

SHORE COMMUNITY SERVICES, INC.

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2017**

TOGETHER WITH AUDITOR'S REPORT

These financial statements have been prepared from the Organization's books and records after making all necessary adjustments thereto, and they represent the final statements for the period under audit.

Signed: _____
(Name and Title)

Date: December 12, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Shore Community Services, Inc.

We have audited the accompanying financial statements of Shore Community Services, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

Independent Auditor's Report
To the Board of Directors of
Shore Community Services, Inc.
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Opinion

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

Dugan + Lopatka

DUGAN & LOPATKA

Wheaton, Illinois
December 12, 2017

SHORE COMMUNITY SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE, 30, 2017

A S S E T S

CURRENT ASSETS:

Cash and cash equivalents - Unrestricted	\$ 136,154
- Restricted for HUD-related deposits	359,884
- Restricted	<u>13,534</u>

Total 509,572

Investments	1,672,199
Receivables -	
Program fees/grant receivable	257,617
Pledge receivable	252,521
Prepaid expenses	<u>43,047</u>

Total current assets 2,734,956

PROPERTY AND EQUIPMENT:

Land	1,521,361
Buildings and improvements	8,481,015
Furniture and equipment	1,160,784
Vehicles	839,421
Less - Accumulated depreciation	<u>(4,716,465)</u>

Net property and equipment 7,286,116

Total assets \$ 10,021,072

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Notes payable, current maturities	\$ 158,676
Line of credit	755,000
Accounts payable	138,193
Accrued expenses	430,625
Deferred revenue	10,242
Tenant security deposits	<u>1,778</u>
Total current liabilities	<u>1,494,514</u>

LONG-TERM LIABILITIES:

Notes payable, net of current maturities	<u>2,857,991</u>
Total liabilities	<u>4,352,505</u>

NET ASSETS:

Unrestricted	3,982,834
Temporarily restricted	<u>1,685,733</u>
Total net assets	<u>5,668,567</u>
Total liabilities and net assets	<u><u>\$ 10,021,072</u></u>

SHORE COMMUNITY SERVICES, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, FEES AND OTHER REVENUE:			
Public Support -			
Contributions	\$ 388,968	\$ -	\$ 388,968
Department of Rehab Services	2,352	-	2,352
Evanston Mental Health Board	38,519	-	38,519
U.S. Department of Housing and Urban Development	265,557	-	265,557
Illinois Department of Public Aid	234,349	-	234,349
Fundraising events, net of direct expenses of \$47,515	155,554	-	155,554
Total support	<u>1,085,299</u>	<u>-</u>	<u>1,085,299</u>
Program Fees -			
Illinois Department of Human Services	2,953,368	-	2,953,368
Sheltered Workshop	225,384	-	225,384
Client rental income	593,599	-	593,599
Total fees	<u>3,772,351</u>	<u>-</u>	<u>3,772,351</u>
Other Revenue -			
Second Time Around	107,589	-	107,589
Interest and dividend income	258	39,125	39,383
Unrealized gain on investments	-	94,878	94,878
Realized gain on investments	-	19,037	19,037
Work contracts	170,670	-	170,670
Miscellaneous	7,934	-	7,934
Release of restrictions	255,936	(255,936)	-
Total other revenue	<u>542,387</u>	<u>(102,896)</u>	<u>439,491</u>
Total support, fees and revenue	<u>\$ 5,400,037</u>	<u>\$ (102,896)</u>	<u>\$ 5,297,141</u>

The accompanying notes are an integral part of this statement.

