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# Kaleidoscope, Inc.

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**Financial Report**  
**June 30, 2018**

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## **Independent Auditor's Report**

To the Board of Directors  
Kaleidoscope, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Kaleidoscope, Inc. (the "Agency"), which comprise the statement of financial position as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kaleidoscope, Inc. as of June 30, 2018 and 2017 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Kaleidoscope, Inc.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of Kaleidoscope, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Kaleidoscope, Inc.'s internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

December 13, 2018

**Statement of Financial Position**

**June 30, 2018 and 2017**

|  | <u>2018</u>                | <u>2017</u>                |
|--|----------------------------|----------------------------|
| <b>Assets</b>                              |                            |                            |
| Cash                                       | \$ 621,179                 | \$ 1,838,463               |
| Accounts receivable                        | 1,456,401                  | 1,139,431                  |
| Prepaid expenses and other                 | 45,018                     | 95,725                     |
| Other assets                               | 49,566                     | 3,000                      |
| Equipment and leasehold improvements - Net | <u>333,347</u>             | <u>64,999</u>              |
| Total assets                               | <u><b>\$ 2,505,511</b></u> | <u><b>\$ 3,141,618</b></u> |
| <b>Liabilities and Net Assets</b>          |                            |                            |
| <b>Liabilities</b>                         |                            |                            |
| Accounts payable                           | \$ 161,104                 | \$ 169,794                 |
| Accrued liabilities                        | 240,870                    | 194,030                    |
| Advance payments and deferred revenue      | 665,795                    | 1,433,328                  |
| Deferred rent                              | <u>51,920</u>              | <u>46,319</u>              |
| Total liabilities                          | 1,119,689                  | 1,843,471                  |
| <b>Net Assets - Unrestricted</b>           | <u>1,385,822</u>           | <u>1,298,147</u>           |
| Total liabilities and net assets           | <u><b>\$ 2,505,511</b></u> | <u><b>\$ 3,141,618</b></u> |

**Statement of Activities and Changes in Net Assets**

**Years Ended June 30, 2018 and 2017**

|   | 2018             | 2017            |
|---|------------------|-----------------|
| <b>Changes in Unrestricted Net Assets</b>                       |                  |                 |
| Revenue and support:  |                  |                 |
| Government contracts - State of Illinois, DCFS - Net            | \$ 7,412,570     | \$ 7,713,952    |
| Contributions   | 305,511          | 104,315         |
| Interest income   | 571              | 392             |
| Miscellaneous income  | 1,841            | 16,688          |
| Total revenue and support                                       | 7,720,493        | 7,835,347       |
| Program services:   |                  |                 |
| Adolescent Parents (PPT - FC)                                   | 98,235           | 128,418         |
| Individual Treatment (Spec FC MH/MD)                            | 2,310,393        | 2,540,074       |
| Medically Complex (MCP)   | -                | 33,946          |
| Traditional Foster Care (Perf FC)                               | 260,193          | 145,080         |
| Independent Living (ILO)  | 1,163,907        | 1,579,011       |
| Summer Internship   | 182,347          | 184,311         |
| Transition to Adult Services (AVA)                              | 135,466          | 157,066         |
| System of Care (IPS)  | 707,717          | 517,057         |
| Norman Youth Cash Assistance                                    | 981,412          | 854,223         |
| Youth Cash Assistance   | 72,291           | 43,671          |
| Adult Connections   | -                | 10,301          |
| Intact Family Services  | 801,684          | 739,744         |
| FY11 Excess Revenue Spending                                    | 53,780           | 147,379         |
| FY13 Excess Revenue Spending                                    | 13,903           | 25,057          |
| Help for Children Grant   | 5,415            | -               |
| Total program services  | 6,786,743        | 7,105,338       |
| Support services:   |                  |                 |
| Management and general  | 803,905          | 633,216         |
| Development   | 101,886          | 91,371          |
| Total program and support services                              | 7,692,534        | 7,829,925       |
| <b>Increase in Unrestricted Net Assets - Before other items</b> | 27,959           | 5,422           |
| <b>Other Items - Excess revenue adjustment</b>                  | 59,716           | -               |
| <b>Increase in Unrestricted Net Assets</b>                      | <b>\$ 87,675</b> | <b>\$ 5,422</b> |

