Kaleidoscope, Inc.

Financial Report
June 30, 2020

Contents

plante moran

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

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, 2020 and 2019 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, 2020 and 2019 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.

Emphasis of Matter

As described in Note 2 to the financial statements, the COVID-19 pandemic has impacted business operations. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, the Agency adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

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 17, 2020 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 17, 2020

Statement of Financial Position

June 30, 2020 and 2019

		2020		2019
Assets				
Cash	$	1,855,870	$	825,703
Accounts receivable		951,849		1,022,615
Prepaid expenses and other assets		126,194		82,488
Other assets		66,872		61,030
Equipment and leasehold improvements - Net		173,291		244,483
Total assets	**$**	**3,174,076**	**$**	**2,236,319**
Liabilities and Net Assets				
Liabilities				
Accounts payable	$	264,848	$	196,327
Accrued liabilities		336,301		296,080
Advance payments and deferred revenue		738,585		538,593
Deferred rent		182,308		121,278
Paycheck Protection Program refundable advance		583,700		-
Total liabilities		2,105,742		1,152,278
Net Assets - Without donor restrictions		1,068,334		1,084,041
Total liabilities and net assets	**$**	**3,174,076**	**$**	**2,236,319**

Kaleidoscope, Inc.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2020 and 2019

	2020	2019
Changes in Net Assets without Donor Restrictions		
Revenue and support:		
Government contracts - State of Illinois, DCFS	$ 7,369,122	$ 7,103,937
Allowance for current year excess revenue	(20,270)	(65,226)
Contributions	193,923	196,917
Foundation grants	76,551	26,439
Interest income	1,780	4,824
Miscellaneous income	-	6,440
Total revenue and support	7,621,106	7,273,331
Expenses:		
Program services:		
Adolescent Parents (PPT - FC)	-	36,299
Specialized Foster Care (DD - FC)	180,987	43,864
Individual Treatment (Spec FC MH/MD)	1,812,548	1,920,741
Traditional Foster Care (Perf FC)	363,937	464,989
Independent Living (ILO)	700,859	821,322
Summer Internship (FCA)	129,039	152,570
Transition to Adult Services (AVA)	94,774	102,736
System of Care (IPS)	1,051,316	816,072
Norman Cash Assistance Program	1,099,864	1,046,114
Youth Cash Assistance Program	127,089	87,428
Intact Family Services	945,300	992,751
FY11 Excess Revenue Spending	23,266	32,626
FY13 Excess Revenue Spending	4,493	5,470
Grants	51,551	16,439
Total program services	6,585,023	6,539,421
Support services:		
Management and general	929,533	916,414
Development	122,257	119,277
Total support services	1,051,790	1,035,691
Total program and support services	7,636,813	7,575,112
Decrease in Net Assets	(15,707)	(301,781)
Net Assets - Beginning of year	1,084,041	1,385,822
Net Assets - End of year	**$ 1,068,334**	**$ 1,084,041**

