

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

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

June 30, 2023

**The Arc of Winnebago, Boone & Ogle Counties
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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 statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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, 2023, and the changes of its net assets and its cash flows for the year 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
December 1, 2023

The Arc of Winnebago, Boone & Ogle Counties
Statement of Financial Position
June 30, 2023

Assets

	2023
Current assets:	
Cash and cash equivalents	\$ 346,897
Restricted cash, clients	246,617
Certificates of deposit	555,284
Grants and accounts receivable	43,990
Prepaid expenses	368
Total current assets	<u>1,193,156</u>
Property and equipment, net of accumulated depreciation of \$37,990 and \$37,990, respectively	-
Right-of-use lease assets - operating lease	71,605
Total assets	<u><u>1,264,761</u></u>

Liabilities and Net Assets

Current liabilities:	
Due to clients	246,617
Accrued vacation	8,115
Accrued payroll withholding	3,638
Accrued miscellaneous	1,972
Current maturities	
Operating lease liability	53,277
Total current liabilities	<u>313,619</u>
Long-term liabilities	
Operating lease liability	18,328
Total liabilities	<u>331,947</u>
Net Assets:	
Without donor restrictions	932,814
With donor restrictions	-
Total net assets	<u>932,814</u>
Total liabilities and net assets	<u><u>\$ 1,264,761</u></u>

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

The Arc of Winnebago, Boone & Ogle Counties
Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total 2023
Support and revenue:			
Fees for service, State of Illinois	\$ 515,513	\$ -	\$ 515,513
Fees for service, other	50,279	-	50,279
Special fundraising events, net of related expenses of \$34,696 and \$16,124 in 2023 and 2022, respectively	37,290	-	37,290
In-kind advertising	30,932	-	30,932
Contributions and grants	69,752	-	69,752
Loss on sale of property and equipment	1,301	-	1,301
Investment income, net of expenses	2,163	-	2,163
Realized gain or loss	(289)	-	(289)
Other	17,243	-	17,243
	<u>724,184</u>	<u>-</u>	<u>724,184</u>
 Net assets released from restrictions			
Satisfaction of restrictions	1,500	(1,500)	-
Total support and revenue	<u>725,684</u>	<u>(1,500)</u>	<u>724,184</u>
 Expenses:			
Program services	575,795	-	575,795
Management and general	32,176	-	32,176
Fundraising	56,728	-	56,728
Total expenses	<u>664,699</u>	<u>-</u>	<u>664,699</u>
 Change in net assets	60,985	(1,500)	59,485
Net assets, beginning of year	871,829	1,500	873,329
Net assets, end of year	<u>\$ 932,814</u>	<u>\$ -</u>	<u>\$ 932,814</u>

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, 2023

	Program Services					Supporting Services		06/30/2023
	Home Based	Guardianship/ Rep Payee	Art	Other	Total Program	Management and General	Fundraising	Total
Salaries and wages	\$ 276,426	\$ 50,635	\$ 39,981	\$ 3,115	\$ 370,157	\$ 11,631	\$ 12,889	\$ 394,677
Employee fringe benefits	26,747	4,899	3,869	301	35,816	1,125	1,248	38,189
Payroll taxes	22,073	4,043	3,192	249	29,557	929	1,029	31,515
Professional fees	8,337	1,786	1,191	595	11,909	7,750	-	19,659
Consumable supplies	2,438	522	348	174	3,482	-	-	3,482
Occupancy	48,138	10,315	6,877	3,438	68,768	7,641	-	76,409
Repairs and maintenance	2,811	602	402	201	4,016	-	-	4,016
Travel and transportation	3,969	850	567	283	5,669	-	-	5,669
Seminars, conferences, and training	3,996	856	571	285	5,708	-	557	6,265
Specific assistance	-	12,526	3,217	2,226	17,969	-	-	17,969
Advertising	-	-	-	-	-	-	10,073	10,073
Outside printing	16	3	2	1	22	-	-	22
Postage and shipping	3,291	705	470	235	4,701	-	-	4,701
Dues and subscriptions	2,463	528	352	175	3,518	3,100	-	6,618
Other expenses	10,153	2,175	1,450	725	14,503	-	-	14,503
In-kind advertising	-	-	-	-	-	-	30,932	30,932
Total expenses	\$ 410,858	\$ 90,445	\$ 62,489	\$ 12,003	\$ 575,795	\$ 32,176	\$ 56,728	\$ 664,699