Statement of Functional Expenses

Year Ended June 30, 2018

|                                       | Program Services              |                                      |                                 |                                   |                          |                   |                                    |                      |                                |                               |                           |                        |           | Support Services             |                              |              |                        |             |            |
|---------------------------------------|-------------------------------|--------------------------------------|---------------------------------|-----------------------------------|--------------------------|-------------------|------------------------------------|----------------------|--------------------------------|-------------------------------|---------------------------|------------------------|-----------|------------------------------|------------------------------|--------------|------------------------|-------------|------------|
|                                       | Adolescent Parents (PPT - FC) | Individual Treatment (Spec FC MH/MD) | Medically Complex Program (MCP) | Traditional Foster Care (Perf FC) | Independent Living (ILO) | Summer Internship | Transition to Adult Services (AVA) | System of Care (IPS) | Norman Cash Assistance Program | Youth Cash Assistance Program | Adult Connections Program | Intact Family Services | HFC Grant | FY13 Excess Revenue Spending | FY11 Excess Revenue Spending | Total        | Management and General | Development | Total      |
| Salaries                              | \$ 36,583                     | \$ 830,397                           | \$ -                            | \$ 125,415                        | \$ 411,234               | \$ 53,508         | \$ 81,648                          | \$ 440,599           | \$ 16,223                      | \$ -                          | \$ -                      | \$ 497,178             | \$ -      | \$ -                         | \$ -                         | \$ 2,492,785 | \$ 411,714             | \$ 27,647   | \$ 439,361 |
| Fringe benefits                       | 11,476                        | 238,338                              | -                               | 20,659                            | 123,641                  | 7,840             | 32,706                             | 89,827               | 4,807                          | -                             | -                         | 126,834                | -         | -                            | -                            | 656,128      | 105,590                | 6,433       | 112,023    |
| Total salaries and fringe benefits    | 48,059                        | 1,068,735                            | -                               | 146,074                           | 534,875                  | 61,348            | 114,354                            | 530,426              | 21,030                         | -                             | -                         | 624,012                | -         | -                            | -                            | 3,148,913    | 517,304                | 34,080      | 551,384    |
| Foster care payments                  | 33,351                        | 819,819                              | -                               | 53,368                            | -                        | -                 | -                                  | -                    | -                              | -                             | -                         | -                      | -         | -                            | -                            | 906,538      | -                      | -           | -          |
| Consultants and staff training        | 4,555                         | 148,944                              | -                               | 18,541                            | 17,029                   | 1,666             | 1,983                              | 15,604               | 174                            | -                             | -                         | 26,617                 | -         | 19,372                       | 5,415                        | 259,900      | 57,096                 | 15,372      | 72,468     |
| Consumable supplies                   | 453                           | 10,150                               | -                               | 952                               | 5,316                    | 762               | 955                                | 8,701                | 73                             | -                             | -                         | 6,283                  | -         | 1,364                        | -                            | 35,009       | 9,562                  | 4,841       | 14,403     |
| Occupancy - Utilities and maintenance | 324                           | 9,353                                | -                               | 1,885                             | 5,785                    | 804               | 1,021                              | 6,271                | -                              | -                             | -                         | 6,614                  | -         | -                            | -                            | 32,057       | 8,440                  | 29,000      | 37,440     |
| Transportation and travel             | 2,114                         | 59,598                               | -                               | 5,949                             | 23,887                   | 3,980             | 1,918                              | 21,014               | 1                              | -                             | -                         | 24,821                 | -         | -                            | -                            | 143,282      | 2,313                  | 273         | 2,586      |
| Client allowance payments             | -                             | -                                    | -                               | -                                 | 201,208                  | -                 | -                                  | -                    | -                              | -                             | -                         | -                      | -         | -                            | -                            | 201,208      | -                      | -           | -          |
| Food, clothing, and other             | 3,763                         | 35,737                               | -                               | 4,591                             | 56,658                   | 100,877           | -                                  | 23,064               | 959,944                        | 72,291                        | -                         | 8,210                  | -         | 3,604                        | -                            | 1,268,739    | -                      | 980         | 980        |
| Leases and rental                     | 4,190                         | 117,811                              | -                               | 24,081                            | 300,682                  | 9,940             | 12,116                             | 79,475               | 26                             | -                             | -                         | 82,411                 | -         | -                            | -                            | 630,732      | 99,703                 | 10          | 99,713     |
| Other                                 | 1,292                         | 35,594                               | -                               | 3,894                             | 15,758                   | 2,570             | 2,803                              | 18,865               | 164                            | -                             | -                         | 19,231                 | -         | 9,020                        | -                            | 109,191      | 105,327                | 3,743       | 109,070    |
| Depreciation and amortization         | 134                           | 4,652                                | -                               | 858                               | 2,709                    | 400               | 316                                | 4,297                | -                              | -                             | -                         | 3,485                  | 13,903    | 20,420                       | -                            | 51,174       | 4,160                  | -           | 4,160      |
| Fundraising expenses                  | -                             | -                                    | -                               | -                                 | -                        | -                 | -                                  | -                    | -                              | -                             | -                         | -                      | -         | -                            | -                            | -            | -                      | 13,587      | 13,587     |
| Total functional expenses             | \$ 98,235                     | \$ 2,310,393                         | \$ -                            | \$ 260,193                        | \$ 1,163,907             | \$ 182,347        | \$ 135,466                         | \$ 707,717           | \$ 981,412                     | \$ 72,291                     | \$ -                      | \$ 801,684             | \$ 13,903 | \$ 53,780                    | \$ 5,415                     | \$ 6,786,743 | \$ 803,905             | \$ 101,886  | \$ 905,791 |