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services														Support Services		
	Specialized Foster Care (DD - FC)	Individual Treatment (Spec FC MH/MD)	Traditional Foster Care (Perf FC)	Independent Living (ILO)	Summer Internship (FCA)	Transition to Adult Services (AVA)	System of Care (IPS)	Norman Cash Assistance Program	Youth Cash Assistance Program	Intact Family Services	FY13 Excess Revenue Spending	FY11 Excess Revenue Spending	Grants	Total	Management and General	Development	Total
Salaries	$ 36,129	$ 659,160	$ 204,472	$ 212,556	$ 35,204	$ 58,371	$ 590,219	$ 13,974	$ -	$ 564,158	$ -	$ -	$ 29,618	$ 2,403,861	$ 527,959	$ 62,564	$ 590,523
Fringe benefits	8,077	175,763	50,212	48,260	9,186	24,414	124,552	3,312	-	146,629	-	-	1,532	591,937	113,824	20,022	133,846
Total salaries and fringe benefits	44,206	834,923	254,684	260,816	44,390	82,785	714,771	17,286	-	710,787	-	-	31,150	2,995,798	641,783	82,586	724,369
Foster care payments	55,270	619,999	35,528	-	-	-	-	-	-	-	-	-	-	710,797	-	-	-
Consultants and staff training	69,513	126,732	11,878	9,188	1,124	2,508	25,848	100	-	19,487	-	-	18,705	285,083	21,635	10,632	32,267
Consumable supplies	836	14,696	4,706	15,224	550	1,159	71,259	-	-	15,297	-	-	-	123,727	8,667	468	9,135
Occupancy - Utilities and maintenance	136	2,759	787	1,070	252	126	2,967	-	-	2,392	-	-	-	10,489	19,696	236	19,932
Transportation and travel	2,090	40,983	9,766	19,166	925	861	15,265	3	-	29,138	-	-	-	118,197	2,286	437	2,723
Client allowance payments	-	-	-	188,285	-	-	-	-	-	-	-	-	-	188,285	-	-	-
Food, clothing, and other	812	23,373	2,360	54,581	68,710	-	15,291	1,081,879	127,089	33,817	-	-	-	1,407,912	-	-	-
Leases and rental	6,033	110,740	32,719	140,757	10,106	5,067	155,441	-	-	99,841	-	-	-	560,704	129,057	6,076	135,133
Other	1,645	30,341	9,136	8,991	2,252	1,902	38,856	596	-	27,286	-	-	1,696	122,701	96,951	11,386	108,337
Depreciation and amortization	446	8,002	2,373	2,781	730	366	11,618	-	-	7,255	4,493	23,266	-	61,330	9,458	404	9,862
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,032	10,032
Total functional expenses	**$ 180,987**	**$ 1,812,548**	**$ 363,937**	**$ 700,859**	**$ 129,039**	**$ 94,774**	**$ 1,051,316**	**$ 1,099,864**	**$ 127,089**	**$ 945,300**	**$ 4,493**	**$ 23,266**	**$ 51,551**	**$ 6,585,023**	**$ 929,533**	**$ 122,257**	**$ 1,051,790**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services															Support Services		
	Adolescent Parents (PPT - FC)	Specialized Foster Care (DD - FC)	Individual Treatment (Spec FC MH/MD)	Traditional Foster Care (Perf FC)	Independent Living (ILO)	Summer Internship (FCA)	Transition to Adult Services (AVA)	System of Care (IPS)	Norman Cash Assistance Program	Youth Cash Assistance Program	Intact Family Services	FY13 Excess Revenue Spending	FY11 Excess Revenue Spending	Grants	Total	Management and General	Development	Total
Salaries	$ 12,154	$ 12,438	$ 659,821	$ 263,590	$ 288,480	$ 33,459	$ 62,961	$ 470,882	$ 11,640	$ -	$ 561,403	$ -	$ -	$ -	$ 2,376,828	$ 477,655	$ 75,390	$ 553,045
Fringe benefits	3,249	2,829	175,891	63,208	66,329	7,859	27,424	100,023	2,957	-	140,640	-	-	-	590,409	122,974	12,389	135,363
Total salaries and fringe benefits	15,403	15,267	835,712	326,798	354,809	41,318	90,385	570,905	14,597	-	702,043	-	-	-	2,967,237	600,629	87,779	688,408
Foster care payments	13,371	19,943	669,637	46,501	-	-	-	-	-	-	-	-	-	-	749,452	-	-	-
Consultants and staff training	1,693	5,511	155,970	15,127	9,205	1,196	1,616	28,727	-	-	25,272	-	-	13,343	257,660	73,705	7,147	80,852
Consumable supplies	263	109	18,901	5,361	6,211	1,231	1,291	19,130	-	-	19,008	-	-	-	71,505	11,373	906	12,279
Occupancy - Utilities and maintenance	32	17	2,995	1,405	1,434	319	159	3,334	-	-	2,855	-	-	-	12,550	3,418	39	3,457
Transportation and travel	944	1,112	49,000	13,699	19,937	7,210	853	22,978	-	-	39,037	-	-	-	154,770	2,178	886	3,064
Client allowance payments	-	-	-	-	190,335	-	-	-	-	-	-	-	-	-	190,335	-	-	-
Food, clothing, and other	1,644	-	30,881	1,807	32,797	86,421	-	11,611	1,031,454	87,428	67,453	-	-	3,096	1,354,592	102	-	102
Leases and rental	2,170	1,565	117,863	40,677	189,383	11,660	5,852	121,425	-	-	103,890	-	-	-	594,485	122,359	3,416	125,775
Other	618	313	29,866	9,844	12,265	2,218	2,082	27,117	63	-	24,303	-	-	-	108,689	92,181	6,088	98,269
Depreciation and amortization	161	27	9,916	3,770	4,946	997	498	10,845	-	-	8,890	5,470	32,626	-	78,146	10,469	249	10,718
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,767	12,767
Total functional expenses	**$ 36,299**	**$ 43,864**	**$ 1,920,741**	**$ 464,989**	**$ 821,322**	**$ 152,570**	**$ 102,736**	**$ 816,072**	**$ 1,046,114**	**$ 87,428**	**$ 992,751**	**$ 5,470**	**$ 32,626**	**$ 16,439**	**$ 6,539,421**	**$ 916,414**	**$ 119,277**	**$ 1,035,691**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Decrease in net assets	$ (15,707)	$ (301,781)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation and amortization	71,192	88,864
Increase in deferred rent	61,030	69,358
Bad debt expense	-	478
Contributed stock	(20,445)	-
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	70,766	433,308
Prepaid expenses and other assets	(29,103)	(48,934)
Accounts payable and accrued liabilities	108,742	90,433
Paycheck Protection Program refundable advance	583,700	-
Advanced payments and deferred revenue	199,992	(127,202)
Net Increase in Cash	1,030,167	204,524
Cash - Beginning of year	825,703	621,179
Cash - End of year	**$ 1,855,870**	**$ 825,703**

