Alternatives, Incorporated
and Alternatives Foundation
Combined Financial Statements
June 30, 2017

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Board of Directors

Officers

Dr. Erica Woods-Warrior[2]	President
Rosanne Walters[2]	Vice-President
Karen Owens[2]	Treasurer

Board Members

Dr. Paul Aravich[1]

Gregory C. Bane[2]

Lori Crowder[3]

Linda Curtis[1]

Courtney Gardnern[1]

Mary Johnson[1]

Terrell Kingwood[3]

Bob Killebrew[3]

Lavon Marrow[2]

Kathy Monteith[2]

1 Term expires June 30, 2017
2 Term expires June 30, 2018
3 Term expires February 28, 2020

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

Independent Auditor's Report

To the Board of Directors
Alternatives, Incorporated and Alternatives Foundation
Fort Monroe, Virginia

We have audited the accompanying financial statements of Alternatives, Incorporated (the "Organization") and Alternatives Foundation (the "Foundation") which comprise the combined statement of financial position as of June 30, 2017 and the related combined statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined 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 combined 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 combined financial statements.

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

231 Wylderose Drive | Midlothian, VA 23113 | 804.323.1313

Opinion

In our opinion, the combined financial statements, referred to above present fairly, in all material respects, the financial position of Alternatives, Incorporated and Alternatives Foundation as of June 30, 2017 and the changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 6, and statement of financial position by entity and the statement of activities by entity on pages 16 and 17, are presented for the purposes of additional analysis and are not a required part of the combined 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 combined 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.

Adams, Jenkins & Cheatham

Richmond, Virginia
January 20, 2018

Combined Statement of Financial Position

Alternatives, Incorporated and Alternatives Foundation

June 30, 2017

Assets

Current assets			
Cash and cash equivalents		$	181,594
Accounts receivable, net			234,640
Investments (at fair market value)			66,225
Unconditional promises to give			42,000
Prepaid expenses			6,885
	Total Current Assets		531,344
Property and equipment, net			14,841
Deposit			5,890
		$	552,075

Liabilities and Net Assets

Current liabilities			
Accounts payable and accrued expenses		$	80,292
Line of credit			7,000
Current portion of long-term debt			1,406
Fiscal agency funds held			52,175
	Total Current Liabilities		140,873
Long-term debt			2,398
	Total Liabilities		143,271
Net assets-unrestricted			408,804
		$	552,075

See Independent Auditor's Report and Notes to Combined Financial Statements

Combined Statement of Activities

Alternatives, Incorporated and Alternatives Foundation

Year Ended June 30, 2017

Unrestricted Net Assets

Unrestricted revenues and support		
State and local government grants	$	967,063
Client service fee		390,383
Contributions		104,690
Foundation grants		86,054
Other revenue		47,119
United Way grant		42,000
In-kind rent		13,890
		1,651,199
Expenses		
Program services		1,330,973
Management and general		177,392
Fundraising		19,774
		1,528,139
Other income (expense)		
Net unrealized gain on investments		2,158
Interest and dividend income		1,552
Interest expense		(459)
		3,251
Net Increase in Unrestricted Net Assets		126,311
Net assets at beginning of year		282,493
Net Assets at End of Year	$	408,804

Combined Statement of Functional Expenses

Alternatives, Incorporated and Alternatives Foundation

Year Ended June 30, 2017

	Program Services	Management & General	Fund Raising	Total
Salaries and wages	$ 541,032	$ 95,617	$ 13,656	$ 650,305
Payroll taxes	55,461	9,799	1,400	66,660
Pension	29,314	5,179	740	35,233
Health insurance-dental	5,687	1,005	144	6,836
	631,494	111,600	15,940	759,034
Grants to Americorp	265,261			265,261
Contracted services	157,915			157,915
Occupancy	62,678	10,447	1,492	74,617
Fiscal sponsorship	71,262			71,262
Travel	48,256	8,526	1,218	58,000
Insurance	32,096	5,671	810	38,577
Supplies	25,987	6,935		32,922
Professional fees		14,653		14,653
In-kind rent		13,890		13,890
Telephone	8,136	1,438	205	9,779
Transportation services	7,565			7,565
Screening and background	6,737			6,737
Printing	4,316	763	109	5,188
Training and meetings	3,980			3,980
Office		3,546		3,546
Depreciation	2,760	526		3,286
Evaluation	1,189			1,189
Miscellaneous	1,341	(603)		738
	$ 1,330,973	$ 177,392	$ 19,774	$ 1,528,139

