

ALTERNATIVES, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2014

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 financial statements of Alternatives, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2014 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's 2013 financial statements and, in our report dated January 3, 2014; we expressed an unmodified opinion on those 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. 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 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 Alternatives, Inc. as of June 30, 2014, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of 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 statements 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 & Akers, Ltd

March 13, 2015
Chicago, IL

ALTERNATIVES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2014 (with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current Assets		
Cash and equivalents	\$ 137,905	\$ 256,542
Government contributions and grants receivable, net of allowance of \$5,000	233,917	322,509
Unconditional promises to give	260,000	329,336
Prepaid expenses	59,425	13,178
Total current assets	<u>691,247</u>	<u>921,565</u>
Property and Equipment		
Land	269,500	269,500
Building and improvements	1,272,198	1,272,198
Furniture and equipment	207,091	193,640
Software development and website	171,465	141,886
Vehicles	35,983	35,983
	<u>1,956,237</u>	<u>1,913,207</u>
Less accumulated depreciation	(825,797)	(724,712)
Net property and equipment	<u>1,130,440</u>	<u>1,188,495</u>
Unconditional promises to give, net of current portion	75,000	270,000
Debt financing costs, net of amortization	529	610
Permanently restricted funds	138,000	138,000
Total Assets	<u>\$ 2,035,216</u>	<u>\$ 2,518,670</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current portion of long-term debt	\$ 21,486	\$ 21,944
Accounts payable	97,840	69,941
Accrued payroll expenses	77,560	70,107
Refundable advance	81,057	75,209
Total current liabilities	<u>277,943</u>	<u>237,201</u>
Long term debt, net of current portion	<u>796,218</u>	<u>826,760</u>
Total liabilities	<u>1,074,161</u>	<u>1,063,961</u>
Net Assets		
Unrestricted	293,584	428,209
Temporarily restricted	529,471	888,500
Permanently restricted	138,000	138,000
Total net assets	<u>961,055</u>	<u>1,454,709</u>
Total Liabilities and Net Assets	<u>\$ 2,035,216</u>	<u>\$ 2,518,670</u>

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

ALTERNATIVES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014 (with comparative totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Public Support and Revenue					
Illinois Department of Human Services	\$ -	836,106	\$ -	\$ 836,106	\$ 835,445
Chicago Department of Family and Supportive Services	-	238,634	-	238,634	69,344
Chicago Public Schools	189,214	-	-	189,214	125,630
Illinois States Attorney	-	28,977	-	28,977	40,309
County of Cook	-	240,000	-	240,000	-
U.S. Department of Health and Human Services	-	38,650	-	38,650	366,240
Other contributions	109,800	650,782	-	760,582	1,446,712
Special Events					
Contributions and ticket revenue	61,301	-	-	61,301	52,229
Auction and raffle revenue	6,014	-	-	6,014	8,396
Less costs of direct benefits to donors	(12,123)	-	-	(12,123)	(7,963)
Net revenues from special events	55,192	-	-	55,192	52,662
Program fees	5,894	-	-	5,894	22,535
Donated services	88,615	-	-	88,615	97,421
Donated materials and rent	10,222	-	-	10,222	10,222
Donated capital equipment	-	-	-	-	750
Miscellaneous	19,842	-	-	19,842	12,929
Net assets released from restrictions - Satisfaction of program restrictions	2,392,178	(2,392,178)	-	-	-
Total Public Support and Revenue	2,870,957	(359,029)	-	2,511,928	3,080,199
Expenses					
Girl World	64,404	-	-	64,404	104,503
After-School Enrichment	244,216	-	-	244,216	354,359
Clinical Services	1,128,116	-	-	1,128,116	1,227,658
Career and Employment Services	458,483	-	-	458,483	226,769
Restorative Justice Program	456,582	-	-	456,582	214,617
Total program services	2,351,801	-	-	2,351,801	2,127,906
Management and general	386,478	-	-	386,478	348,293
Fundraising	267,303	-	-	267,303	197,744
Total Expenses	3,005,582	-	-	3,005,582	2,673,943
Change in Net Assets	(134,625)	(359,029)	-	(493,654)	406,256
Net Assets, Beginning of Year	428,209	888,500	138,000	1,454,709	1,048,453
Net Assets, End of Year	\$ 293,584	\$ 529,471	\$ 138,000	\$ 961,055	\$ 1,454,709

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

ALTERNATIVES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014 (with comparative totals for 2013)