Statement of Functional Expenses

Year Ended June 30, 2017

|   | Program Services              |                                      |                                 |                                   |                          |                   |                                    |                      |                                |                               |                           |                        |             | Support Services             |                              |                     |                        |                       |                   |
|---|-------------------------------|--------------------------------------|---------------------------------|-----------------------------------|--------------------------|-------------------|------------------------------------|----------------------|--------------------------------|-------------------------------|---------------------------|------------------------|-------------|------------------------------|------------------------------|---------------------|------------------------|-----------------------|-------------------|
|   | Adolescent Parents (PPT - FC) | Individual Treatment (Spec FC MH/MD) | Medically Complex Program (MCP) | Traditional Foster Care (Perf FC) | Independent Living (ILO) | Summer Internship | Transition to Adult Services (AVA) | System of Care (IPS) | Norman Cash Assistance Program | Youth Cash Assistance Program | Adult Connections Program | Intact Family Services | HFC Grant   | FY13 Excess Revenue Spending | FY11 Excess Revenue Spending | Total               | Management and General | Resources Development | Total             |
| Salaries                                  | \$ 51,937                     | \$ 916,699                           | \$ 14,291                       | \$ 43,205                         | \$ 556,504               | \$ 49,913         | \$ 95,067                          | \$ 322,592           | \$ 20,083                      | \$ -                          | \$ 6,493                  | \$ 456,118             | \$ -        | \$ -                         | \$ 50,420                    | \$ 2,583,322        | \$ 336,092             | \$ 32,559             | \$ 368,651        |
| Fringe benefits                           | 17,031                        | 275,899                              | 5,261                           | 14,800                            | 169,300                  | 11,156            | 34,321                             | 72,216               | 9,830                          | -                             | 2,319                     | 113,708                | -           | -                            | 6,560                        | 732,401             | 45,297                 | 2,728                 | 48,025            |
| <b>Total salaries and fringe benefits</b> | <b>68,968</b>                 | <b>1,192,598</b>                     | <b>19,552</b>                   | <b>58,005</b>                     | <b>725,804</b>           | <b>61,069</b>     | <b>129,388</b>                     | <b>394,808</b>       | <b>29,913</b>                  | <b>-</b>                      | <b>8,812</b>              | <b>569,826</b>         | <b>-</b>    | <b>-</b>                     | <b>56,980</b>                | <b>3,315,723</b>    | <b>381,389</b>         | <b>35,287</b>         | <b>416,676</b>    |
| Foster care payments                      | 33,728                        | 851,769                              | 8,995                           | 49,853                            | -                        | -                 | -                                  | -                    | -                              | -                             | -                         | -                      | -           | -                            | -                            | 944,345             | -                      | -                     | -                 |
| Consultants and staff training            | 3,817                         | 158,631                              | 1,611                           | 2,747                             | 26,923                   | 2,395             | 3,099                              | 14,367               | 238                            | -                             | 655                       | 18,541                 | -           | -                            | 50,814                       | 283,838             | 32,299                 | 38,155                | 70,454            |
| Consumable supplies                       | 937                           | 21,197                               | 214                             | 687                               | 16,606                   | 771               | 2,914                              | 9,459                | 136                            | -                             | 151                       | 8,138                  | -           | -                            | 16,443                       | 77,653              | 4,295                  | 55                    | 4,350             |
