

**THE ARC OF WINNEBAGO, BOONE &
OGLE COUNTIES**

**Financial Statements and
Independent Auditor's Report**

June 30, 2022 and 2021

**The Arc of Winnebago, Boone & Ogle Counties
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LUCAS GROUP
CPAs + Advisors, LLC

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Arc of Winnebago, Boone & Ogle Counties
Rockford, Illinois

Opinion

We have audited the accompanying financial statements of The Arc of Winnebago, Boone & Ogle Counties (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Winnebago, Boone & Ogle Counties as of June 30, 2022 and 2021, and the changes of its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Arc of Winnebago, Boone & Ogle Counties and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc of Winnebago, Boone & Ogle Counties ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arc of Winnebago, Boone & Ogle Counties internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc of Winnebago, Boone & Ogle Counties ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Lucas Group CPAs + Advisors, LLC

Rockford, Illinois
November 15, 2022

The Arc of Winnebago, Boone & Ogle Counties

Statements of Financial Position

June 30, 2022 and 2021

Assets

Current assets:

	2022	Restated 2021
Cash and cash equivalents	\$ 470,816	357,368
Restricted cash, clients	237,168	150,815
Certificates of deposit	405,798	401,355
Grants and accounts receivable	14,022	55,910
Prepaid expenses	741	330
Total current assets	1,128,545	965,778

Property and equipment, net of accumulated
depreciation of \$37,990 and \$37,923, respectively

	-	67
Total assets	1,128,545	965,845

Liabilities and Net Assets

Current liabilities:

Due to clients	237,168	150,815
Refundable advance	-	-
Accrued vacation	11,183	9,820
Accrued payroll withholding	4,893	4,321
Accrued miscellaneous	1,972	1,972
Total liabilities	255,216	166,928

Net Assets:

Without donor restrictions	871,829	797,417
With donor restrictions	1,500	1,500
Total net assets	873,329	798,917
Total liabilities and net assets	\$ 1,128,545	965,845

The accompanying notes are an integral part of the financial statements.

The Arc of Winnebago, Boone & Ogle Counties
Statements of Activities
For the Years Ended June 30, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Without Donor Restrictions	With Donor Restrictions	Restated Total 2021
Support and revenue:						
Fees for service, State of Illinois	\$ 493,842	\$ -	\$ 493,842	\$ 449,640	\$ -	\$ 449,640
Fees for service, other	45,032	-	45,032	49,248	-	49,248
Special fundraising events, net of related expenses of \$16,124 and \$14,386 in 2022 and 2021, respectively						
In-kind advertising	31,396	-	31,396	23,822	-	23,822
Contributions and grants	26,875	-	26,875	73,754	-	73,754
Investment income, net of expenses	52,541	-	52,541	37,640	-	37,640
PPP loan forgiveness	4,573	-	4,573	528	-	528
Other	-	-	-	21,454	-	21,454
	7,101	-	7,101	12,962	-	12,962
Total support and revenue	\$ 661,360	\$ -	\$ 661,360	\$ 669,048	\$ -	\$ 669,048
Expenses:						
Program services	\$ 508,006	\$ -	\$ 508,006	\$ 454,622	\$ -	\$ 454,622
Management and general	28,789	-	28,789	29,760	-	29,760
Fundraising	50,153	-	50,153	93,392	-	93,392
Total expenses	586,948	-	586,948	577,774	-	577,774
Change in net assets	74,412	-	74,412	91,274	-	91,274
Net assets, beginning of year	797,417	1,500	798,917	706,143	1,500	707,643
Net assets, end of year	\$ 871,829	\$ 1,500	\$ 873,329	\$ 797,417	\$ 1,500	\$ 798,917

The accompanying notes are an integral part of the financial statements.