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

The Arc of Winnebago, Boone & Ogle Counties
Statement of Cash Flows
For the Year Ended June 30, 2023

	<u>2023</u>
Cash Flows from Operating Activities	
Change in net assets	\$ 59,485
(Increase) decrease in assets:	
Grants and accounts receivable, net	(29,968)
Prepaid expenses	373
Non-cash portion of lease expense for operating lease	71,605
Increase (decrease) in liabilities:	
Accrued expenses	(4,323)
Repayments of right-of-use lease liabilities - operating lease	(71,605)
Net cash provided by (used for) operating activities	<u>25,567</u>
Cash Flows from Investing Activities	
Net purchase of certificate of deposit	(348,462)
Net proceeds on sale of certificate of deposit	198,976
Net cash provided by (used for) investing activities	<u>(149,486)</u>
Net increase (decrease) in cash and cash equivalents	(123,919)
Cash and cash equivalents, beginning of year	470,816
Cash and cash equivalents, end of year	<u><u>\$ 346,897</u></u>

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2023

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, 2023

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, 2023.

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 2020.

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 \$829,367 at June 30, 2023, which exceeded the FDIC limit of \$250,000 by \$579,367.

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, 2023

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, 2023

	<u>06/30/2023</u>
State of Illinois-Department of Human Services	\$ 43,990
Other	-
Total	<u>\$ 43,990</u>

Note 4 - Property and Equipment

Investments in property and equipment is as follows at June 30, 2023:

	<u>6/30/2023</u>
Office furniture and equipment	\$ 37,990
Less: accumulated depreciation	(37,990)
Net book value	<u><u>\$ -</u></u>

Depreciation expense was \$0 for the year ended June 30, 2023, respectively.

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2023

Note 5 - Accrued Expenses

The Organization has accrued expenses consisting of the following as of June 30, 2023.

	<u>06/30/2023</u>
Accrued payroll withholding	\$ 3,638
Accrued vacation	8,115
Accrued miscellaneous	1,972
Total	<u><u>\$ 13,725</u></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 year ended June 30, 2023.

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 year ended June 30, 2023.

Note 7 – Concentrations

Approximately 74% of the Organization's total support and revenue was received from the State of Illinois Department of Human Services for the year ended June 30, 2023. 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

There were no assets with donor restrictions as of June 30, 2023.

Note 9 - Donated Goods and Services

The donated advertising expense for the year ended June 30, 2023 was 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:

	<u>06/30/2023</u>
Advertising expense	<u><u>\$ 30,932</u></u>

The Arc of Winnebago, Boone & Ogle Counties
Notes to Financial Statements
June 30, 2023

Note 10 – Leases and Rental Expense

During November 2021, 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. As of June 30, 2023, the right-of-use (ROU) asset had a balance of \$71,605, as shown in noncurrent assets on the statement of financial position; the lease liability is included in current liabilities (\$53,277) and long-term liabilities (\$18,328). The lease assets and liabilities were calculated using the Wall Street Journal prime rate when the lease took effect at the beginning of fiscal year 2023, which was 4.75% on July 1, 2022. Maturities of operating lease liabilities as of June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	
2024	\$ 55,528
2025	18,509
Total lease payments	<u>74,038</u>
Less: interest	<u>(2,433)</u>
Present value of lease liabilities	<u>\$ 71,605</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, 2023

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:

	<u>06/30/2023</u>
Cash and cash equivalents	\$ 346,897
Certificates of deposit	555,284
Accounts receivable	<u>43,990</u>
Total financial assets available for general expenditure	<u><u>\$ 946,171</u></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 - Subsequent Events

The Organization has evaluated subsequent events through December 1, 2023, 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.