

ALTERNATIVES, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

ALTERNATIVES, INC.

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors
Alternatives, Inc.
Chicago, Illinois

We have audited the accompanying statement of financial position of Alternatives, Inc. (a not-for-profit organization) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows 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. The prior year summarized comparative information has been derived from the Organization's 2011 financial statements and, in our report dated October 21, 2011, we expressed an unqualified opinion on those financial statements.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alternatives, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, as listed in the accompanying table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Desmond & Ahern, Ltd

March 15, 2013
Chicago, IL

ALTERNATIVES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current Assets		
Cash and equivalents	\$ 81,987	\$ 94,121
Government contributions and grants receivable	229,058	416,461
Unconditional promises to give, net of allowance of \$4,518	177,469	171,439
Other receivables	2,824	104
Prepaid expenses	34,782	7,121
Total current assets	<u>526,120</u>	<u>689,246</u>
Property and Equipment		
Land	269,500	269,500
Building and improvements	1,272,198	1,265,509
Furniture and equipment	329,520	222,369
Vehicles	35,983	35,983
	<u>1,907,201</u>	<u>1,793,361</u>
Less accumulated depreciation	<u>(609,320)</u>	<u>(507,745)</u>
Net property and equipment	<u>1,297,881</u>	<u>1,285,616</u>
Unconditional promises to give, net of current portion	113,000	-
Debt financing costs, net of amortization	981	3,082
Permanently restricted cash	136,000	9,000
Permanently restricted contributions receivable	-	1,000
Total Assets	<u><u>\$ 2,073,982</u></u>	<u><u>\$ 1,987,944</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current portion of long-term debt	\$ 20,212	\$ 19,144
Accounts payable	31,124	23,054
Accrued payroll expenses	70,309	140,129
Refundable advance	55,906	59,855
Short term borrowing	-	107,096
Total current liabilities	<u>177,551</u>	<u>242,182</u>
Long term debt, net of current portion	<u>847,978</u>	<u>867,487</u>
Total liabilities	<u>1,025,529</u>	<u>1,109,669</u>
Net Assets		
Unrestricted	432,250	423,794
Temporarily restricted	480,203	337,385
Permanently restricted	136,000	10,000
Total net assets	<u>1,048,453</u>	<u>771,179</u>
Total Liabilities and Net Assets	<u><u>\$ 2,073,982</u></u>	<u><u>\$ 1,880,848</u></u>

See independent auditor's report and notes to financial statements.

ALTERNATIVES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012 (with comparative totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
<u>Public Support and Revenue</u>					
Illinois Department of Human Services	\$ -	\$ 759,653	\$ -	\$ 759,653	\$ 832,923
Chicago Department of Family and Supportive Services	-	14,997	-	14,997	70,900
Chicago Public Schools	93,665	-	-	93,665	224,267
Illinois States Attorney	-	37,917	-	37,917	35,000
U.S. Department of Health and Human Services	-	329,771	-	329,771	155,083
Other contributions	255,631	1,048,842	126,000	1,430,473	893,602
Special Events					
Contributions and ticket revenue	52,669	-	-	52,669	51,070
Auction and raffle revenue	5,688	-	-	5,688	7,825
Donated rent	10,000	-	-	10,000	10,000
Less costs of direct benefits to donors	(11,105)	-	-	(11,105)	(10,497)
Less in-kind costs of direct benefits to donors	(10,000)	-	-	(10,000)	(10,000)
Net revenues from special events	<u>47,252</u>	<u>-</u>	<u>-</u>	<u>47,252</u>	<u>48,398</u>
Program fees	19,349	-	-	19,349	18,115
Donated services	131,033	-	-	131,033	30,087
Donated materials and rent	6,171	-	-	6,171	7,846
Donated capital equipment	75,261	-	-	75,261	50,000
Miscellaneous	29,375	-	-	29,375	18,006
Net assets released from restrictions - Satisfaction of program restrictions	<u>2,048,362</u>	<u>(2,048,362)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>2,706,099</u>	<u>142,818</u>	<u>126,000</u>	<u>2,974,917</u>	<u>2,384,227</u>
<u>Expenses</u>					
Girl World	129,301	-	-	129,301	164,876
After-School Enrichment	302,424	-	-	302,424	301,886
Family Intervention Services	278,399	-	-	278,399	452,845
Clinical Services	1,100,458	-	-	1,100,458	574,982
Career and Employment Services	214,307	-	-	214,307	295,327
Restorative Justice Program	217,977	-	-	217,977	178,262
Total program services	<u>2,242,866</u>	<u>-</u>	<u>-</u>	<u>2,242,866</u>	<u>1,968,178</u>
Management and general	251,902	-	-	251,902	253,727
Fundraising	202,875	-	-	202,875	189,780
Total Expenses	<u>2,697,643</u>	<u>-</u>	<u>-</u>	<u>2,697,643</u>	<u>2,411,685</u>
Change in Net Assets	8,456	142,818	126,000	277,274	(27,458)
Net Assets, Beginning of Year	<u>423,794</u>	<u>337,385</u>	<u>10,000</u>	<u>771,179</u>	<u>798,637</u>
Net Assets, End of Year	<u>\$ 432,250</u>	<u>\$ 480,203</u>	<u>\$ 136,000</u>	<u>\$ 1,048,453</u>	<u>\$ 771,179</u>