| Occupancy - Utilities and maintenance     | 864                           | 24,849                               | 355                             | 3,418                             | 12,721                   | 1,742             | 2,615                              | 10,947               | 2                              | -                             | 10                        | 14,830                 | -           | -                            | 3,741                        | 76,094              | 23,600                 | -                     | 23,600            |
| Transportation and travel                 | 4,439                         | 66,143                               | 391                             | 4,864                             | 37,575                   | 4,385             | 1,257                              | 8,436                | 4                              | -                             | 281                       | 22,422                 | -           | -                            | 224                          | 150,421             | 2,842                  | 109                   | 2,951             |
| Client allowance payments                 | -                             | -                                    | -                               | -                                 | 259,496                  | -                 | -                                  | -                    | -                              | -                             | -                         | -                      | -           | -                            | -                            | 259,496             | -                      | -                     | -                 |
| Food, clothing, and other                 | 8,432                         | 60,639                               | 77                              | 5,177                             | 79,655                   | 101,514           | 26                                 | 7,093                | 823,651                        | 43,671                        | 13                        | 8,111                  | -           | -                            | 910                          | 1,138,969           | 34                     | 290                   | 324               |
| Leases and rental                         | 5,153                         | 132,430                              | 2,110                           | 18,410                            | 400,644                  | 9,781             | 14,679                             | 61,113               | 7                              | -                             | 27                        | 83,245                 | -           | -                            | -                            | 727,599             | 75,993                 | 1                     | 75,994            |
| Other                                     | 2,004                         | 29,589                               | 594                             | 1,672                             | 17,803                   | 2,470             | 2,813                              | 9,233                | 272                            | -                             | 352                       | 13,040                 | -           | -                            | 5,143                        | 84,985              | 110,620                | 3,323                 | 113,943           |
| Depreciation and amortization             | 76                            | 2,229                                | 47                              | 247                               | 1,784                    | 184               | 275                                | 1,601                | -                              | -                             | -                         | 1,591                  | -           | 25,057                       | 13,124                       | 46,215              | 2,144                  | -                     | 2,144             |
| Fundraising expenses                      | -                             | -                                    | -                               | -                                 | -                        | -                 | -                                  | -                    | -                              | -                             | -                         | -                      | -           | -                            | -                            | -                   | -                      | 14,151                | 14,151            |
| <b>Total functional expenses</b>          | <b>\$ 128,418</b>             | <b>\$ 2,540,074</b>                  | <b>\$ 33,946</b>                | <b>\$ 145,080</b>                 | <b>\$ 1,579,011</b>      | <b>\$ 184,311</b> | <b>\$ 157,066</b>                  | <b>\$ 517,057</b>    | <b>\$ 854,223</b>              | <b>\$ 43,671</b>              | <b>\$ 10,301</b>          | <b>\$ 739,744</b>      | <b>\$ -</b> | <b>\$ 25,057</b>             | <b>\$ 147,379</b>            | <b>\$ 7,105,338</b> | <b>\$ 633,216</b>      | <b>\$ 91,371</b>      | <b>\$ 724,587</b> |

