



**SARAH'S CIRCLE
AND AFFILIATES
(NONPROFIT ORGANIZATIONS)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For the Year Ended June 30, 2019

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SARAH'S CIRCLE AND AFFILIATES
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sarah's Circle and Affiliates:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sarah's Circle and Affiliates (the Organizations) (Illinois nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects the financial position of Sarah's Circle and Affiliates as of June 30, 2019, 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.

Emphasis of Matter - Accounting Pronouncement

As discussed in Note 2 to the consolidated financial statements, the entity adopted new accounting guidance as issued by the Financial Accounting Standards Board under Financial Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2019 on our consideration of Sarah's Circle and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sarah's Circle's internal control over financial reporting and compliance.

Sikich LLP

Naperville, Illinois
December 5, 2019

FINANCIAL STATEMENTS

SARAH'S CIRCLE AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 6,306,987
Cash, restricted	84,727
Grants receivable, net	209,204
Prepaid expenses	12,910
	<hr/>
Total current assets	6,613,828
	<hr/>
NONCURRENT ASSETS	
Land and building	5,751,873
Construction in progress	2,403,739
Leasehold improvements	324,962
Furniture and equipment	259,958
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Total noncurrent assets	8,740,532
	<hr/>
Less accumulated depreciation and amortization	1,253,567
	<hr/>
Net fixed assets	7,486,965
	<hr/>
Investments	10,988,050
Deposit	10,874
	<hr/>
Total noncurrent assets	18,485,889
	<hr/>
TOTAL ASSETS	\$ 25,099,717
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(This statement is continued on the following page.)

SARAH'S CIRCLE AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

June 30, 2019

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 63,250
Notes payable, current portion	28,142
Accrued liabilities	<u>87,542</u>

Total current liabilities 178,934

LONG-TERM LIABILITIES

Notes payable, net of current portion	<u>2,944,166</u>
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Total long-term liabilities 2,944,166

Total liabilities 3,123,100

NET ASSETS

Without donor restrictions	9,849,745
With donor restrictions	<u>12,126,872</u>

Total net assets 21,976,617

TOTAL LIABILITIES AND NET ASSETS \$ 25,099,717

See accompanying notes to financial statements.

SARAH'S CIRCLE AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,081,165	\$ 213,008	\$ 2,294,173
Grants	1,300,666	-	1,300,666
In-kind donations	421,199	-	421,199
Special events, net	175,934	-	175,934
Program rental income	20,458	-	20,458
Investment income, net	225,668	-	225,668
Net assets released from restrictions	2,154,156	(2,154,156)	-
Total support and revenue	6,379,246	(1,941,148)	4,438,098
EXPENSES			
Program services			
Interim housing	1,210,146	-	1,210,146
Permanent supportive housing	718,792	-	718,792
Daytime support center	525,623	-	525,623
Clinical services	131,205	-	131,205
Total program services	2,585,766	-	2,585,766
Management and general	179,782	-	179,782
Fundraising	208,876	-	208,876
Total expenses	2,974,424	-	2,974,424
Change in net assets before net appreciation	3,404,822	(1,941,148)	1,463,674
Net appreciation	23,537	-	23,537
CHANGE IN NET ASSETS	3,428,359	(1,941,148)	1,487,211
NET ASSETS, BEGINNING OF YEAR	6,421,386	14,068,020	20,489,406
NET ASSETS, END OF YEAR	\$ 9,849,745	\$ 12,126,872	\$ 21,976,617

See accompanying notes to financial statements.