See independent auditor's report and notes to financial statements.

ALTERNATIVES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012 (with comparative totals for 2011)

	Program Services	Management and General	Fundraising	2012 Total	2011 Total
<u>Functional Expenses</u>					
Salaries and wages	\$ 1,399,743	\$ 142,389	\$ 128,971	\$ 1,671,103	\$ 1,533,469
Employee benefits and related taxes	231,599	23,254	21,890	276,743	270,110
Total salary and related expenses	1,631,342	165,643	150,861	1,947,846	1,803,579
Professional fees	123,882	38,886	8,165	170,933	132,890
Donated services	111,129	13,308	6,596	131,033	30,087
Stipends	14,937	250	240	15,427	24,795
Sub-recipients	41,786	-	-	41,786	25,445
Program expenses	18,289	-	-	18,289	5,523
Supplies	26,380	1,706	1,539	29,625	31,490
Occupancy	29,348	3,112	2,836	35,296	51,367
Insurance	20,311	3,925	1,981	26,217	26,499
Utilities and telephone	40,979	3,644	2,996	47,619	48,751
Equipment maintenance and rental	20,294	1,199	1,729	23,222	30,325
In-kind contributions and donated facilities	7,167	-	433	7,600	7,846
Postage and printing	2,401	577	4,514	7,492	9,925
Staff development and training	3,525	743	760	5,028	4,699
Travel	25,799	1,122	84	27,005	26,534
Meetings and Conferences	67	567	-	634	390
Interest	35,216	4,698	10,532	50,446	56,033
Bank and credit card fees	200	234	328	762	1,600
Dues and subscriptions	2,266	243	215	2,724	2,932
Miscellaneous	1,905	2,582	493	4,980	5,133
Depreciation and amortization	85,643	9,463	8,573	103,679	85,842
	<u>\$ 2,242,866</u>	<u>\$ 251,902</u>	<u>\$ 202,875</u>	<u>\$ 2,697,643</u>	<u>\$ 2,411,685</u>

See independent auditor's report and notes to financial statements.