SHORE COMMUNITY SERVICES, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
FUNCTIONAL EXPENSES:			
Program services	5,154,433	-	5,154,433
Supporting services	1,002,057	-	1,002,057
Total functional expenses	6,156,490	-	6,156,490
CHANGE IN NET ASSETS	(756,453)	(102,896)	(859,349)
NET ASSETS, Beginning of year, as previously stated	5,630,094	1,004,794	6,634,888
Less - Prior years accrued vacation not recorded in previous years	(106,972)	-	(106,972)
Reclass beginning temporarily restricted net assets to actual	(783,835)	783,835	-
NET ASSETS, Beginning of year, as restated	4,739,287	1,788,629	6,527,916
NET ASSETS, End of year	<u>\$ 3,982,834</u>	<u>\$ 1,685,733</u>	<u>\$ 5,668,567</u>

The accompanying notes are an integral part of this statement.

SHORE COMMUNITY SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (859,349)
Adjustments to reconcile change in net assets to net cash (used in) operating activities -	
Depreciation expense	249,300
Unrealized (gain) on investments	(94,878)
Realized (gain) on investments	(19,037)
Changes in assets and liabilities -	
Decrease in receivables	313,385
(Increase) in prepaid expenses	(29,755)
Increase in accounts payable	32,600
Increase in accrued expenses	117,036
(Decrease) in deferred revenue	<u>(13,332)</u>
Net cash (used in) operating activities	<u>(304,030)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(724,198)
Purchases of investments	(296,234)
Proceeds from sales of investments	<u>513,058</u>
Net cash (used in) investing activities	<u>(507,374)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on notes payable	(151,314)
Borrowings from notes payable	750,000
Net proceeds from line of credit	<u>5,000</u>
Net cash provided by financing activities	<u>603,686</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(207,718)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>717,290</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 509,572</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	<u>\$ 181,981</u>

The accompanying notes are an integral part of this statement.

SHORE COMMUNITY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services											Total Expenses	
	Lois Lloyd Center	Shore Training Center	Supported Living Arrangement	Shore Homes	CILA	DHS Training	Second Time Around	Respite Care	SLS 55A	Total Program Services	Supporting Services		
Operating Expenses:													
Salaries and benefits	\$ 865,535	\$ 1,350,563	\$ 57,250	\$ 719,191	\$ 669,521	\$ 33,498	\$ 66,034	\$ 37,663	\$ 11,952	\$ 3,811,207	\$ 551,946	\$ 4,363,153	
Professional fees	45,198	32,210	1,290	131,756	41,211	-	-	15,046	2,250	268,961	68,984	337,945	
Occupancy	62,774	110,959	35,785	94,967	37,656	-	5,671	241	241	348,294	105,054	453,348	
Meetings	318	835	-	427	74	74	(9)	-	-	1,719	10,366	12,085	
Repairs and maintenance	1,120	2,081	-	2,788	1,562	-	-	-	-	7,551	4,334	11,885	
Transportation	92,878	97,791	703	18,591	18,426	-	5	1,551	1,349	231,294	8,399	239,693	
Telephone	11,700	6,892	1,746	5,731	4,326	1	1,405	107	(100)	31,808	10,086	41,894	
Supplies	18,378	42,183	719	94,581	23,800	-	506	49	237	180,453	7,947	188,400	
Printing and copying	117	157	-	591	50	-	321	-	-	1,236	10,968	12,204	
Dues and fees	283	451	18	258	198	9	541	12	3	1,773	17,358	19,131	
Interest	-	-	-	54,206	-	-	-	-	-	54,206	127,358	181,564	
Contingency	223	500	-	14	-	-	17	-	-	754	10,695	11,449	
Depreciation	75,835	65,696	5,317	31,986	24,526	-	6,654	-	-	210,014	39,286	249,300	
Other expenses	2,623	(26,164)	549	14,181	2,206	1,100	10,306	150	212	5,163	29,276	34,439	
Total expenses	\$ 1,176,982	\$ 1,684,154	\$ 103,377	\$ 1,169,268	\$ 823,556	\$ 34,682	\$ 91,451	\$ 54,819	\$ 16,144	\$ 5,154,433	\$ 1,002,057	\$ 6,156,490	

The accompanying notes are an integral part of this statement.