SARAH'S CIRCLE AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Program Services				Total Program Services	Management/ General	Fundraising	Direct Benefit To Donors	Total
	Daytime Services	Interim Housing	Permanent Housing	Clinical Services					
FUNCTIONAL EXPENSES									
Salaries	\$ 246,097	\$ 533,447	\$ 262,161	\$ 61,428	\$ 1,103,133	\$ 84,174	\$ 97,796	\$ -	\$ 1,285,103
Payroll taxes	18,548	40,204	19,758	4,630	83,140	6,344	7,371	-	96,855
Employee benefits	32,417	70,267	34,531	8,092	145,307	11,088	12,882	-	169,277
Total salaries and related expenses	297,062	643,918	316,450	74,150	1,331,580	101,606	118,049	-	1,551,235
Bank fees	34,318	74,387	36,558	8,566	153,829	11,738	13,637	-	179,204
Board and staff expenses	2,258	4,895	2,404	564	10,121	772	897	-	11,790
Client services	8,616	18,680	168,041	2,151	197,488	2,948	3,425	-	203,861
Contractual services	3,669	7,955	3,910	917	16,451	1,255	1,458	-	19,164
Depreciation and amortization	33,848	73,369	36,057	8,449	151,723	11,577	13,451	-	176,751
Development	41	90	44	11	186	14	16	-	216
Food supplies	11,018	23,882	11,737	2,751	49,388	3,768	4,378	-	57,534
Insurance	1,700	3,685	1,811	424	7,620	582	676	-	8,878
Interest	29,342	63,602	31,257	7,325	131,526	10,036	11,660	-	153,222
Marketing	1,936	4,195	2,062	483	8,676	662	769	-	10,107
Postage	1,842	3,993	1,963	460	8,258	630	732	-	9,620
Printing	3,287	7,125	3,502	821	14,735	1,124	1,306	-	17,165
Professional fees	2,144	4,646	2,284	535	9,609	733	852	-	11,194
Professional fees in-kind	27,990	60,672	29,817	6,987	125,466	9,574	11,123	-	146,163
Rent	-	70,795	-	-	70,795	-	-	-	70,795
Repairs and maintenance	19,093	41,384	20,340	4,766	85,583	6,530	7,587	-	99,700
Supplies	4,341	9,410	4,624	1,083	19,458	1,485	1,725	-	22,668
Supplies in-kind	27,508	59,628	29,304	6,866	123,306	9,409	10,932	-	143,647
Telephone and internet	4,243	9,197	4,519	1,059	19,018	1,451	1,686	-	22,155
Transportation	2,512	5,445	2,676	627	11,260	859	998	-	13,117
Utilities	8,855	19,193	9,432	2,210	39,690	3,029	3,519	-	46,238
Total expenses before cost of sales	525,623	1,210,146	718,792	131,205	2,585,766	179,782	208,876	-	2,974,424
COST OF SALES									
Direct benefit to donors									
Meals	-	-	-	-	-	-	-	561	561
Entertainment	-	-	-	-	-	-	-	8,839	8,839
TOTAL EXPENSES	\$ 525,623	\$ 1,210,146	\$ 718,792	\$ 131,205	\$ 2,585,766	\$ 179,782	\$ 208,876	\$ 9,400	\$ 2,983,824

See accompanying notes to financial statements.

SARAH'S CIRCLE AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,487,211
Adjustments to reconcile change in net assets to cash from operating activities	
Depreciation and amortization	176,751
Contributions for long-term investments	(213,008)
Unrealized gain on investments	(23,537)
Capitalized donated services	(94,534)
Changes in certain assets and liabilities	
Grants receivable	(96,862)
Prepaid expenses	25,434
Accounts payable	(181,873)
Accrued liabilities	23,747
 Total adjustments	 (383,882)
 Net cash from operating activities	 <u>1,103,329</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for purchase of property	(2,049,980)
Proceeds from sale of investments	24,607,711
Payments for purchase of investments	(23,413,586)
 Net cash from investing activities	 <u>(855,855)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from contributions for long-term investment	213,008
Principal payments on notes payable debt	(26,222)
 Net cash from financing activities	 <u>186,786</u>

NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH 434,260

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR 5,957,454

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR \$ 6,391,714

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

Cash and cash equivalents	\$ 6,306,987
Restricted cash	<u>84,727</u>

TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH \$ 6,391,714

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	<u>\$ 21,832</u>
 Income taxes paid	 <u>\$ -</u>

NONCASH INVESTING ACTIVITIES

Capitalized donated services	<u><u>\$ 94,534</u></u>
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See accompanying notes to financial statements.