ALTERNATIVES, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
<u>Cash Flows from Operating Activities</u>		
Cash received - funding organizations and contributions	\$ 2,605,900	\$ 2,060,510
Cash received - special events	47,252	48,398
Cash received - program fees	19,349	18,115
Cash received - miscellaneous income	29,375	18,006
Payments for interest	(50,446)	(56,033)
Payments for wages and other operating activities	(2,498,445)	(2,181,839)
Net cash provided (used) by operating activities	<u>152,985</u>	<u>(92,843)</u>
<u>Cash Flows from Investing Activities</u>		
Acquisition of property and equipment	(39,582)	(31,363)
Net cash used by investing activities	<u>(39,582)</u>	<u>(31,363)</u>
<u>Cash Flows from Financing Activities</u>		
Net change in short-term borrowing	(107,096)	75,096
Reduction of long-term debt	(18,441)	(753,251)
Addition of long-term debt	-	879,515
Net cash (used) provided by financing activities	<u>(125,537)</u>	<u>201,360</u>
Net (decrease) increase in cash and cash equivalents	(12,134)	77,154
Cash and cash equivalents, beginning of year	<u>94,121</u>	<u>16,967</u>
Cash and cash equivalents, end of year	<u>\$ 81,987</u>	<u>\$ 94,121</u>
<u>Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operating Activities</u>		
Change in net assets	\$ 277,274	\$ (27,458)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	103,679	85,842
Donated capital items	(75,261)	(50,000)
Contributions restricted for permanent investment	(126,000)	(3,000)
Decrease (increase) in assets		
Government receivables and unconditional promises to give	69,373	(208,120)
Other receivable	(2,720)	1,456
Prepaid expenses	(27,661)	4,723
Increase (decrease) in liabilities		
Accounts payable	8,070	6,983
Accrued expenses	(69,820)	36,876
Refundable advance	(3,949)	59,855
Net cash provided (used) by operating activities	<u>\$ 152,985</u>	<u>\$ (92,843)</u>

See independent auditor's report and notes to financial statements.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Organization

Alternatives, Inc. is a not-for-profit Illinois corporation founded in 1971 to provide comprehensive youth and family services facilitating personal development, strengthen family relationships, and enhance community well-being for Chicago's north side.

Income Tax Status

Alternatives, Inc. was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax exempt purpose of the Organization and the nature in which it operates is described in the first paragraph of Note 1. The Organization continues to operate in compliance with its tax exempt purpose.

The Organization's annual information and income tax returns filed with the federal and state governments are subject to examination for the statutory period.

Program Descriptions

Girl World provides a continuum of gender specific and age appropriate programming for girls and young women ages 8 through 18. The program goals are:

- to increase self-esteem and team building
- to create a diverse community of women and girls that encourages cultural exchanges and understanding
- to develop girls as leaders in their community through grant making and research projects.

After-School Enrichment Programs provide educational, recreational, and prevention programs for youth ages 8 through 18 in Uptown, Edgewater and Rogers Park. Both in the classroom and after-school, program staff and volunteers facilitate evidence-based life skills workshops and innovative programming, including tutoring, literacy activities, arts and sports programs, and career exploration opportunities. In addition to providing programs and services directly to youth, staff also offer training, technical assistance, and other resources to community partners, enhancing the larger community's capacity to serve youth. Program goals are:

- to provide quality academic, enrichment, and prevention programming for youth
- to foster relevant learning opportunities inside and outside of school
- to empower youth, youth workers, and parents to impact the systems that affect their lives

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Family Intervention Services (FIS) provides behavioral health services for young people ages 11 to 17 experiencing homelessness for a multitude of reasons such as parents not allowing youth back in the home (a “lock-out” situation), a psychiatric lock-out (parents refusing to pick up a youth from a psychiatric facility), parents who have lost control of their child, runaway youth, or youth refusing to return to the home due to emotional and/or physical abuse. In response to these difficult and potentially dangerous situations, FIS provides comprehensive, intensive services including a 24-hour crisis response and temporary placement. FIS serves youth and families from the Chicago communities of Edgewater, North Center, Ravenswood, Rogers Park, Uptown, Lakeview, and West Ridge.

Clinical Services pairs licensed professionals with children, teens, young adults, and their families to learn new skills. Participants address conflict, peer relationships, depression, substance abuse, violence, and loss. All services are developed with sensitivity to cultural values. Bilingual therapists are available for Spanish-speaking youth and families. Services include:

- Family and individual therapy
- Groups – on-site, schools, and other organizations
- In-home family therapy
- Outpatient substance abuse – assessment, treatment and toxicology services
- Placement stabilization services – specifically for foster parents
- Consultation services

Career and Employment Services prepares youth ages 14 through 24 for their futures with pre-employment training and career planning. All services are developed with sensitivity to cultural values. Bilingual employment specialists are available for Spanish-speaking participants. The goals for the program are to:

