 was refunded in 2010.