SARAH'S CIRCLE AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

1. NATURE OF ORGANIZATION

Sarah's Circle and Affiliates (the Organization) is an Illinois not-for-profit organization founded in 1979 and operates in Chicago, Illinois. The purpose of the agency is to provide for essential human services for women who are homeless, and via all programs, end homelessness for women. This is accomplished by providing a full range of services including permanent and interim housing, basic life necessities, critical and emergency supportive services, we empower women to end their homelessness and realize their unique potential. Sarah's Circle House and Sarah's on Sheridan, LLC (Affiliates) are affiliates of the Organization.

Nature of Programs:

Interim Housing - Every day the Interim Housing Program provides comprehensive services including shelter and 24 access to 50 women who are currently homeless. The goal of the program is to help women move into permanent housing as quickly as possible with intensive case management, housing coordination, and other individualized services tailored to the strengths and challenges of the individual.

Permanent Supportive Housing - The Organization provides permanent supportive housing to women who have a disabling condition who have been chronically homeless. Some women in this program were homeless for over a decade before being housed. Each woman in the program is provided with a housing subsidy, intensive case management, and other individualized supportive services to help her improve her health, well-being, and self-sufficiency. This type of housing has been proven to improve outcomes for the most difficult to serve individuals and reduce public costs for jails, emergency rooms, and other crisis services.

Daytime Support Center - The Daytime Support Center is a safe and welcoming community for any woman in need, whether street homeless, doubled up with friends or family, formerly homeless, struggling with domestic violence, or simply low-income and in need of community. Services include basic necessities, such as food, bathrooms, showers, laundry, telephone, computers with internet access, and an address for mail; educational and general interest programming on a variety of topics; individualized case management; and housing coordination.

Clinical Services - Group and individual clinical services delivered via the Art Therapy Program to address trauma, domestic violence, mental illness, and other personal challenges are also provided at the Daytime Support Center and Interim Housing. These services provide women with tools and support to move towards greater self-determination and empowerment, helping them recognize and build on the strengths they already have.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESPrinciples of Consolidation

These consolidated financial statements include the accounts of Sarah's Circle House and Sarah's on Sheridan, LLC. No intercompany accounts and transactions have occurred.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (USGAAP). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Organization and changes herein are classified and reported as follows:

Net assets without donor restrictions include general and board-designated net assets of the Organization and are not subject to donor-imposed restrictions. The net assets may be used at the discretion of management to support the Organization's purposes and operations.

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

Use of Estimates

The preparation of financial statements in conformity with USGAAP 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.

Cash and Cash Equivalents, Restricted Cash, and Cash Equivalents

Cash is defined as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Restricted cash and cash equivalents are limited in use for payment of costs of acquiring or constructing and operating a new shelter and of a related capital campaign. The total amount of restricted cash for these purposes is \$84,727 for the year ended June 30, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Cash and Cash Equivalents, Restricted Cash, and Cash Equivalents (Continued)

The Organization maintains certain cash and cash equivalents at one financial institution which, at times, may exceed federally insured limits. At June 30, 2019, the bank balance of the deposits exceeded FDIC limits by approximately \$248,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments and Investment Income

Investments are stated at fair market value in the statement of financial position. Gains and losses (realized and unrealized) on investments are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned. Investment income and gains restricted by a donor are reported as increases in without donor restricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statement of financial position and the statement of activities.

Money market funds included in the investment portfolio are treated as cash equivalents on the statement of financial position. Investment Income is report net of external and direct internal investment expenses, if any.

Grants Receivable

Grants receivable are amounts due under cost reimbursement contracts with primarily county and state government agencies.

Allowance for Doubtful Accounts

Grants receivable are reviewed periodically by management to determine the adequacy of the allowance for doubtful accounts. Based on management's evaluation, the Organization believes that an allowance for doubtful accounts is not considered necessary as of June 30, 2019, however, actual write-offs may occur.

Property and Equipment

Property and equipment are recorded at cost or if donated, at fair value at the date of donation. All expenditures for property and equipment in excess of \$1,000 are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred, whereas renewals and betterments that extend the lives of property are capitalized. Depreciation is computed on the straight-line method over various useful lives:

SARAH'S CIRCLE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

	<u>Years</u>
Buildings	39
Leasehold improvements	Shorter of useful life or lease term
Furniture and equipment	3-8

Depreciation and amortization expense for the year ended June 30, 2019 is \$176,751.