The Arc of Winnebago, Boone & Ogle Counties
Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services				Supporting Services		06/30/2022
	Home Based	Guardianship/ Rep Payee	Art	Other	Management and General	Fundraising	Total
Salaries and wages	\$ 235,093	\$ 45,140	\$ 31,927	\$ 2,748	\$ 314,908	\$ 10,999	\$ 336,167
Employee fringe benefits	29,867	5,735	4,056	349	40,007	1,397	42,708
Payroll taxes	17,937	3,444	2,436	210	24,027	839	25,649
Professional fees	10,672	2,287	1,525	762	15,246	-	22,496
Consumable supplies	3,388	726	484	242	4,840	-	4,840
Occupancy	40,289	8,633	5,756	2,877	57,555	-	63,950
Repairs and maintenance	1,541	330	220	110	2,201	-	2,201
Travel and transportation	2,405	515	344	172	3,436	-	3,436
Seminars, conferences, and training	5,310	1,138	759	379	7,586	555	8,141
Specific assistance	-	10,645	1,926	1,691	14,262	-	14,262
Advertising	-	-	-	-	-	7,336	7,336
Outside printing	1,275	273	182	92	1,822	-	1,822
Postage and shipping	3,429	735	490	245	4,899	-	4,899
Dues and subscriptions	2,212	474	316	158	3,160	-	5,950
Other expenses	9,799	2,100	1,400	698	13,997	2,152	16,149
Depreciation	42	9	6	3	60	-	67
In-kind advertising	-	-	-	-	-	26,875	26,875
Total expenses	\$ 363,259	\$ 82,184	\$ 51,827	\$ 10,736	\$ 508,006	\$ 28,789	\$ 586,948

The accompanying notes are an integral part of the financial statements.

The Arc of Winnebago, Boone & Ogle Counties
Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Services					Supporting Services		Restated 06/30/2021
	Home Based	Guardianship/ Rep Payee	Art	Other	Total Program	Management and General	Fundraising	Total
Salaries and wages	\$ 199,690	\$ 41,100	\$ 37,504	\$ 2,569	\$ 280,863	\$ 10,371	\$ 11,131	\$ 302,365
Employee fringe benefits	24,378	5,017	4,578	314	34,287	1,266	1,359	36,912
Payroll taxes	15,356	3,160	2,884	198	21,598	798	855	23,251
Contractual and consultants	2,030	435	290	145	2,900	-	-	2,900
Professional fees	9,731	2,085	1,390	696	13,902	7,250	-	21,152
Consumable supplies	4,142	888	592	296	5,918	-	-	5,918
Occupancy	40,610	8,702	5,801	2,901	58,014	6,446	-	64,460
Repairs and maintenance	755	162	108	54	1,079	-	-	1,079
Travel and transportation	563	121	80	40	804	-	-	804
Seminars, conferences, and training	762	163	109	54	1,088	-	557	1,645
Specific assistance	-	12,383	2,220	3,792	18,395	-	-	18,395
Advertising	-	-	-	-	-	-	5,736	5,736
Outside printing	152	33	22	10	217	-	-	217
Postage and shipping	3,114	668	445	222	4,449	-	-	4,449
Dues and subscriptions	1,389	298	198	99	1,984	2,445	-	4,429
Other expenses	5,816	1,246	831	415	8,308	-	-	8,308
Bad debt expense	-	-	-	-	-	1,093	-	1,093
Depreciation	571	122	82	41	816	91	-	907
In-kind advertising	-	-	-	-	-	-	73,754	73,754
Total expenses	\$ 309,059	\$ 76,583	\$ 57,134	\$ 11,846	\$ 454,622	\$ 29,760	\$ 93,392	\$ 577,774

The accompanying notes are an integral part of the financial statements.

The Arc of Winnebago, Boone & Ogle Counties
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	Restated 2021
Cash Flows from Operating Activities		
Change in net assets	\$ 74,412	\$ 91,274
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	67	907
Appreciation of certificate of deposit	(4,443)	(332)
Forgiveness of PPP loan	-	(21,454)
(Increase) decrease in assets:		
Grants and accounts receivable, net	41,888	(6,853)
Prepaid expenses	(411)	3
Increase (decrease) in liabilities:		
Accrued expenses	1,935	(4,698)
Net cash provided by (used for) operating activities	113,448	58,847
Net increase (decrease) in cash and cash equivalents	113,448	58,847
Cash and cash equivalents, beginning of year	357,368	298,521
Cash and cash equivalents, end of year	\$ 470,816	\$ 357,368

The accompanying notes are an integral part of the financial statements.