	Program Services	Management and General	Fundraising	2014 Total	2013 Total
<u>Functional Expenses</u>					
Salaries and wages	\$ 1,265,034	\$ 195,616	\$ 174,043	\$ 1,634,693	\$ 1,431,514
Employee benefits and related taxes	202,443	31,303	27,852	261,598	297,130
Total salary and related expenses	1,467,477	226,919	201,895	1,896,291	1,728,644
Professional fees	424,427	97,351	22,493	544,271	290,416
Donated services	86,507	-	2,108	88,615	97,421
Stipends	2,733	1,000	240	3,973	61,985
Sub-recipients	72,994	-	-	72,994	98,112
Program expenses	3,420	-	-	3,420	1,885
Supplies	38,813	6,982	3,848	49,643	26,670
Occupancy	19,015	4,238	2,630	25,883	51,698
Insurance	16,430	4,314	2,912	23,656	25,063
Utilities and telephone	46,591	8,847	6,402	61,840	52,201
Equipment maintenance and rental	20,814	5,033	3,560	29,407	24,757
In-kind contributions and donated facilities	10,222	-	-	10,222	10,972
Postage and printing	1,587	782	2,884	5,253	8,212
Staff development and training	4,272	698	164	5,134	3,753
Travel	21,678	397	153	22,228	17,695
Meetings and Conferences	510	411	2	923	857
Interest	34,372	8,251	5,968	48,591	50,827
Bank and credit card fees	1,963	128	297	2,388	750
Dues and subscriptions	1,655	365	155	2,175	2,599
Bad debt	-	1,592	-	1,592	-
Miscellaneous	2,051	3,663	204	5,918	3,666
Depreciation and amortization	74,270	15,507	11,388	101,165	115,760
	<u>\$ 2,351,801</u>	<u>\$ 386,478</u>	<u>\$ 267,303</u>	<u>\$ 3,005,582</u>	<u>\$ 2,673,943</u>

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

ALTERNATIVES, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014 (with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities</u>		
Cash received - funding organizations and contributions	\$ 2,690,939	\$ 2,498,665
Cash received - special events	55,192	52,662
Cash received - program fees	5,894	22,535
Cash received - miscellaneous income	19,842	12,929
Payments for interest	(48,591)	(50,827)
Payments for wages and other operating activities	<u>(2,767,884)</u>	<u>(2,336,670)</u>
Net cash (used) provided by operating activities	<u>(44,608)</u>	<u>199,294</u>
<u>Cash Flows from Investing Activities</u>		
Acquisition of property and equipment	<u>(43,029)</u>	<u>(5,253)</u>
Net cash used by investing activities	<u>(43,029)</u>	<u>(5,253)</u>
<u>Cash Flows from Financing Activities</u>		
Reduction of long-term debt	<u>(31,000)</u>	<u>(19,486)</u>
Net cash used by financing activities	<u>(31,000)</u>	<u>(19,486)</u>
Net (decrease) increase in cash and cash equivalents	(118,637)	174,555
Cash and cash equivalents, beginning of year	<u>256,542</u>	<u>81,987</u>
Cash and cash equivalents, end of year	<u>\$ 137,905</u>	<u>\$ 256,542</u>
<u>Reconciliation of Change in Net Assets to Net Cash (Used) Provided by Operating Activities</u>		
Change in net assets	\$ (493,654)	\$ 406,256
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	101,165	115,760
Donated capital items	-	(750)
Contributions restricted for permanent investment	-	(2,000)
Decrease (increase) in assets		
Government receivables and unconditional promises to give	352,928	(402,318)
Other receivable	-	2,824
Prepaid expenses	(46,247)	21,604
Increase (decrease) in liabilities		
Accounts payable	27,899	38,817
Accrued expenses	7,453	(202)
Refundable advance	<u>5,848</u>	<u>19,303</u>
Net cash (used) provided by operating activities	<u>\$ (44,608)</u>	<u>\$ 199,294</u>

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

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

Program Descriptions

After-School Enrichment Programs (including Girl World) provides educational, recreational, and prevention programs for youth ages 10 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 programs, exploration opportunities, and gender specific programming. 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
- to increase self-esteem and team building
- to create a diverse community of women and girls that encourages cultural exchanges and understanding

Clinical Services (including Juvenile Justice and Family Intervention 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
- Behavioral health services for homeless youths

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:

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

- 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.

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 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 above. 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. The open years are June 30, 2012, 2013, and 2014.