The Organization entered into a contract effective July 17, 2019 with Skender Construction, LLC in connection with the construction of a building. The contract is guaranteed not to exceed \$12,743,045. The \$2,403,739 shown on the statement of financial position as construction in progress is for this project.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met and are reported as with donor restrictions.

Government grants are recorded as grants that are reimbursable to the Organization from the government based on criteria contained in the grant award.

Rental income-program fees consist of rent payments made by tenants in the traditional housing program and are recognized over the monthly lease period.

In-Kind Donations

In-kind contributions of materials used in the Organization's programs are recorded as income and expense at the estimated fair value at the time of donation. In addition, in-kind contributions of property and equipment are recorded as income and increases of property and equipment at the estimated fair value at the time of donation. The Organization received donated goods valued at \$143,647, which is included in in-kind donations revenue and supplies expense in the statement of activities. The Organization received donated fixed assets valued at \$94,533, which is included in in-kind donations revenue on the statement of activities and construction in progress on the statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)In-Kind Donations (Continued)

Donated services are recognized as revenues at their estimated fair value when they create or enhance nonfinancial assets, or they require specialized skills which would need to be purchased if they are not donated. The Organization received a variety of donated services including advertising and repairs and maintenance. The Organization received donated services of \$51,629 which is included in in-kind donations revenue and related expenses in the statement of activities.

Additionally, the Organization recognizes as income and expense the imputed interest on its non-interest-bearing loans. The imputed interest rate used was 5% which was the incremental borrowing rate at the time of the note issuances. The Organization recognized \$131,390 of imputed interest, which is included in in-kind donations revenue and interest expense on the statement of activities.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, office, and occupancy, which are allocated on a square-footage basis as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Expenses that are specifically identifiable with a program are charged to that program.

Income Taxes

The Organization is exempt from federal and state income taxes under the Internal Revenue Code Section 501(c)(3), and similar provisions of the state income tax code as other than a private foundation.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended by ASU No. 2015-14, which supersedes or replaces nearly all USGAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and will expand disclosures about revenue. ASU No. 2014-09, as amended, is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018 and interim periods within the annual period beginning after December 15, 2019. Management is currently assessing the impact of this new standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)New Accounting Standards (Continued)

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU No. 2016-02, as amended by ASU 2019-10, is effective for nonpublic entities for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. ASU No. 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new leases standard at the beginning of the earliest period presented in the financial statements. In July 2018, FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, providing a second, optional transition method which allows the entity to apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Organization is currently assessing the impact of this new standard, including the two optional transition methods.

FASB has issued ASU No. 2016-14, *Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications, and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has adopted ASU No. 2016-14 and has applied the changes to these financial statements accordingly.

FASB has issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018, for transactions in which the entity serves as a resource recipient, and for fiscal years beginning after December 15, 2019, for transactions in which the entity serves as a resource provider. Early adoption is permitted. The Organization is currently assessing the impact of this new standard.

In August 2018, FASB issued ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurements*. This standard is intended to improve the effectiveness of disclosures in the notes to the financial statements and modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurements*. ASU No. 2018-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization has chosen to early adopt this ASU as of and for the year ended June 30, 2019.

SARAH'S CIRCLE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. LIQUIDITY AND AVAILABILITY

The Organization receives contributions and promises to give with donor restrictions to be used in accordance with the associated purpose or time restriction. In addition, the Organization receives support without donor restrictions as well as government grants; such support was approximately 131% of program funding needs for the year ended June 30, 2019.

The Organization considers it appropriate that earnings from contributions with and without donor restrictions are for use in current programs which are ongoing, major, and central to its annual operations and are also available to meet cash needs for general expenditures. General expenditures include administrative and general expenses and fundraising expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Organization's fiscal year.

The Organization manages its cash available to meet general expenditures with the following guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

FINANCIAL ASSETS	
Cash and cash equivalents	\$ 6,306,987
Grants receivable	209,204
Investments	<u>10,988,050</u>
Total financial assets and liquidity resources	17,504,241
Less donor-imposed restrictions	
Purpose restrictions - housing case manager	(30,000)
Purpose restrictions - building - 1005 W. Leland	(12,096,872)
Less board designated reserves	<u>(1,370,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL USE WITHIN ONE YEAR	<u>\$ 4,007,369</u>

The Organization has board-designated reserves, of which \$1,370,000 are designated for general operations. The reserve is considered a liquid resource as the Board has ability to approve disbursements from the reserve to cover operating shortfalls.