- provide quality work readiness training for youth
- help youth identify career opportunities and create long-term career goals
- advocate for youth employment opportunities city-wide
- build skills and apprenticeship opportunities in web-development and design through the Community Technology Center

Restorative Justice Program provides mediation, peer jury and conflict resolution services, training, peer leadership opportunities, and alternatives to school disciplinary action based on the principles of Balanced and Restorative Justice (BARJ). This approach is founded upon the belief that justice is best served when those who have experienced harm, the youth who committed the violation, and the community each receive equitable attention. Three main goals of Restorative Justice are competency building, accountability, and community safety.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

The goals of the program are:

- to learn personal responsibility for one's actions, creative problem solving, and leadership skills
- to develop partnerships with local school and community partners in order to reduce student conflicts and youth crime
- to create and maintain a safe and neutral school environment where conflicts among youth can be mediated and resolved

Method of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting; consequently, revenues are recognized when earned and expenses when the obligation is incurred.

Basis of Presentation

The Organizations report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets (when applicable), as required by Generally Accepted Accounting Principles (GAAP).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts. At June 30, 2012, the Organization's cash and cash equivalent accounts did not exceed federally insured limits.

The Organization considers all highly liquid investments, including savings and money market accounts, to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, cash equivalents, receivables, accounts payable, accrued expenses, and short-term borrowings approximate fair value due to the short maturity of these instruments. The carrying amount of long-term debt approximates fair value as the fixed interest rates are similar to current rates offered for debt with similar terms and maturities.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period in which the pledge is received. Contributions receivable are recognized at net realizable value. An estimated allowance of \$4,518 for uncollectible amounts has been established at June 30, 2012.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Property and Equipment

Expenditures for property, equipment, and other items, which substantially increase the useful lives of existing assets, are capitalized at cost. The Organization provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

Building and building improvements	20 - 30 years
Furniture and equipment	3 - 7 years
Vehicles	5 years

Support and Revenue

The Organization reports gifts of cash and other assets as restricted support if they are received with a donor stipulation that limits the use of the donated assets. When a donor restriction expires, that is, when a 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.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Organization received software donations valued at \$75,261 during the year ended June 30, 2012.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Government Contributions

Support funded by government contracts, which qualify as conditional promises to give, are recognized when the condition of performing the contracted services is met. Revenue is therefore recognized as earned as the condition is met when eligible expenses are incurred. These expenditures are subject to audit and acceptance by the granting Organization and, as a result of such audit, adjustments could be required.

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ending June 30, 2012, the Organization recorded donated educational services valued at \$131,033.

A number of volunteers, including the members of the Board of Directors, have made significant contributions of time to the Organization's policy-making, program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services contained per Generally Accepted Accounting Principles.

In-Kind Contributions and Donated facilities

In addition to receiving cash contributions, the Organization receives in-kind contributions and donated facilities from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount. For the year ending June 30, 2012, the Organization received donated facilities valued at \$6,171.

Certain Vulnerabilities and Concentrations

The Organization's total revenue for the year ended June 30, 2012 amounted to \$2,974,917. Of this amount, 26% and 11% were received from eight different contracts with the Illinois Department of Human Services and an award from the U.S. Department of Health and Human Services, respectively. Additionally, these funding sources represent 61% and 27%, respectively, of the government contribution revenue and 39% and 26%, respectively, of the government receivables at June 30, 2012. Furthermore, the Organization received 20% of its funding from two non-governmental funders which also represented 69% of contributions receivable at June 30, 2012.

Negative changes in the economy could have an impact on contributions, fundraising efforts as well as government grants.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain amounts previously reported in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Note 2 – Sub-Recipient Award Payable

During the year ended June 30, 2011, the Organization entered into an agreement to pass-through funding to another entity to provide the required program services over three years. The grant award is recognized as a payable and corresponding expense at the time of conditions, if any, imposed by the Organization are met. During the year ending June 30, 2012, \$40,136 of the conditions on this award were met, with \$30,106 remaining as a conditional promise to give.

Note 3 – Lines of Credit

The Organization is obligated for credit cards issued in its name. At June 30, 2012, the Organization's total available line of credit related to these credit cards is \$35,000, of which \$10,204 is outstanding and included in accounts payable.