Combined Statements of Cash Flows

Alternatives, Incorporated and Alternatives Foundation

Year Ended June 30, 2017

Cash Flows from Operating Activities		
Net increase in net assets	$	126,311
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Depreciation		3,286
Unrealized gain on investment		(2,163)
(Increase) in:		
Accounts receivable		(35,401)
Prepaids		(6,885)
Increase (decrease) in:		
Accounts payable and accrued expenses		38,177
Fiscal agency funds held		(2,271)
Net Cash Provided by Operating Activities		121,054
Cash Flows from Investing Activities		
Purchase equipment and office furniture		(295)
Purchase of investment		(1,544)
Net Cash Used for Investing Activities		(1,839)
Cash Flows from Financing Activities		
Advances from line of credit, net		7,000
Payments on long-term debt		(1,406)
Net Cash Provided by Financing Activities		5,594
Net Increase in Cash and Cash Equivalents		124,809
Cash and cash equivalents at beginning of year		56,785
Cash and Cash Equivalents at End of Year	$	181,594

Supplemental Disclosure

The Organization paid $459 in interest expense for the year ended June 30, 2017.

Notes to Combined Financial Statements

Alternatives, Incorporated and Alternatives Foundation

June 30, 2017

Note A - Nature of Organization

Alternatives, Incorporated (the "Organization") is a not-for-profit organization which was incorporated under the laws of the Commonwealth of Virginia in 1973. The Organization's purpose is to provide various forms of education, training and consultation to members of the community regarding the positive development of young people. Among the services provided are the following: youth leadership development for youth civic engagement; psycho-educational drug prevention; treatment referral services; and viable alternatives to drug usage, primarily in the cities of Hampton and Newport News, Virginia. The Organization is also registered as a DBA for Virginia Partnership for Out-of-School Time, which is aimed at creating and sustaining a state-wide network of quality out of school time opportunities for youth. Their primary sources of revenues are from grants, contributions and fees collected from services performed such as conducting studies.

The Alternatives Foundation, Inc. (the "Foundation") maintains investments to support the Organization. Alternatives, Incorporated and Alternatives Foundation, Inc. are related through common control.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying combined financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue and public support is recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

Advertising costs of $450 were expensed as incurred during the fiscal year ended June 30, 2017.

Basis of Presentation

Not-for-profit organizations are required to report information regarding their financial position and activities based on the existence or absence of donor imposed restrictions. Accordingly, net assets and the changes therein are classified as follows:

Unrestricted amounts are those resources that can be used currently for the general operations of the Organization.

Notes to Combined Financial Statements

Alternatives, Incorporated
and Alternatives Foundation

June 30, 2017

Note B - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

Temporarily restricted net assets include resources whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. The Organization had no temporarily restricted net assets for the year ended June 30, 2017.

Permanently restricted net assets include resources whose use by the Organization is limited to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets for the year ended June 30, 2017.

Principles of Combination

The combined financial statements include the accounts of Alternative, Incorporated and Alternatives Foundation, Inc. which are related through common directors.

Cash Equivalents

For purposes of presentation in the consolidated statements of financial position and cash flows, the Organization considers all short-term liquid instruments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held for investment are included in investments.

Investments

Investments consist of cash equivalents and bond and equity mutual funds and are classified as available-for-sale. Mutual funds are recorded at closing values reported by the fund managers. Realized gains and losses are included in the combined statements of activities.

Risk and Uncertainties

Investment securities are exposed to various interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the amount reported in future combined statement of financial position.

Notes to Combined Financial Statements

Alternatives, Incorporated
and Alternatives Foundation

June 30, 2017

Note B - Summary of Significant Accounting Policies - Continued

Fair Value of Financial Instruments

The Foundation determines the fair value on its financial instruments based on the fair value hierarchy established in accounting standards which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Accounting standards define fair value as the exchange price that would be received for an asset or liability in the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards define 3 levels of input that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no significant changes in methodologies used at June 30, 2017.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Unconditional Promises to Give

The unconditional promise to give consist of the United Way of Virginia Peninsula allocation for the following year. The promises are unsecured and evaluated periodically by management for collectability.