4. FAIR VALUE MEASUREMENTSFair Value Measurements

USGAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair values. USGAAP requires the Organization to maximize the use of observable inputs when measuring fair value.

The hierarchy describes three levels of inputs, which are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Significant unobservable inputs.

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded on the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAV's are not included in Level 1, 2, or 3, but are separately reported.

Valuation Techniques

Following is a description of the valuation techniques used for assets measured at fair value on a recurring basis. There have been no changes to the techniques used during the year ended June 30, 2019.

U.S. government obligations: U.S. government agency obligations are measured at Level 2 and are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

SARAH'S CIRCLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Valuation Techniques (Continued)

The following table presents the assets carried on the statement of financial position by level within the fair value hierarchy:

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. government obligations	\$ -	\$ 10,988,050	\$ -	\$ 10,988,050
TOTAL INVESTMENTS				<u>\$ 10,988,050</u>

5. LEASE COMMITMENTS AND SUBLEASE INCOME

The Organization leased its interim housing facility on a month-to-month basis through December 31, 2018. On January 1, 2019, the Organization entered into a two-year noncancelable operating lease for this facility. Monthly rent is \$6,367. Additionally, rent was abated for the first two months of the lease.

Total rent expense for the year ended June 30, 2019 is \$70,795.

Future minimum rental payments under the terms of the lease are as follows:

<u>For the Year Ending</u>	<u>Amount</u>
2020	\$ 76,407
2021	<u>38,204</u>
TOTAL	<u>\$ 114,611</u>

Subleases are entered into with tenants, which include security deposits, through the transitional housing program. All leases with tenants are typically six months and not more than one year. Rental income-program fees totaled \$20,458 from tenants for the year ended June 30, 2019.

SARAH'S CIRCLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. NOTES PAYABLE

Notes payable at June 30, 2019 consist of the following:

\$1,400,000 note payable to Illinois Housing Development Authority dated August 2012. There is no interest and no monthly payment, final balloon payment is due in December 2043. Secured by real property. Interest is imputed at 5%. \$ 1,400,000

\$1,227,790 note payable to the City of Chicago dated August 2012. There is no interest and no monthly payment, final balloon payment is due in August 2044. Secured by real property. Interest is imputed at 5%. 1,227,790

\$475,000 note payable to Village Bank & Trust dated August 2012. Payable in 192 monthly installments of \$4,008, inclusive of interest at 6%. Secured by real property. 344,518

Total debt 2,972,308

Less current portion 28,142

TOTAL LONG-TERM NOTES PAYABLE \$ 2,944,166

Future maturities of notes payable are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 28,142
2021	29,878
2022	31,721
2023	33,677
2024	35,754
Thereafter	<u>2,813,136</u>
TOTAL	<u><u>\$ 2,972,308</u></u>

SARAH'S CIRCLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction are restricted for the following as of June 30:

Building - 1005 W. Leland	\$ 12,096,872
Housing Case Manager	<u>30,000</u>
TOTAL DONOR RESTRICTED ASSETS	<u>\$ 12,126,872</u>

Net assets were released from temporary donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors during the year ended June 30, 2019:

Art Therapy Program	\$ 118,290
Building - 1005 W. Leland	<u>2,035,866</u>
TOTAL RESTRICTIONS RELEASED	<u>\$ 2,154,156</u>

8. RETIREMENT PLAN

The Organization sponsors a 401(k) plan for certain employees. The plan provides for the Organization to make a required matching contribution. During the year ended June 30, 2019, the Organization made contributions of \$36,272.

9. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, nonrecognized subsequent events).

The Organization has evaluated subsequent events through December 5, 2019, which was the date that these financial statements were available to be issued and determined that there were no significant nonrecognized subsequent events through that date.

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

To the Board of Directors
Sarah's Circle and Affiliates:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying consolidated financial statements of Sarah's Circle and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 5, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Sikich LLP

Naperville, Illinois
December 5, 2019