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 Organization reports 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.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts. At June 30, 2014, the Organization's cash and cash equivalent accounts exceeded federally insured limits by \$91,000.

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.

Unconditional Promises to Give

Unconditional contributions receivable are recognized as revenues in the period in which the pledge is received. Contributions receivable are recognized at net realizable value. No allowance has been determined for these receivables for the year ended June 30, 2014, as they are deemed to be fully collectible.

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, 2013, 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
Software development and website	3 years
Vehicles	5 years

Depreciation expense for the year ended June 30, 2014 was \$101,165.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

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 did not receive any donations of this type during the year ended June 30, 2014.

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, 2014, the Organization recorded donated educational services valued at \$88,615.

A number of volunteers, including 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, 2014, the Organization received donated facilities valued at \$10,222.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Certain Vulnerabilities and Concentrations

The Organization's total revenue for the year ended June 30, 2014 amounted to \$2,511,928. Of this amount, 34%, 9% and 10% were received from the Illinois Department of Human Services, Cook County, Illinois and from the City of Chicago's Department of Family and Support Services, respectively. Additionally, these funding sources represent 54%, 13% and 15%, respectively, of the government contribution revenue. Furthermore, the Organization's unconditional promises to give at June 30, 2014 consists of 81% from one source.

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

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.

Note 2 – Long Term Debt

At June 30, 2014, 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 \$1,057,268 at June 30, 2014.	\$ 816,953
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 \$9,677 at June 30, 2014.	751
	<hr/> 817,704
Less current portion	(21,486)
Net long-term debt	<hr/> <hr/> \$ 796,218

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2 – Long Term Debt (cont.)

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

<u>Year Ended June 30</u>	<u>Amount</u>
2015	\$ 21,486
2016	796,218
	<u>\$ 817,704</u>

Note 3 – Lines of Credit

The Organization is obligated for credit cards issued in its name. At June 30, 2014, the Organization's total available line of credit related to these credit cards is \$35,000, of which \$4,755 is outstanding and included in accounts payable.

The Organization maintains a \$250,000 revolving line of credit expiring June 18, 2015. At June 30, 2014, there were no borrowings 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, 2014. 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 \$1,057,268 at June 30, 2014.

Note 4 – Lease Commitments

The Organization has an operating lease for the use of copiers. The equipment lease calls for monthly rent in the amount of \$1,618 and expires in June 2016. Rental expense for this lease included in the statement of activities for the fiscal year ended June 30, 2014 amounted to \$19,410.

Future annual lease obligation payments are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2015	\$ 19,410
2016	19,410
	<u>\$ 38,820</u>

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014. These promises to give are conditional upon:

Recognition of specific program expenditures	\$ 149,457
Upon reporting and approval of required reports	201,913
	<u>\$ 351,370</u>

Note 6 – Unconditional Promises to Give

Unconditional promises to give as of June 30, 2014 are as follows:

Due within one year	\$ 260,000
Due in 1-5 years	75,000
	<u>\$ 335,000</u>

Contributions receivable designated for specific purposes are as follows:

Temporarily restricted - resource development	\$ 120,000
Unrestricted	215,000
Total unconditional promises to give	<u>\$ 335,000</u>

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 are available for the following purposes or periods:

Girl World	\$ 22,500
Restorative Justice	18,000
Clinical services	54,000
Career and employment services	132,574
General and administrative	14,397
Resource development	120,000
Levis Memorial	18,000
Future periods	150,000
	<u>\$ 529,471</u>

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8 – Board Designated Net Assets

The Organization has one board designated funds, the Cash Reserve Fund, which is included in unrestricted net assets.

The Cash Reserve Fund is funded with contributions that are designated as such. The Board of Directors may from time to time direct that a specific source of unrestricted revenue (such as one-time gifts, special grants, or special appeals) or surplus unrestricted operating funds be set aside for the Cash Reserve Fund. The sole purpose of this fund is to temporarily fund operations on the basis of outstanding accounts receivable. The Cash Reserve Fund balance at June 30, 2014 was \$84,950.

The Opportunity Fund is a Board-designated fund that enables the Organization to act efficiently and strategically on opportunities to innovate, collaborate, and adapt programming in crucial ways. It is intended to provide funds to meet special targets of opportunity or needs that further the mission of the Organization and which might have specific expectation of incremental or long-term increased income. The Opportunity Fund is also intended as a source of internal funds for organizational capacity building such as staff development or investment in infrastructure that will build long-term viability. The Opportunity Fund is funded with contributions that are designated to be set aside for this purpose. The Board of Directors may from time to time direct that a specific source of unrestricted revenue (such as one-time gifts, special grants, or special appeals) or surplus unrestricted operating funds be set aside for the Opportunity Fund. The Opportunity Fund balance at June 30, 2014 was \$10,000.