**Statement of Cash Flows**

**Years Ended June 30, 2018 and 2017**

|   | 2018              | 2017                |
|---|-------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>   |                   |                     |
| (Decrease) increase in net assets   | \$ 87,675         | \$ 5,422            |
| Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities: |                   |                     |
| Depreciation and amortization   | 55,334            | 48,359              |
| Increase (decrease) in deferred rent  | 5,601             | (33,903)            |
| Bad debt expense  | 2,477             | 4,087               |
| Write-off of fixed asset  | -                 | 1,162               |
| Changes in operating assets and liabilities which (used) provided cash:                           |                   |                     |
| Accounts receivable   | (251,764)         | (290,269)           |
| Prepaid expenses and other assets   | 4,141             | (52,075)            |
| Accounts payable and accrued liabilities  | 38,150            | (56,852)            |
| Advance payments and deferred revenue   | (835,216)         | 121,083             |
| Net cash used in operating activities   | (893,602)         | (252,986)           |
| <b>Cash Flows Used in Investing Activities</b> - Purchase of equipment and leasehold improvements | (323,682)         | -                   |
| <b>Net Decrease in Cash</b>   | (1,217,284)       | (252,986)           |
| <b>Cash</b> - Beginning of year   | 1,838,463         | 2,091,449           |
| <b>Cash</b> - End of year   | <b>\$ 621,179</b> | <b>\$ 1,838,463</b> |

**June 30, 2018 and 2017**

**Note 1 - Nature of Organization**

Kaleidoscope, Inc. (the "Agency") is a licensed not-for-profit child welfare agency that specifically serves children and youth considered the State of Illinois' most in need. The Agency is supported primarily by contracts with the Illinois Department of Children and Family Services (DCFS). Corporate and foundation grants and individual contributions support additional services and activities not covered under government contracts.

The Agency's services are delivered through the following programs:

The Adolescent Parents Program (PPT - FC) provides foster care and other services for adolescents who are pregnant or parents and their children. This program is designed to provide adequate parenting to adolescents in order for them to develop better parenting skills and move toward independence.

The Individual Treatment Program (Spec FC MH/MD) provides foster care for individual children to more closely approximate a normal living situation, as opposed to a more restrictive setting.

The Medically Complex Program (MCP) provides for specialized foster care for medically fragile children and their families who have been exposed to or infected by the HIV virus or who have another medical condition that warrants special medical care. Foster care homes are specifically recruited and trained to work with these children. This program was discontinued in 2018.

The Traditional Foster Care Program (Perf FC) provides foster care for individual children who are siblings of children that are in one of our specialized foster care programs.

The Independent Living Program (ILO) provides supplemental and substitute care services to prepare children, including adolescent parents, for independent living through supervised, semi-independent apartment living, job services, counseling, recreational activities, transportation, basic living skills training, outreach, client advocacy, and collateral services.

Summer Internship Program was created by the DCFS for approximately 30 college youth. Selected youth are matched with employers throughout the Chicago area for paid, full-time, 10-week internships beginning in early June through mid-August. The Agency assisted in designing the program and also agreed to act as fiscal agent for services to approximately 10 of the youth interns.

Transition to Adult Services (AVA) was created to ensure that DCFS wards with developmental disabilities who are eligible for adult DHS services are successfully transitioned into the adult system before their DCFS cases are closed. AVA aids caseworkers and other providers in making timely referrals to adult services, ensuring that all eligible youth receive youth services and that youth are appropriately placed in the adult system.

System of Care (IPS) provides services to foster families in the Chicago metropolitan area to successfully stabilize children in the community with their foster families and prevent the unnecessary removal of children from their homes through counseling, tutoring, therapeutic recreation, and other social services.

The Norman Cash Assistance Program provides an array of emergency cash assistance for child welfare services. The Agency acts as the fiscal agent for DCFS and issues checks on behalf of eligible clients, as directed by DCFS.

The Youth Cash Assistance Program provides cash assistance to eligible clients, primarily for housing. The Agency acts as the fiscal agent for DCFS and issues checks on behalf of eligible clients, as directed by DCFS.

The Adult Connections Program, in conjunction with DCFS, Children's Home and Aid, UCAN, and One Hope United, addresses the needs of foster youth who are emancipating or "aging out" of foster care. This program seeks to provide youth with a permanent "connection" to a responsible adult. This program was discontinued in 2018.