The Organization maintains a \$120,000 revolving line of credit expiring March 20, 2013. At June 30, 2012, there was nothing borrowed against this line. Interest varies with the higher of the bank's prime rate, plus 1.5% or 4%, causing interest to be 4.75% at June 30, 2012 and is payable monthly. This line of credit is collateralized by all general assets and an assignment of all grants and monetary awards of the Organization and a second mortgage on the property at 4730 N. Sheridan Road, which has a net book value of \$1,151,821 at June 30, 2012.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4 – Long Term Debt

At June 30, 2012, long-term debt consists of the following:

Promissory note maturing March 22, 2016, payable to Associated Bank. Interest at 5.49%, is included and payable in the monthly payments of \$5,420. The note is collateralized by the property at 4730 N. Sheridan Road, which has a net book value of \$1,151,821 at June 30, 2012.	\$ 862,547
Promissory note maturing February 1, 2015 payable to Illinois Facilities Fund. Interest at 5% is included and payable in the monthly payments of \$189. The loan is collateralized by the Organization's phone system, which has a net book value of \$17,418 at June 30, 2012.	5,643
	<u>868,190</u>
Less current portion	(20,212)
Net long-term debt	<u><u>\$ 847,978</u></u>

Anticipated principal loan repayments of notes payable at June 30, are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2012	\$ 20,212
2013	21,339
2014	21,770
2015	21,431
2016	783,438
	<u><u>\$ 868,190</u></u>

Note 5 – Conditional Promises to Give

The Organization has received the following conditional promises to give which are not recognized as assets in the Statement of Financial Position as of June 30, 2012:

Recognition of specific program expenditures	\$ 61,200
Services being performed	14,700
	<u><u>\$ 75,900</u></u>

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6 – Unconditional Promises to Give

Unconditional promises to give, net of allowance of \$4,518 as of June 30, 2012 are as follows:

Due within one year	\$ 177,469
Due in 1-5 years	113,000
	<u>\$ 290,469</u>

Contributions receivable designated for specific purposes are as follows:

Temporarily Restricted	
General and administrative	\$ 5,000
Girl World	22,500
After School Enrichment	22,500
	<u>50,000</u>
Unrestricted	240,469
Total unconditional promises to give	<u>\$ 290,469</u>

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 are available for the following purposes or periods:

Girl World	\$ 22,500
After School Enrichment	29,056
Career and Employment Services	41,097
Family Intervention Services	2,731
Clinical Services	100,806
General and administrative	31,545
Levis Memorial	19,500
Future periods	232,968
	<u>\$ 480,203</u>

Note 8 – Permanently Restricted Net Assets

The Organization's permanently restricted net assets consist of a donor-restricted "Wallace Cash Reserve" endowment fund. The fund must be used solely to support activities that help to ensure the quality of Alternatives' program or the stability of the agency. Any amounts drawn from the fund will be repaid no later than the close of the fiscal year following the year in which they were withdrawn.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 8 – Permanently Restricted Net Assets (cont.)

The Organization accounts for endowment net assets by preserving the fair value of the original donation as of the gift date to the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, the Organization classifies as endowment net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by Illinois UPMIFA.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effects of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Organization.
7. The investment policies of the Organization.

It is the policy of the Organization to manage the endowment fund in a manner that will, at a minimum, preserve and maintain the real purchasing power of the principal while allowing for annual distributions to the operating budget. The Organization's investment policies specify a the funds be maintained in U.S. Treasury Bills or an FDIC-insured certificate of deposit, checking or savings account or a money market mutual fund that is registered under the Investment Company Act of 1940. The Board of Directors meets regularly to ensure that the objectives of the investment policy are being met, and that the strategies used to meet the objectives are in accordance with the investment policy.

The endowment net asset composition by type of fund at June 30, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,000</u>	<u>\$ 136,000</u>

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 8 – Permanently Restricted Net Assets (cont.)

