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TRANSITIONAL LIVING SERVICES, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Transitional Living Services, Inc.
McHenry, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of

TRANSITIONAL LIVING SERVICES, INC.
(a nonprofit organization)

which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows 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 accounting principles generally accepted in the United States of America; this includes 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial position of Transitional Living Services, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Policy

As described in Note 13 to the financial statements, the Organization implemented ASU 2016-14, *Presentation of Financial Statements of Not-for Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplemental information and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information and the schedule of expenditures of federal awards are fairly stated, in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2019, on our consideration of Transitional Living Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Transitional Living Services, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitional Living Services, Inc.'s internal control over financial reporting and compliance.

Eder, Casella & Co.

EDER, CASELLA & CO.
Certified Public Accountants

McHenry, Illinois
August 2, 2019

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Board of Directors
Transitional Living Services, Inc.
McHenry, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of

TRANSITIONAL LIVING SERVICES, INC.
(a nonprofit organization)

which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 2, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Transitional Living Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Transitional Living Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Transitional Living Services, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Transitional Living Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we report to management of Transitional Living Services, Inc. in a separate letter dated August 2, 2019.

Transitional Living Services, Inc.'s Response to Findings

Transitional Living Services, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Transitional Living Services, Inc.'s response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eder, Casella & Co.
EDER, CASELLA & CO.
Certified Public Accountants

McHenry, Illinois
August 2, 2019

FINANCIAL STATEMENTS

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Current Assets		
Cash and Cash Equivalents	$ 420,982	
Restricted Cash	6,576	
Investments, at fair value	5,574	
Grants Receivable (net of allowance of $0)	105,057	
Inventory	10,500	
Other Current Assets	2,644	
Total Current Assets	$ 551,333	$ 551,333
Fixed Assets		
Land	$ 227,190	
Land Improvements	157,956	
Building and Improvements	879,764	
Transportation Equipment	156,522	
Furniture and Fixtures	11,704	
Less: Accumulated Depreciation	(733,594)	
Net Fixed Assets		699,542
Other Assets		
Security Deposits	$ 5,135	
Restricted Funded Reserves		
IHDA Operating Reserve	29,101	
IHDA Tax and Insurance Reserve	45,797	
IHDA Replacement Reserve	71,773	
Total Other Assets		151,806
TOTAL ASSETS		$ 1,402,681

LIABILITIES AND NET ASSETS

LIABILITIES		
Current Liabilities		
Accounts Payable	$ 8,000	
Accrued Expenses	60,980	
Current Maturities of Long-Term Debt	1,200	
Total Current Liabilities		$ 70,180
Long-Term Liabilities		
Long-Term Debt, less current maturities	$ 622,727	
Total Long-Term Liabilities		622,727
Total Liabilities		$ 692,907
NET ASSETS		
Without Donor Restrictions	$ 556,527	
With Donor Restrictions	153,247	
Total Net Assets		709,774
TOTAL LIABILITIES AND NET ASSETS		$ 1,402,681

The Notes to Financial Statements are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Federal Grants	$ 1,060,122	$ -	$ 1,060,122
State and Local Grants	250,288	22,612	272,900
Other Grants	28,000	-	28,000
Fundraising Events	97,375	-	97,375
Rental Income	49,572	-	49,572
Contributions	253,866	6,942	260,808
Other Revenue	40,807	10,000	50,807
Interest Income	2,067		2,067
Donated Services and Supplies	474,876	-	474,876
Net Assets Released from Restrictions	17,694	(17,694)	-
Total Revenues, Gains, and Other Support	$ 2,274,667	$ 21,860	$ 2,296,527
EXPENSES			
Program Services			
New Horizons	$ 706,606	$ -	$ 706,606
Employment Program	317,910	-	317,910
SSVF	376,333	-	376,333
Resource Center	158,031	-	158,031
Social Enterprise	381,306	-	381,306
Legacy Corp	16,942	-	16,942
VSH	9,375	-	9,375
Supporting Services			
Management and General	66,525	-	66,525
Fundraising	213,609	-	213,609
Total Expenses	$ 2,246,637	$ -	$ 2,246,637
CHANGE IN NET ASSETS	$ 28,030	$ 21,860	$ 49,890
NET ASSETS AT BEGINNING OF YEAR	366,477	131,387	497,864
PRIOR PERIOD ADJUSTMENT	162,020	-	162,020
NET ASSETS AT END OF YEAR	$ 556,527	$ 153,247	$ 709,774