**June 30, 2018 and 2017**

**Note 1 - Nature of Organization (Continued)**

Intact Family Services is designed to make reasonable efforts to stabilize, strengthen, enhance, and preserve family life by providing services that enable children to remain safely at home.

The Help for Children Grant (HCF Grant) was received by Kaleidoscope, Inc. to fund clinical services for youth with developmental disabilities. The grant year ends on November 30, 2018, at which time all unused funds will be returned to Help for Children.

FY13 Excess Revenue Spending consists of funds spent from excess revenue received in fiscal year 2013 from DCFS.

FY11 Excess Revenue Spending consists of funds spent from excess revenue received in fiscal year 2011 from DCFS.

**Note 2 - Significant Accounting Policies**

***Basis of Presentation***

The financial statements of the Agency have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

***Classification of Net Assets***

Net assets of the Agency are classified based on the presence or absence of donor-imposed restrictions.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired or been fulfilled.

Temporarily restricted net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements. The Agency had no temporarily restricted net assets as of June 30, 2018 or 2017.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. The Agency had no permanently restricted net assets as of June 30, 2018 or 2017.

Earnings, gains, and losses on restricted net assets are classified as unrestricted, unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Cash***

The Agency maintains its cash in bank deposit accounts at MB Financial Bank, the balances of which at times exceed federally insured limits. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on cash.

***Equipment and Leasehold Improvements***

Equipment and leasehold improvements are recorded at cost. The Agency capitalizes all expenditures for equipment and leasehold improvements in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, in the case of the leasehold improvements, over the shorter of the estimated useful life of the improvements or the life of the lease.

**Note 2 - Significant Accounting Policies (Continued)**

***Accounts Receivable***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Receivables are written off as a charge against the allowance for doubtful accounts in the period they are deemed uncollectible. Management believes that all receivables are collectible, and no allowance for doubtful accounts is necessary.

***Government Contract Revenue Recognition***

Certain contracts with governmental agencies provide for reimbursement of allowable clinical expenditures on a cost basis, subject to maximum contract amounts. Accordingly, revenue from these contracts is recognized as allowable costs as incurred.

Certain other revenue from governmental agencies is based on a pre-established fee amount for each unit of service provided without regard to the provider's costs and is recognized when the services are provided.

Amounts received or receivable from governmental agencies may be subject to agency audits. Management has recorded an estimated allowance for adjustments as a result of such governmental agency audits based on a review of the contracts and historical collection experience.

***Deferred Revenue***

The majority of the Agency's advance payments and deferred revenue as of June 30, 2018 relate to DCFS contracts. The amount related to DCFS consisted of advanced program payments of \$472,268 and excess revenue received related to prior years of \$173,942. The remaining deferred revenue balance as of June 30, 2018 consisted of unused funds of \$19,585 from the Help for Children Grant. The Agency's advance payments and deferred revenue as of June 30, 2017 all relate to DCFS contracts and consisted of advanced program payments of \$1,037,035 and excess revenue received related to prior years of \$396,293.

***Other Items - Excess Revenue Adjustment***

The excess revenue adjustment recorded on the statement of activities in the amount of \$59,716 reflects adjustments relating to prior years excess revenue amounts, which were identified and finalized through a DCFS excess revenue determination review completed in March 2018.

***Contributions***

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

***In-kind Contributions and Contributed Services***

In-kind contributions are reflected as contributions at their fair value at the date of donation and are reported as unrestricted support, unless explicit donor stipulations specify how donated assets must be used. There was \$64,839 and \$0 of in-kind contributions recorded in the statement of activities and changes in net assets in 2018 and 2017, respectively.

**Note 2 - Significant Accounting Policies (Continued)**

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services on several bases and estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

***Income Taxes***

The Agency is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

***Upcoming Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Agency's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Agency plans to apply the standard using the modified retrospective method. Management is currently evaluating the contracts in place to determine the full impact the standard will have and plans to complete this by the end of 2019.

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Agency's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Agency's financial statements as a result of the Agency's operating leases, as disclosed in Note 6, that will be reported on the balance sheet at adoption. Upon adoption, the Agency will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Agency, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Agency's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Agency expects there to be a change in net asset descriptions, enhanced disclosures related to liquidity and availability of resources, and changes to functional allocation of expenses.