Notes to Combined Financial Statements

Alternatives, Incorporated
and Alternatives Foundation

June 30, 2017

Note B - Summary of Significant Accounting Policies - Continued

Property and Equipment

Acquisitions of property and equipment are recorded at cost or at estimated fair value at the date of gift, if donated. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The general range of estimated useful lives is five to seven years. The Organization's policy is to capitalize property and equipment purchased with a cost greater than $200.

Revenue Recognition and Accounts Receivable

Unconditional promises to give are carried at net present value less an estimate made for potentially uncollectible accounts based on a review of all outstanding amounts on a regular basis. Management determines the allowance by regularly evaluating individual donor receivables and considering a donor's payment history and current economic conditions. Contributions receivable are written off when deemed uncollectible. Recoveries of receivables are recorded when received. The allowance for doubtful accounts was $1,050 at June 30, 2017.

The Organization reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use or timing of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets in the statements of activities. All contributions to be received within one year are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Contributed Services

Contributed services are recorded at their fair value if such services create or enhance non-financial assets, would have been purchased if not provided by contribution, require specialty skills and are provided by individuals possessing such specialized skills. A substantial number of volunteers contribute significant amounts of time and services to the Organization's program operations, fund raising campaigns, boards and committees of the Organization. Such contributed services do not meet the criteria for recognition of contributed services and are not reflected in the accompanying financial statements.

Note B - Summary of Significant Accounting Policies - Continued

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. Costs are allocated between fundraising, management and general, or the appropriate program based on evaluations of the related benefits. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes

The Organization is exempt from federal and state income taxes as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contributions deductions 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 Organization files an informational Form 990, Return of Organization Exempt from Income Tax, and are subject to examination by the Internal Revenue Service generally for three years after they were filed. The tax years June 30, 2014, 2015, and 2016 remain subject to examination by taxing authorities.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements to comply with the provisions of the accounting guidance for income taxes.

Note C - In-Kind Contribution

In 2017, the City of Hampton provided rent-free office space at Teagle Building in Newport News. The financial statements reflect the fair market value of the contributed office space for the year ended June 30, 2017 at $13,890.

Note D - Investments

Investments consist of marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gain (loss) is included in the change of net assets.

Investments as of June 30, 2017 consist of the following:

Available-for-sale investments:	
Mutual funds	$ 66,225
Cash equivalents	24,380
	$ 90,605

Notes to Combined Financial Statements

Alternatives, Incorporated
and Alternatives Foundation

June 30, 2017

Note E - Fair Value of Financial Instruments

Fair values of assets and liabilities measured on a recurring basis at June 30, 2017 are as follows:

	Carrying Value	Fair Value Measurements Level 1	Level 2	Level 3
Investments - available-for-sale securities:				
Mutual funds	$ 66,225	$ 66,225	$	$
	$ 66,225	$ 66,225	$	$

Note F - Accounts Receivable

Accounts Receivable consists primarily of receivables for services related to education, training and consulting to community members in the positive development of young people.

Note G - Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on management's judgment that timely collection has been impaired. Allowance for doubtful accounts is $1,050 as of June 30, 2017.

Note H - Concentrations of Credit Risks

The Organization maintains its cash on deposit with financial institutions located in the United States of America, which are insured by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC provides insurance coverage for up to $250,000 of cash held by each depositor per FDIC insured bank and savings institution. The cash deposits did not exceed the insured limits during the year.

Management periodically evaluates the Organization's investments.

Note I - Property and Equipment

Major classes of property and equipment consist of the following at June 30, 2017:

Furniture and fixtures	$ 27,428
Computers and software	5,315
	32,743
Less accumulated depreciation	17,902
	$ 14,841

Notes to Combined Financial Statements

Alternatives, Incorporated
and Alternatives Foundation

June 30, 2017

Note J - Line of Credit

The Organization maintains a line of credit with a limit of $150,000. The interest rate per annum is the Wall Street Journal prime rate plus 1%. The minimum rate is 5% per annum. The interest only payments are due monthly. The line expired September 2017, and is secured by the Organization's investments. There was $7,000 outstanding on the line at June 30, 2017. On December 13, 2017, subsequent to the Organization's year end, the line of credit was renewed with the same terms and limits as the previous line of credit.