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies and Other Matters

Nature of Activities

The Arc of Winnebago, Boone & Ogle Counties (the "Organization") is a non-profit organization formed under the laws of the State of Illinois to educate and promote the welfare of disabled persons and their families in Northern Illinois and to cooperate with public and private agencies with similar purposes. The Organization also provides management and budgeting finance services to qualified individuals through its Independent Living Outreach Program.

Financial Statement Presentation

Net assets, revenue and support, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor and grantor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in which support and revenue is recognized when earned and expenses are recognized when incurred.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the Statement of Activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realized value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts of those amounts are computed using risk free interest rates applicable to the years in which the promises are received. Changes in value are recorded as support income. Conditional promises to give are not included as support until the conditions are substantially met. No allowance for uncollectible accounts has been provided on unconditional promises to give.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies and Other Matters (Continued)

Income Taxes (Continued)

The Organization follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at June 30, 2022 or 2021.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2019.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

Donated Assets and Services

The Organization records in-kind support for donated assets and services in the statement of activities at their estimated fair market values at the date of receipt. Contributed professional services are recognized if the services create or enhance long-lived assets or require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Cash and Cash Equivalents

For purpose of reporting the statement of cash flows, the Organization includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash equivalents on the accompanying statement of financial position. The Organization's bank accounts at BMO Harris Bank had balances of \$932,551 at June 30, 2022, which exceeded the FDIC limit of \$250,000 by \$682,551. The Organization's bank accounts exceeded the FDIC limit by \$486,156 at June 30, 2021.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The threshold for capitalization is \$2,500. Lesser amounts are expensed. The property and equipment are being depreciated over estimated useful lives using various methods but primarily the straight-line method. Estimated useful lives are as follows:

Building and improvements	7-39
Furniture and equipment	3-7

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in the statement of activities.

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies and Other Matters (Continued)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The cost of providing the various programs and other activities are charged on a direct functional basis whenever practical. When direct charges cannot be accomplished, the costs are allocated on the basis of periodic time and use of space studies. The expenses that are allocated include salaries, payroll taxes & benefits, consumable supplies, occupancy, repairs & maintenance, professional fees, travel, training, printing, postage, dues, other expenses and depreciation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Restricted Cash

Client funds received by the Organization, acting as a trustee agent, are maintained in a separate checking account in the name of the Organization. These funds are managed through the Independent Living Support Program and are paid out on behalf of clients for their related living expenses. These client funds are not assets of the Organization, and thus, are not included as support and program expenses in the statement of activities.

Note 3 - Grants and Accounts Receivable

The detail of grants and accounts receivable is as follows at June 30, 2022 and 2021 (restated):

	<u>06/30/2022</u>	<u>06/30/2021</u>
State of Illinois-Department of Human Services	\$ 13,042	\$ 43,305
Other	980	12,605
Total	<u>\$ 14,022</u>	<u>\$ 55,910</u>

Note 4 - Property and Equipment

Investments in property and equipment is as follows at June 30, 2022 and 2021:

	<u>6/30/2022</u>	<u>6/30/2021</u>
Office furniture and equipment	\$ 37,990	\$ 37,990
Less: accumulated depreciation	(37,990)	(37,923)
Net book value	<u>\$ -</u>	<u>\$ 67</u>

Depreciation expense was \$67 and \$907 for the years ended June 30, 2022 and 2021, respectively.

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2022 and 2021

Note 5 - Accrued Expenses

The Organization has accrued expenses consisting of the following as of June 30, 2022 and 2021.