Changes in endowment net assets for the fiscal year ending June 30, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 10,000	\$ 10,000
Investment Return				
Investment income	-	-	-	-
Net depreciation (realized/unrealized)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contributions	-	-	126,000	126,000
Appropriation of endowment assets for expenditure	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,000</u>	<u>\$ 136,000</u>

Note 9 – Retirement Plan

The Organization maintains a 403(b) defined contribution plan for the benefit of substantially all of its employees over twenty-one years of age and with at least one year of service. The Plan allows both employee and employer contributions. Employer contributions are at the discretion of the Board of Directors. The Organization did not make a contribution to the plan during the year ended June 30, 2012.

Note 10 – Subsequent Events

For the fiscal year ended June 30, 2012, the Organization's management has evaluated subsequent events through March 15, 2013, which is the date the financial statements were available to be issued. No subsequent events have been identified that are required to be disclosed through that date.

SUPPLEMENTARY INFORMATION

ALTERNATIVES, INC.
SCHEDULE OF EXPENDITURES BY PROGRAM
For the Year Ended June 30, 2012

	Girl World	After-School Enrichment	Family Intervention Services	Clinical Services	Career and Employment Services	Restorative Justice Program	Total Program Services	Supporting Services		
								Management and General	Fundraising	Total
Functional Expenses										
Salaries and wages	\$ 69,434	\$ 201,743	\$ 158,864	\$ 726,705	\$ 116,845	\$ 126,152	\$ 1,399,743	\$ 142,389	\$ 128,971	\$ 1,671,103
Employee benefits and related taxes	10,870	31,852	27,225	122,764	19,412	19,476	231,599	23,254	21,890	276,743
Total salary and related expenses	80,304	233,595	186,089	849,469	136,257	145,628	1,631,342	165,643	150,861	1,947,846
Professional fees	2,983	8,756	30,324	33,550	20,728	27,541	123,882	38,886	8,165	170,933
Donated services	18,136	14,532	17,683	15,070	28,376	17,332	111,129	13,308	6,596	131,033
Stipends	9,696	3,046	-	1,205	-	990	14,937	250	240	15,427
Sub-recipients	1,000	650	-	40,136	-	-	41,786	-	-	41,786
Program expenses	-	-	9,875	8,414	-	-	18,289	-	-	18,289
Supplies	2,090	5,321	2,923	9,206	4,885	1,955	26,380	1,706	1,539	29,625
Occupancy	1,549	4,273	3,351	15,251	2,359	2,565	29,348	3,112	2,836	35,296
Insurance	1,236	3,165	2,586	10,376	1,441	1,507	20,311	3,925	1,981	26,217
Utilities and telephone	1,666	4,589	6,228	22,794	2,624	3,078	40,979	3,644	2,996	47,619
Equipment maintenance and rental	1,030	3,032	2,139	10,038	1,860	2,195	20,294	1,199	1,729	23,222
In-kind contributions and donated facilities	-	530	-	6,171	466	-	7,167	-	433	7,600
Postage and printing	104	275	287	1,344	175	216	2,401	577	4,514	7,492
Staff development and training	316	420	625	1,450	456	258	3,525	743	760	5,028
Travel	1,397	3,356	3,155	14,190	1,175	2,526	25,799	1,122	84	27,005
Meetings and conferences	-	-	-	67	-	-	67	567	-	634
Interest	3,046	4,168	3,013	17,575	3,206	4,208	35,216	4,698	10,532	50,446
Bank and credit card fees	-	-	-	200	-	-	200	234	328	762
Dues and subscriptions	91	279	273	1,243	180	200	2,266	243	215	2,724
Miscellaneous	62	302	35	423	636	447	1,905	2,582	493	4,980
Total expenses before depreciation expense	124,706	290,289	268,586	1,058,172	204,824	210,646	2,157,223	242,439	194,302	2,593,964
Depreciation and amortization	4,595	12,135	9,813	42,286	9,483	7,331	85,643	9,463	8,573	103,679
Total Expenses	\$ 129,301	\$ 302,424	\$ 278,399	\$ 1,100,458	\$ 214,307	\$ 217,977	\$ 2,242,866	\$ 251,902	\$ 202,875	\$ 2,697,643

See independent auditor's report and notes to financial statements.