SHORE COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(1) NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization -

Shore Community Services, Inc. (Shore) was organized in 1949, and incorporated in 1951, to develop day services for persons with developmental disabilities. Vocational and workshop programs were expanded to provide adult training centers and adult residential services to help improve the quality of life for persons with developmental disabilities through community-based services.

The financial statements were available to be issued on December 12, 2017, with subsequent events being evaluated through this date.

Basis of Accounting -

The financial statements are maintained on the accrual basis of accounting which recognizes revenues as it is earned and expenses as they are incurred.

Basis of Presentation -

Shore is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Shore and/or the passage of time. Temporarily restricted net assets are as follows:

Regenstein Fund	\$ 1,672,199
Lang Fund	<u>13,534</u>
	<u>\$ 1,685,733</u>

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by Shore. Generally, the donors of these assets permit Shore to use all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted net assets as of June 30, 2017.

Use of Estimates -

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

(1) NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Cash and Cash Equivalents -

For purposes of the statement of cash flows, Shore considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk -

Financial instruments which potentially subject Shore to concentrations of credit risk consist principally of cash. Shore places its cash and deposits with high credit quality financial institutions; however, deposits may exceed the federally insured limits in various banks from time to time. Shore has not experienced any losses in such accounts.

Receivables -

Receivables consist primarily of service fees due from governmental agencies and other non-for-profit organizations. These receivables were reviewed at year end and amounts deemed uncollectible were written off.

Investments -

Shore has investments that are comprised of mutual funds, common stock, corporate bonds, certificates of deposit and money markets that are carried at fair market value.

Property and Equipment -

Property and equipment are stated at cost. Shore capitalizes fixed asset additions over \$500. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Below are the estimated useful lives of the assets:

Furniture and office equipment	3 - 7 years
Buildings	40 years
Leasehold improvements	40 years

Depreciation expense for the year ended June 30, 2017 was \$249,300.

Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains and losses on dispositions of property and equipment are included in the statement of activities and changes in net assets.

(1) NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Restricted and Unrestricted Support -

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses -

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Expenses that are easily and directly associated with a particular program or supporting service are allocated directly to that functional category. Certain costs have been allocated among the programs and supporting services benefited based on time devoted to the functional areas and other appropriate methods.

Income Taxes -

Shore has been determined by the Internal Revenue Service to be exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been established.

Shore files informational returns in the U.S. federal jurisdiction and Illinois. With few exceptions, Shore is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2013. Shore does not expect a material net change in unrecognized tax benefits in the next twelve months.

(2) FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

(2) FAIR VALUE MEASUREMENTS: (Continued)

Level 2:

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Money Market: Valued at cost as of the year end, which approximates market.

Mutual Funds: Valued at the net asset value (NAV) of shares held by Shore at year end.

Certificates of Deposit: Valued at amortized cost, which approximates fair value.

Common Stock, Corporate Bonds: Valued at the closing price reported in active markets in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Shore believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(2) FAIR VALUE MEASUREMENTS: (Continued)

The following table sets forth by level, within the fair value hierarchy, Shore's assets at fair value as of June 30, 2017:

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 217,012	\$ -	\$ -	\$ 217,012
Common stock	846,153	-	-	846,153
Corporate bonds	150,217	-	-	150,217
Certificates of deposit	-	352,152	-	352,152
Total assets at fair value	<u>\$ 1,213,382</u>	<u>\$ 352,152</u>	<u>\$ -</u>	\$ 1,565,534
Money market funds				<u>106,665</u>
Total investments				<u>\$ 1,672,199</u>

(3) RESTRICTIONS FOR HUD-RELATED DEPOSITS:

The following HUD-restricted deposits are held in separate interest-bearing FDIC insured accounts and are not generally available for operations purposes –

Replacement reserve deposit	\$ 284,053
Insurance deposit	59,874
Residual receipts deposit	14,179
Tenant security deposits	<u>1,778</u>
	<u>\$ 359,884</u>

(4) COMMITMENTS:

Shore has several operating leases for vehicles and a copier that expire at various dates through August, 2021. Lease expense for the year ended June 30, 2017 was \$13,649.