The Notes to Financial Statements are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	PROGRAM SERVICES								SUPPORTING SERVICES		
	New Horizons	Employment Program	SSVF	Resource Center	Social Enterprise	Legacy Corp	VSH	Total	Management and General	Fundraising	Total
Salaries	$ 391,559	$ 194,823	$ 153,997	$ 104,602	$ 43,259	$ 8,431	$ 8,677	$ 905,348	$ 32,684	$ 37,979	$ 976,011
Employee Benefits	19,489	24,895	4,759	-	-	553	-	49,696	604	-	50,300
Payroll Taxes	42,028	17,394	14,421	11,066	5,284	999	698	91,890	5,473	3,897	101,260
Professional Fees	20,395	9,734	9,296	5,335	4,110	767	-	49,637	7,158	9,712	66,507
Office Expenses	14,594	19,359	7,584	4,093	2,265	1,025	-	48,920	3,725	2,868	55,513
Occupancy	80,371	16,773	19,653	13,161	2,324	-	-	132,282	1,919	1,573	135,774
Travel	29,606	17,266	6,690	2,831	7,470	1,214	-	65,077	231	18	65,326
Depreciation	54,249	-	-	-	10,206	-	-	64,455	-	-	64,455
Insurance	30,234	6,238	7,067	1,926	-	-	-	45,465	-	-	45,465
Donated Supplies Distributed	-	848	455	494	304,092	-	-	305,889	8,202	135,436	449,527
Program Specific Expenses	22,904	6,326	149,243	14,523	61	3,953	-	197,010	5,741	1,912	204,663
Administrative	1,001	4,168	2,407	-	1,856	-	-	9,432	727	453	10,612
Processing Fees and Charges	176	86	-	-	379	-	-	641	15	1,242	1,898
Fundraising Events and Other Direct Expenses	-	-	761	-	-	-	-	761	46	18,519	19,326
	$ 706,606	$ 317,910	$ 376,333	$ 158,031	$ 381,306	$ 16,942	$ 9,375	$ 1,966,503	$ 66,525	$ 213,609	$ 2,246,637

The Notes to Financial Statements are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 49,890	
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Depreciation	64,455	
Donated Fixed Assets	(33,683)	
Donated Investments	(6,029)	
Unrealized (Gain)/Losses	455	
Decrease/(Increase) in Assets:		
Grants Receivable	(17,532)	
Inventory	8,334	
Other Current Assets	2,945	
Restricted Funded Reserves	(22,612)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	(1,983)	
Accrued Expenses	3,840	
Net Cash Flows Provided/(Used) by Operating Activities		$ 48,080
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	$ (15,010)	
Net Cash Flows Provided/(Used) by Investing Activities		(15,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long-Term Borrowings	$ (1,100)	
Net Cash Flows Provided/(Used) by Financing Activities		(1,100)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		$ 31,970
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		395,588
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 427,558

The Notes to Financial Statements are an integral part of this statement.

TRANSITIONAL LIVING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Transitional Living Services, Inc. (Organization) is an Illinois corporation organized on 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.

A. *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

B. *Measure of Operations*

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

C. *Cash and Cash Equivalents*

For purposes of these financial statements, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

D. *Investments*

Investments are stated at fair market value. Unrealized gains and losses are included in the change in net assets.

E. *Concentrations of Credit Risk*

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Organization maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Organization's cash and cash equivalent accounts have been placed with high credit quality financial institutions. The organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

F. *Allowance for Uncollectible Accounts*

Grants and accounts receivable are shown net of the allowance for uncollectible amounts. The allowance is estimated based on specific identification of uncollectible accounts and the organization's historical collection experience.

G. *Inventories*

Inventory at December 31, 2018 consists of household goods and clothing valued at $10,500. All inventories are donated and are stated at market value.

H. *Fixed Assets*

Purchase 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 is determined using the straight-line method over the estimated useful lives listed below:

	Years
Building and Improvements	27
Land Improvements	2
Furniture and Equipment	5 - 7

I. *Restricted Contributions*

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

J. *Donated Assets and Services*

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. As of December 31, 2018 the Organization has recorded $28,200 of donated materials for building improvements, $5,483 of donated vehicle, and $457,861 of other non-cash donations.

The Organization generally pays for services requiring specific expertise. However, individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

K. *Functional Allocation of Expenses*

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Such allocations are determined by management on an equitable basis. The expenses that are allocated include occupancy, depreciation and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

L. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts 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 period. Accordingly, actual results could differ from those estimates.

M. *Income Tax Status*

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes appears in these financial statements. The Organization's management believes there are no uncertain tax positions.

NOTE 2 - INVESTMENTS

Investments are stated at fair market value and consist of the following:

	Cost	Fair Market Value	Unrealized Appreciation
Stocks	$ 6,029	$ 5,574	$ (455)
	$ 6,029	$ 5,574	$ (455)

Investment income for the year ended December 31, 2018 consists of the following:

Unrealized Gain/(Loss) on Investments	$ (455)
	$ (455)

NOTE 3- FAIR VALUE MEASUREMENT

The Organization categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Organization has the following recurring fair value measurements as of December 31, 2018:

	Fair Value Measurements Using	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Stocks	$ 5,574	$ 5,574
	$ 5,574	$ 5,574

NOTE 4 - FIXED ASSETS

A summary of fixed assets shows:

	Cost	Accumulated Depreciation	Book Value
Land	$ 227,190	$ -	$ 227,190
Land Improvements	157,956	90,707	67,249
Building and Improvements	879,764	530,107	349,657
Transportation Equipment	156,522	101,810	54,712
Furniture & Fixtures	11,704	10,970	734
	$ 1,433,136	$ 733,594	$ 699,542

Depreciation expense for the year ended December 31, 2018 was $64,455.