Note 1 - Nature of Business

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 for 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. This program was discontinued in fiscal year 2019.

The Specialized Foster Care Program (DD - FC) provides specialized foster care services to youth with mental health, behavioral, medical, or developmental special needs. This program originated in 2019.

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 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.

The Summer Internship Program (FCA) was created by 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 partner with DCFS for payment of 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 partners with 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 partners with DCFS and issues checks on behalf of eligible clients, as directed by DCFS.

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.

Kaleidoscope, Inc. receives additional funding for programs through grants from foundations.

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

Note 1 - Nature of Business (Continued)

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 basis of generally accepted accounting principles (GAAP).

Adoption of New Accounting Pronouncement

As of July 1, 2019, the Agency adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard 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 Agency adopted the new standard on a modified prospective basis. Government grants now meet the criteria of a nonreciprocal (contribution) transaction, typically with conditions to be met before revenue is recognized. The adoption of the ASU did not impact the recognition of contribution or grant agreements received and did not result in a restatement of the 2019 financial information.

Classification of Net Assets

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Agency.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Agency or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Agency had no net assets with donor restrictions as of June 30, 2020 or 2019.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

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, the balances of which at times exceed the 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.

Note 2 - Significant Accounting Policies (Continued)

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.

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. Certain other revenue from governmental agencies is based on a preestablished fee amount for each unit of service provided without regard to the provider's costs. Revenue from these government grants and contracts is conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Agency has incurred expenditures or provided services in compliance with specific contract or grant provisions. Any government contract payments received prior to incurring qualifying expenditures are reported as advance payments and deferred revenue on the statement of financial position.

Certain other contracts with governmental agencies provide for reimbursement to the Agency for cash assistance to eligible clients. Amounts received are recognized as revenue when the Agency pays cash to the clients. Any government contract payments received prior to payment to the clients are reported as advance payments and deferred revenue on the statement of financial position.

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, 2020 and 2019 relates to DCFS contracts. As of June 30, 2020, the amount related to DCFS consisted of advanced program payments of $574,135, and excess revenue received related to prior years of $152,855. The remaining deferred revenue balance as of June 30, 2020 consisted of unused funds of $11,595 from the Impact Chicago Grant. As of June 30, 2019, the amount related to DCFS consisted of advanced program payments of $353,369, and excess revenue received related to prior years of $182,078. The remaining deferred revenue balance as of June 30, 2019 consisted of unused funds of $3,146 from the Help for Children Grant.

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. Conditional promises are recorded when donor stipulations are substantially met. 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 recipients under the contract.

Note 2 - Significant Accounting Policies (Continued)

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the period in which the gift is received are both reported as contributions without donor restrictions.

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 were no in-kind contributions recorded in the statement of activities and changes in net assets in both 2020 and 2019.

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 determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

The financial statements report certain categories of expense that are attributable to one or more program or supporting function of the Agency. Those expenses and the allocation methods used for each are described in the list below:

- Executive director, COO, chief program officer, and other administrative employees' salaries and benefits - Estimates of time and effort
- Personnel expenses - Actual number of employees per program
- Consultants, office supplies, telephone, postage - Full-time equivalents
- Occupancy costs, utilities, depreciation, repairs, and maintenance - Square footage

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).

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations.

On March 13, 2020, the Agency closed its office to its employees and visitors in advance of the shelter-in-place order that became effective in Illinois on March 21, 2020. At this time, the Agency provided services to clients virtually. In May 2020, the Agency resumed providing certain services to clients in person. As of the date of the financial statements, the Agency's office has not formally re-opened. The closure has impacted the Agency's ability to perform certain services but has not negatively impacted revenue, as funding from governmental grants was maintained or expanded.