Future minimum lease payments are as follows:

Year ending June 30,	
2018	\$ 17,765
2019	17,765
2020	16,775
2021	2,565

(5) LINE OF CREDIT:

Shore has a \$1,200,000 line of credit from a bank. The line bears interest at prime minus .50%, (3.75% at June 30, 2017). The line is secured by the Regenstein Fund and a blanket lien on all business assets and is due in February, 2018. At June 30, 2017, the outstanding balance of the line of credit was \$755,000. In November, 2017, the line of credit availability increased to \$1,450,000.

(6) NOTES PAYABLE:

	<u>2017</u>
Payable to HUD in monthly installments of \$9,110 principal and interest, bearing interest of 9.25%, due in May 2024 and secured by a building.	\$ 557,005
Payable to a bank in monthly installments of \$9,960 principal and interest, bearing interest of 4.5%, a balloon payment due in November, 2020 and secured by a building.	1,371,073
Payable to a bank, in monthly installments of \$6,963 principal and interest, bearing interest of 4.75%, a balloon payment due in December 2021 and secured by a building. Shore must maintain debt service coverage ratio of at least 1:00 to 1:00, as of June 30, 2017. Shore has not met the ratio, however, the bank subsequently waived the covenant Regulations for this period.	1,053,624
Payable to HUD in monthly installments of \$451, noninterest bearing, due in n January 2024 and unsecured.	<u>34,965</u>
	3,016,667
Less - Current maturities	<u>158,676</u>
Long-term maturities	<u>\$ 2,857,991</u>

Future maturities are summarized as follows:

<u>Year ending June 30,</u>	
2018	\$ 158,676
2019	168,857
2020	179,677
2021	1,309,768
2022	1,002,701
Thereafter	<u>196,988</u>
	<u>\$ 3,016,667</u>

(7) PENSION AND PROFIT SHARING PLAN:

Shore has adopted a defined contribution, noncontributory profit sharing plan covering substantially all employees. Shore funds all costs accrued. Shore did not make any retirement contributions for the year ended June 30, 2017.

(8) CONCENTRATIONS:

Shore has received significant program fees from the Illinois Department of Human Services in the year ended June 30, 2017. The Illinois Department of Human Services provided 56% of Shore's total support, fees, and revenue.

(9) FEDERAL AND STATE GRANTS:

Shore receives a significant amount of its support from federal, state and local governments. A substantial reduction in the level of this support, if it were to occur, could have a significant effect on Shore's programs and activities. Additionally, the disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audits by grantor agencies. Any disallowed claims resulting from such audits could become a liability

(10) PRIOR PERIOD ADJUSTMENTS:

The statement of activities has been restated to correct for two errors: the failure to record the liability for accrued vacation and the misclassification of contributions as unrestricted net assets. In previously issued financial statements, Shore did not record an accrued vacation liability resulting in an understatement of expenses and an overstatement of net assets. The effect of the restatement caused a decrease in beginning net assets by \$106,972. In addition, temporarily restricted net assets consist of the Regenstein Investment Fund and the Lang Grant cash. The temporarily restricted amount as of June 30, 2016 did not accurately reflect the ending balances. The effect of the restatement caused an increase in temporarily restricted net assets and a decrease in unrestricted net assets by \$783,835.

	<u>Unrestricted</u> <u>Net Assets</u>	<u>Temporarily</u> <u>Restricted</u> <u>Net Assets</u>	<u>Total</u> <u>Net Assets</u>
Balance, June 30, 2016, as previously stated	\$ 5,630,094	\$ 1,004,794	\$ 6,634,888
Record the value of accrued vacation	(106,972)	-	(106,972)
Reclass	<u>(783,835)</u>	<u>783,835</u>	<u>-</u>
Balance, June 30, 2016, as restated	<u>\$ 4,739,287</u>	<u>\$ 1,788,629</u>	<u>\$ 6,527,916</u>