NOTE 5 - MORTGAGE PAYABLE

Mortgage payable consisted of the following at December 31, 2018:

	Maturity Date	Interest Rate	Security	Face Amount	Carrying Amount
Illinois Housing Development Authority Mortgage	9/1/2031	0.00%	Building	$ 644,727	$ 623,927

At December 31, 2018 the annual debt service requirements to service the mortgage payable are:

Year Ending December 31	Principal	Interest	Total
2019	$ 1,200	$ -	$ 1,200
2020	1,200	-	1,200
2021	1,200	-	1,200
2022	1,200	-	1,200
2023	1,200	-	1,200
2024	1,200	-	1,200
2025	1,200	-	1,200
2026	1,200	-	1,200
2027	1,200	-	1,200
2028	1,200	-	1,200
2029	1,200	-	1,200
2030	1,200	-	1,200
2031	609,527	-	609,527
	$ 623,927	$ -	$ 623,927

NOTE 6 - NET ASSETS

A. *With Donor Restriction*

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. Donor restricted net assets are available at December 31, 2018 for the following purposes:

With Donor Restrictions	
Dwight Maness Fund	$ 4,898
Military Banner Program	1,678
IHDA Operating Reserve	29,101
IHDA Tax and Insurance Reserve	45,797
IHDA Replacement Reserve	71,773
	$ 153,247

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were $17,694 during the year ended December 31, 2018.

B. *Without Donor Restriction*

Designated - Net assets not subject to donor-imposed stipulations but designated for specific purposes by the Board.

The Organization has net assets that are Board designated for the following purposes:

New Horizons Balloon Mortgage Payment	$	50,000

NOTE 7 - AVAILABILITY AND LIQUIDITY

The following table shows the total financial assets held by the Organization and the amounts of those financial assets that could be readily made available within one year of the balance sheet date to meet general expenses:

Financial Assets at Year End:		
Cash and Cash Equivalents	$	427,558
Grant Receivable		105,057
Total Financial Assets	$	532,615
Less amounts not available to be used within one year:		
Net assets with donor restrictions	$	153,247
Quasi endowment established by the board		50,000
	$	203,247
Financial assets availabe to meet general expenditures over the next twelve months	$	329,368

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses and is to manage liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining enough reserves to provide reasonable assurance that long-term obligations will be fulfilled. Annually, the board designates a portion of funds to its liquidity reserve, which was $50,000 as of December 31, 2018. This fund was established for the IDHA mortgage due in 2031 by the governing board with strict restrictions; however, it may be drawn upon for anything other than the IDHA mortgage only with board resolution in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. During the year ending December 31, 2018, the level of liquidity was managed within the policy requirements.

NOTE 8 - OPERATING LEASES

On June 3, 2016 the Organization entered into a lease agreement for an apartment. The agreement was for one year and was renewed on June 3, 2017. Rental expense was $4,326 for the year ended December 31, 2018.

On November 1, 2016 the Organization entered into a lease agreement for office space. This agreement is for a period of three years and requires monthly rental payments. Rental expense was $37,002 for the year ended December 31, 2018.

On March 21, 2017 the Organization entered into a lease agreement for an apartment. The agreement is for one year and requires monthly rental payment. Rental expense was $1,442 for the year ended December 31, 2018.

On August 15, 2017 the Organization enter into a lease agreement for office space. This agreement is a one year lease with monthly rental payments. Rental expense was $4,500 for the year ended December 31, 2018.

Future lease payments are as follows:

Year Ending December 31	
2019	$ 31,569
	$ 31,569

The total expense for operating leases for the year ended December 31, 2018 was $47,270.

NOTE 9 - CONCENTRATION/CONTINGENCIES

For the year ended December 31, 2018 the funding received from the Federal Health Care Center represented 28% of total revenues and 60% of Federal revenues. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Organization's programs and activities. These programs are subject to review by the grantors or their representatives. The reviews of certain of these programs for the year ended December 31, 2018 have not been completed. Accordingly, the Organization's compliance with applicable requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the governmental agencies cannot be determined at this time.

NOTE 10 - SUBSEQUENT EVENTS

The Organization is not aware of any material subsequent events through August 2, 2019, the date on which the financial statements were available to be issued.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, it was determined that grant revenue from the prior year that was written off was received during the year. As a result, the monies should have been recognized in fiscal year 2017. During fiscal year 2018, value of land for New Horizon was reasonably determined. As a result, prior years depreciation on the land value should not have been expensed. The balances as of December 31, 2017 were restated as follows:

Prior Period Adjustment	
Grant Revenue	$ 31,835
Depreciation related to Land Value	130,185
Total Prior Period Adjustment	$ 162,020

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.