No impairments were recorded as of the statement of financial position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Agency’s results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Note 2 - Significant Accounting Policies (Continued)

Paycheck Protection Program Refundable Advance

Funding received under the Paycheck Protection Program (PPP) is considered a nonexchange transaction and is recognized as the conditions of the PPP agreement have been met. Funding received in advance of conditions being met is recorded as a refundable advance. See Note 11 for additional information on the terms and conditions of the PPP agreement.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued 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, 2021 based on the revised effective date provided in ASU No. 2020-05. The ASU permits application of the new revenue recognition guidance 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 that will be impacted and believes this standard will not have a significant impact on the pattern of revenue recognition. Management is currently analyzing the disclosures that will be required with this pronouncement.

The 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, 2023 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 7, that will be reported on the statement of financial position 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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including December 17, 2020, which is the date the financial statements were available to be issued.

Note 3 - Liquidity and Availability of Resources

The Agency has $2,807,719 and $1,848,318 of financial assets available within one year of June 30, 2020 and 2019 to meet cash needs for general expenditure, which consist of cash of $1,855,870 and $825,703 and accounts receivable of $951,849 and $1,022,615, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The accounts receivable are subject to implied time restrictions but are expected to be collected within one year.

Note 3 - Liquidity and Availability of Resources (Continued)

The Agency has a goal to maintain financial assets, which consist of cash and accounts receivable, on hand to meet 60 days of normal operating expenses, which are, on average, approximately $1,270,000 and $1,260,000 at June 30, 2020 and 2019, respectively. The Agency has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Agency has a committed line of credit, which it could draw upon if needed, as further described in Note 5.

Note 4 - Equipment and Leasehold Improvements

Equipment and leasehold improvements are summarized as follows:

	2020	2019	Depreciable Life - Years
Vehicles - Cost	$ 26,361	$ 26,361	5
Office furniture and equipment - Cost	959,506	959,506	3-5
Computer software - Cost	52,516	52,516	3
Leasehold improvements - Cost	223,478	223,478	5
Total cost	1,261,861	1,261,861	
Accumulated depreciation	1,088,570	1,017,378	
Net equipment and leasehold improvements	$ 173,291	$ 244,483	

Depreciation and amortization expense for 2020 and 2019 was $71,192 and $88,864, respectively.

Note 5 - 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 $600,000 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 3.75 and 6.25 percent at June 30, 2020 and 2019, 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, 2020 and 2019 under this line of credit. The line of credit expires on September 15, 2021.

Note 6 - 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 $300,000. The letter expires on September 15, 2021.

Note 7 - Operating Leases

The Agency entered into a lease effective April 1, 2018 at an 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 the lease was $593,596 and $581,813 for 2020 and 2019, respectively.

Note 7 - Operating Leases (Continued)

Future minimum annual commitments under this operating lease are as follows:

Years Ending June 30	Amount
2021	$ 513,039
2022	528,315
2023	536,716
2024	545,118
2025	553,520
Thereafter	3,652,681
Total	$ 6,329,389

Note 8 - 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 9 - 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, 2020 and 2019 was $66,872 and $61,030, respectively, and is included in other assets and accrued liabilities on the statement of financial position.

Note 10 - Concentration

The Agency receives a substantial portion of its support from the State of Illinois. This support totaled 96 and 97 percent of total revenue for the fiscal years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the Agency had receivables from the Illinois Department of Children and Family Services amounting to $951,849 and $1,022,615, respectively.

Note 11 - Paycheck Protection Program Refundable Advance

The Paycheck Protection Program was established by Congress as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under this relief program, the legislation authorized the Treasury to use the Small Business Administration (SBA) to fund loans to qualifying entities. The SBA will review forgiveness applications and will forgive up to the full amount of the loan issued if it deems all employee retention and salary level criteria are met and the funds are used for eligible expenses.

The Agency received a Paycheck Protection Program term note through its primary financial institution of $583,700. The note structure required organization officials to certify certain statements that permitted the Agency to qualify for the loan and provides loan forgiveness for a portion or all of the borrowed amount if the Agency uses the loan proceeds for the permitted loan purpose described in the note agreement; the portion not forgiven will be required to be paid back by the Agency in full in May 2022 under 14 equal monthly principal payments beginning in April 2021, with interest at 1.00 percent. The Agency has the right to prepay any amount outstanding at any time without penalty. This loan will continue to help the Agency fund payroll, benefits, and building utility costs.

Note 11 - Paycheck Protection Program Refundable Advance (Continued)

While the legal form of the PPP agreement is a loan, the Agency concluded the loan represents, in substance, a grant that is expected to be forgiven and, therefore, has accounted for the agreement as a conditional contribution. The following measurable barriers must be substantially overcome before the contribution can be considered unconditional and recorded as revenue:

- Incur eligible expenses
- Maintain full-time equivalent counts and salary levels through the eligibility period.
- Small Business Administration review and approval of the forgiveness application

As these barriers were not yet met as of June 30, 2020, the full balance of the loan is recorded as a refundable advance.