	06/30/2022	06/30/2021
Accrued payroll withholding	\$ 4,893	\$ 4,321
Accrued vacation	11,183	9,820
Accrued miscellaneous	1,972	1,972
Total	<u>\$ 18,048</u>	<u>\$ 16,113</u>

Note 6 - Employee Benefits Plans

Cafeteria Plan

The Organization provides a modified cafeteria plan for all eligible employees. Employees may participate in the plan after completing three months of employment. Under the terms of the plan, eligible employees may elect to contribute a specified percentage of their compensation before tax to be applied toward an annuity. The Organization also contributes a specified percentage of each participating employee's annual compensation, determined annually, to the plan. The Organization has suspended payments to the plan and did not contribute to the plan for the years ended June 30, 2022 and 2021.

403(b) Defined Contribution Plan

The Organization maintains a 403(b) defined contribution pension plan for all eligible employees. Under terms of the plan, all employees are eligible to make salary reduction contributions and are eligible to receive employer based contributions if they are age 21 and over and have completed at least one year of service. The Organization did not contribute to the plan for the years ended June 30, 2022 and 2021.

Note 7 – Concentrations

Approximately 74% and 83% of the Organization's total support and revenue was received from the State of Illinois Department of Human Services for the years ended June 30, 2022 and 2021, respectively. A significant reduction in the level of this support, if this were to occur, may have a significant impact on the Organization's range of programs and activities provided.

Note 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30, 2022 and 2021:

	06/30/2022	06/30/2021
Restricted as to purpose:		
Education	\$ 1,500	\$ 1,500
Total net assets with donor restrictions	<u>\$ 1,500</u>	<u>\$ 1,500</u>

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2022 and 2021

Note 9 - Donated Goods and Services

The donated advertising expense for the years ended June 30, 2022 and 2021 were for the Great Dream Machine and the Chocoholic Frolic. The donated advertising is shown in the Statement of Activities as in-kind revenue and in-kind expense. The Organization has reported the estimated fair values of the donated materials and services as follows:

	06/30/2022	06/30/2021
Advertising expense	<u>\$ 26,875</u>	<u>\$ 73,754</u>

Note 10 – Leases and Rental Expense

During the year ended June 30, 2022, the Organization entered into a lease for its new office location. The monthly rental payment is \$4,627.35. The lease expires on October 31, 2024. The future minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2023	\$ 55,528
2024	55,528
2025	18,509
	<u>\$ 129,565</u>

Note 11 – Major Programs

The Organization reports the following major programs in the Statement of Functional Expenses:

Home Based - The Organization provides service facilitation to individuals who have been awarded the Home Based Support Services Program by the State of Illinois Department of Human Services, Division of Developmental Disabilities.

Guardianship / Rep Payee – Guardianship Assistance provides information, assessment, and legal services to families or others seeking uncontested legal guardianship of adults (18 years or older) with disabilities living in Winnebago, Boone and Ogle Counties. Money management services are provided through representative payeeship and budgeting assistance.

Art - The Art program allows participants to create a variety of unique bead jewelry or art and attend art classes.

Any remaining program activities not included in the classifications above are reported under Other Programs.

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2022 and 2021

Note 12 – Liquidity and Availability

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

	06/30/2022	Restated 06/30/2021
Cash and cash equivalents	\$ 470,816	\$ 357,368
Certificates of deposit	405,798	401,355
Accounts receivable	14,022	55,910
Less: donor restrictions	(1,500)	(1,500)
Total financial assets available for general expenditure	<u>\$ 889,136</u>	<u>\$ 813,133</u>

The Organization structures its financial assets to be available as its general expenditures come due. In addition, the Organization transfers its excess cash into low interest bearing deposit accounts.

Note 13 – Prior Period Adjustment and Restatement

The 2021 financial statements were restated to reflect a prior period adjustment for revenue relating to fiscal year 2021 from the Illinois Department of Human Services that had not been originally recorded. The adjustment resulted in increases to accounts receivable and fee for service revenue by \$41,512.

Note 14 - Future Accounting Pronouncements

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 No. 2020-05 is effective for nonpublic entities for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. 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 net assets in the period of adoption. The Art Museum is currently assessing the impact of this new standard, including the two optional transition methods.

Note 15 - Subsequent Events

The Organization has evaluated subsequent events through November 15, 2022, the date the financial statements were available to be issued and determined that there were no significant unrecognized subsequent events that would require adjustment to or disclosure in the financial statements.