Note K - Long-Term Debt

Long-term debt consisted of the following at June 30, 2017:

Installment note to Great American Financial Services, due in monthly payments of $166, including interest at 11.257% through September 2019, secured by property.	$ 3,804
Less: current portion	1,406
Long-term debt, less current maturities	$ 2,398

Approximate maturities of the long-term debt are as follows:

Year Ending June 30,	
2018	$ 1,573
2019	1,759
2020	472
	$ 3,804

Note L – Fiscal Agency Funds Held

The Organization provided financial administration and record-keeping services as an accommodation for several unrelated not-for-profit entities. Funds received for, and spent on behalf of, these unrelated entities are not reflected on the Organization's statement of activities, but instead are treated as increases and decreases to the liability account, "fiscal agency funds held."

At June 30, 2017, the Organization held $52,175 on behalf of other entities.

Notes to Combined Financial Statements

Alternatives, Incorporated
and Alternatives Foundation

June 30, 2017

Note M - Retirement Plan

The Organization has a tax-deferred annuity plan covering substantially all employees. The Organization contributes, on behalf of each employee covered by the plan, an amount equal to 5% of the employee's annual compensation. After five years of service, the contribution percentage increases to 6%, and after ten years it increases to 7%. Pension contributions charged to expense totaled $35,233 for the year ended June 30, 2017.

Note N - Lease Commitments

The Organization leases office space under an operating lease. The monthly rent increases 2.5% per year and expires in February 2025. The lease may be terminated after the fifth year by providing written notice to the landlord at least one hundred eighty days prior to the start of the fifth year or September 1, 2019.

The total rent expense incurred under this lease for the year ended June 30, 2017 was $74,617. The rent expense includes real estate taxes.

The following is a schedule of future minimum lease payments required under these leases:

Year Ending June 30,	
2018	$ 74,880
2019	76,752
2020	52,014
	$ 203,646

Note O - Subsequent Events

Management has evaluated subsequent events through January 20, 2018, the date the financial statements were available to be issued. All subsequent events requiring recognition have been incorporated into these financial statements.

Note P - Accrued Vacation

Management has elected not to accrue vacation because the Organization's policy requires vacation to be used by June 30 of each year. Three days may be carried over to the next year with the approval of management.

Note Q - Major Contributors

The Organization and Foundation had two major contributors which totaled 33% contributions and support. There was no amount due from these contributors at June 30, 2017.

Supplementary Information

Combining Statement of Financial Position

Alternatives, Incorporated and Alternatives Foundation

June 30, 2017

	Alternatives Incorporated	Alternatives Foundation	Total
Assets			
Current assets			
Cash and cash equivalents	$ 157,214	$ 24,380	$ 181,594
Accounts receivable, net	234,640		234,640
Investments (at fair market value)		66,225	66,225
Unconditional promises to give	42,000		42,000
Prepaid expenses	6,885		6,885
Total Current Assets	440,739	90,605	531,344
Property and equipment, net	14,841		14,841
Deposit	5,890		5,890
	$ 461,470	$ 90,605	$ 552,075
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued expenses	$ 80,292	$	$ 80,292
Line of credit	7,000		7,000
Current portion of long-term debt	1,406		1,406
Fiscal agency funds held	52,175		52,175
Total Current Liabilities	140,873		140,873
Long-term debt	2,398		2,398
Total Liabilities	143,271		143,271
Net assets-unrestricted	318,199	90,605	408,804
	$ 461,470	$ 90,605	$ 552,075

See Independent Auditor's Report

Combining Statement of Activities

Alternatives, Incorporated and Alternatives Foundation

June 30, 2017

	Alternatives Incorporated	Alternatives Foundation	Total
Unrestricted Net Assets			
Unrestricted revenues and support			
State and local government grants	$ 967,063	$	$ 967,063
Client service fee	390,383		390,383
Contributions	104,690		104,690
Foundation grants	86,054		86,054
Other revenue	47,119		47,119
United Way grant	42,000		42,000
In-kind rent	13,890		13,890
	1,651,199		1,651,199
Functional expenses			
Program services	1,330,973		1,330,973
Management and general	177,392		177,392
Fundraising	19,774		19,774
	1,528,139		1,528,139
Other income (expense)			
Net unrealized gain on investments		2,158	2,158
Interest and dividend income	5	1,547	1,552
Interest expense	(459)		(459)
	(454)	3,705	3,251
Net Increase in Unrestricted Net Assets	122,606	3,705	126,311
Net assets at beginning of year	195,593	86,900	282,493
Net Assets at End of Year	$ 318,199	$ 90,605	$ 408,804

See Independent Auditor's Report