June 30, 2018 and 2017

**Note 2 - Significant Accounting Policies (Continued)**

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Agency's year ending June 30, 2020 and will be applied on a modified prospective basis. The Agency does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including December 13, 2018, which is the date the financial statements were available to be issued.

**Note 3 - Equipment and Leasehold Improvements**

Equipment and leasehold improvements are summarized as follows:

|  | 2018              | 2017             | Depreciable<br>Life - Years |
|--|-------------------|------------------|-----------------------------|
| Vehicles - Cost                          | \$ 26,361         | \$ 26,361        | 5                           |
| Office furniture and equipment - Cost    | 959,506           | 785,229          | 3-5                         |
| Computer software - Cost                 | 52,516            | 52,516           | 3                           |
| Leasehold improvements - Cost            | 223,478           | 74,073           | 5                           |
| Total cost                               | 1,261,861         | 938,179          |                             |
| Accumulated depreciation                 | 928,514           | 873,180          |                             |
| Net equipment and leasehold improvements | <u>\$ 333,347</u> | <u>\$ 64,999</u> |                             |

Depreciation and amortization expense for 2018 and 2017 was \$55,334 and \$48,359, respectively.

**Note 4 - Line of Credit**

The Agency has a line of credit with a bank where it may borrow up to 85 percent of the eligible outstanding receivables, with a maximum of \$400,000 outstanding at any one time. The interest rate is variable and determined by the "Prime Rate" established by the bank. The effective interest rate was 5.00 and 4.25 percent at June 30, 2018 and 2017, respectively. The Agency is subject to certain covenants, including the maintenance of a minimum debt service coverage ratio. In order to secure the credit line, the Agency has assigned its rights in all contracts with DCFS to the bank. The Agency has no outstanding balance as of June 30, 2018 and 2017 under this line of credit. The line of credit expires on September 15, 2019.

June 30, 2018 and 2017

**Note 5 - Letter of Credit**

The Agency's lease agreement for its main office allows for an irrevocable, unconditional letter of credit in lieu of payment of a security deposit. The Agency exercised this option and secured a bank letter of credit for \$500,000. The letter expires on September 15, 2019. The Agency's lease agreement for its previous main office location also allowed for a letter of credit in lieu of payment of a security deposit. The Agency secured a bank letter of credit for \$62,500. The letter of credit expired on April 15, 2018, and the lease was terminated on March 31, 2018.

**Note 6 - Operating Leases**

At its previous office locations, the Agency was obligated under two leases that expired on March 31, 2018 and April 30, 2018 and were not renewed. The Agency entered into a new lease effective April 1, 2018 at a new office location. The Agency is obligated under this operating lease, which expires on March 31, 2031. The lease requires the Agency to pay base rent and common area costs. Total rent expense under these leases was \$495,657 and \$470,068 for 2018 and 2017, respectively.

Future minimum annual commitments under these operating leases are as follows:

| Years Ending<br>June 30 | Amount              |
|-------------------------|---------------------|
| 2019                    | \$ 503,110          |
| 2020                    | 511,511             |
| 2021                    | 519,913             |
| 2022                    | 528,315             |
| 2023                    | 536,716             |
| Thereafter              | <u>4,751,319</u>    |
| Total                   | <u>\$ 7,350,884</u> |

**Note 7 - Employee Benefit Plan**

The Agency has a 403(b) retirement plan (the "Plan"). Under the Plan, employees can elect to defer a portion of their compensation. All regular full-time, nonstudent employees are eligible to make deferral contributions as of their employment date. There are no employer contributions to the Plan.

**Note 8 - Deferred Compensation Agreement**

Effective August 2, 2016, the Agency established a 457(b) deferred compensation plan for the executive director whereby the Agency remits a percentage of the employee's salary. The asset and liability balance as of June 30, 2018 was \$46,566 and is included in other assets and accrued liabilities on the statement of financial position.

**Note 9 - Concentration**

The Agency receives a substantial portion of its support from the State of Illinois. This support totaled 96 and 98 percent of total revenue for the fiscal years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the Agency had receivables from the Illinois Department of Children and Family Services amounting to \$1,456,401 and \$1,139,431, respectively