Note 9 – 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.

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.

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9 – Permanently Restricted Net Assets (cont.)

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, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 138,000	\$ 138,000

Changes in endowment net assets for the fiscal year ending June 30, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 138,000	\$ 138,000
Investment Return				
Investment income	-	-	-	-
Net depreciation (realized/unrealized)	-	-	-	-
	-	-	-	-
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	\$ -	\$ -	\$ 138,000	\$ 138,000

ALTERNATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10 – 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, 2014.

Note 11 – Future Commitments

In November 2013, the Organization signed a five year contract with Social Solutions Global, Inc., a Maryland corporation, for access to an online information system. The total contract is for \$86,400 with \$5,300 payable monthly and expires in November of 2018.

Note 12 – Subsequent Events

For the fiscal year ended June 30, 2014, the Organization's management has evaluated subsequent events through March 13, 2015, which is the date the financial statements were available to be issued. There are no events that are required to be disclosed through that date.

SUPPLEMENTARY INFORMATION

ALTERNATIVES, INC.
SCHEDULE OF EXPENDITURES BY PROGRAM
For the Year Ended June 30, 2014

	Girl World	After-School Enrichment	Clinical Services	Career and Employment Services	Restorative Justice Program	Total Program Services	<u>Supporting Services</u>		
							Management and General	Fundraising	Total
<u>Functional Expenses</u>									
Salaries and wages	\$ 32,122	\$ 73,603	\$ 681,072	\$ 278,658	\$ 199,579	\$ 1,265,034	\$ 195,616	\$ 174,043	\$ 1,634,693
Employee benefits and related taxes	5,141	11,779	108,992	44,593	31,938	202,443	31,303	27,852	261,598
Total salary and related expenses	37,263	85,382	790,064	323,251	231,517	1,467,477	226,919	201,895	1,896,291
Professional fees	1,961	49,163	150,098	59,632	163,573	424,427	97,351	22,493	544,271
Donated services	16,063	17,037	13,461	23,585	16,361	86,507	-	2,108	88,615
Stipends	450	50	721	462	1,050	2,733	1,000	240	3,973
Sub-recipients	-	70,000	2,994	-	-	72,994	-	-	72,994
Program expenses	-	-	3,420	-	-	3,420	-	-	3,420
Supplies	1,875	4,309	19,843	7,036	5,750	38,813	6,982	3,848	49,643
Occupancy	515	702	9,051	6,172	2,575	19,015	4,238	2,630	25,883
Insurance	593	1,315	8,863	2,936	2,723	16,430	4,314	2,912	23,656
Utilities and telephone	1,183	1,972	29,708	6,653	7,075	46,591	8,847	6,402	61,840
Equipment maintenance and rental	660	1,530	11,177	3,862	3,585	20,814	5,033	3,560	29,407
In-kind contributions and donated facilities	-	-	10,222	-	-	10,222	-	-	10,222
Postage and printing	42	52	948	276	269	1,587	782	2,884	5,253
Staff development and training	95	170	3,002	-	1,005	4,272	698	164	5,134
Travel	280	3,341	13,350	1,680	3,027	21,678	397	153	22,228
Meetings and conferences	-	-	506	2	2	510	411	2	923
Interest	1,098	2,495	18,506	6,340	5,933	34,372	8,251	5,968	48,591
Books and subscriptions	-	-	1,881	80	2	1,963	128	297	2,388
Membership dues	4	2	1,156	216	277	1,655	365	155	2,175
Bad debt	-	-	-	-	-	-	1,592	-	1,592
Miscellaneous	215	662	746	196	232	2,051	3,663	204	5,918
Total expenses before depreciation expense	62,297	238,182	1,089,717	442,379	444,956	2,277,531	370,971	255,915	2,904,417
Depreciation and amortization	2,107	6,034	38,399	16,104	11,626	74,270	15,507	11,388	101,165
Total Expenses	\$ 64,404	\$ 244,216	\$ 1,128,116	\$ 458,483	\$ 456,582	\$ 2,351,801	\$ 386,478	\$ 267,303	\$ 3,005,582

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