

**SARAH'S CIRCLE  
REPORT ON THE AUDIT  
OF THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2014 AND 2013**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Sarah's Circle

We have audited the accompanying financial statements of Sarah's Circle (an Illinois not-for-profit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, 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.

### Auditors' 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 of 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 auditors' 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 opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sarah's Circle as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2014 on our consideration of Sarah's Circle's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 Sarah Circle's internal control over financial reporting and compliance.

*Knuttle & Associates, P.C.*

**SARAH'S CIRCLE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2014 AND 2013**

**ASSETS**

	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,267,102	\$ 727,275
Investments	0	5,432
Grants Receivable (Net of Allowance for Doubtful Accounts of \$0, Respectively)	132,453	262,783
Prepaid Expenses	6,240	7,120
Building Escrow	443,135	1,354,369
<b>TOTAL CURRENT ASSETS</b>	<b>1,848,930</b>	<b>2,356,979</b>
<b>FIXED ASSETS</b>		
Building	5,667,305	0
Construction in Progress	0	4,192,260
Leasehold Improvements	376,194	263,824
Furniture and Fixtures	191,914	110,396
	6,235,413	4,566,480
Less -- Accumulated Depreciation and Amortization	428,176	284,106
<b>TOTAL FIXED ASSETS</b>	<b>5,807,237</b>	<b>4,282,374</b>
<b>OTHER ASSETS</b>		
Security Deposit	10,874	10,874
<b>TOTAL OTHER ASSETS</b>	<b>10,874</b>	<b>10,874</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,667,041</b>	<b>\$ 6,650,227</b>

## LIABILITIES AND NET ASSETS

	2014	2013
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 303,549	\$ 441,472
Accrued Liabilities	16,740	14,785
Notes Payable	34,207	24,436
Accrued Vacation	11,386	12,356
<b>TOTAL CURRENT LIABILITIES</b>	<u>365,882</u>	<u>493,049</u>
<b>LONG-TERM LIABILITIES</b>		
Notes Payable	<u>3,238,554</u>	<u>2,782,308</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>3,238,554</u>	<u>2,782,308</u>
<b>TOTAL LIABILITIES</b>	<u>3,604,436</u>	<u>3,275,357</u>
<b>NET ASSETS</b>		
Unrestricted	3,927,356	2,898,401
Temporarily Restricted	135,249	476,469
<b>TOTAL NET ASSETS</b>	<u>4,062,605</u>	<u>3,374,870</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 7,667,041</u></u>	 <u><u>\$ 6,650,227</u></u>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>PUBLIC SUPPORT, REVENUES, AND GAINS</b>				
Grants and Contributions	\$ 1,906,409	\$ 121,850	\$ 0	\$ 2,028,259
In-Kind Donations	331,673	0	0	331,673
Special Events (Net of Cost of Direct Benefit to Donors of \$4,828)	31,796	0	0	31,796
Rental Income	2,413	0	0	2,413
Investment Income	1,260	0	0	1,260
Net Assets Released from Restrictions	463,070	(463,070)	0	0
<b>TOTAL PUBLIC SUPPORT, REVENUES, AND GAINS</b>	<u>2,736,621</u>	<u>(341,220)</u>	<u>0</u>	<u>2,395,401</u>
<b>FUNCTIONAL EXPENSES</b>				
Program Services				
Interim Housing	735,426	0	0	735,426
Permanent Supportive Housing	240,291	0	0	240,291
Daytime Support Center	344,228	0	0	344,228
Clinical Services	154,412	0	0	154,412
Total Program Services	1,474,357	0	0	1,474,357
Management and General	108,926	0	0	108,926
Fundraising	124,383	0	0	124,383
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>1,707,666</u>	<u>0</u>	<u>0</u>	<u>1,707,666</u>
<b>CHANGE IN NET ASSETS</b>	1,028,955	(341,220)	0	687,735
<b>NET ASSETS,</b>				
<b>BEGINNING OF YEAR</b>	<u>2,898,401</u>	<u>476,469</u>	<u>0</u>	<u>3,374,870</u>
<b>END OF YEAR</b>	<u>\$ 3,927,356</u>	<u>\$ 135,249</u>	<u>\$ 0</u>	<u>\$ 4,062,605</u>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>PUBLIC SUPPORT, REVENUES, AND GAINS</b>				
Grants and Contributions	\$ 1,765,940	\$ 565,000	\$ 0	\$ 2,330,940
In-Kind Donations	608,691	0	0	608,691
Special Events (Net of Cost of Direct Benefit to Donors of \$2,904)	14,243	0	0	14,243
Interest and Dividends	828	0	0	828
Unrealized Gain on Investments	791	0	0	791
Net Assets Released from Restrictions	633,401	(633,401)	0	0
<b>TOTAL PUBLIC SUPPORT, REVENUES, AND GAINS</b>	<u>3,023,894</u>	<u>(68,401)</u>	<u>0</u>	<u>2,955,493</u>
<b>FUNCTIONAL EXPENSES</b>				
Program Services				
Housing	793,671	0	0	793,671
Daytime Support Center	202,535	0	0	202,535
Clinical Services	158,839	0	0	158,839
Total Program Services	1,155,045	0	0	1,155,045
Management and General	62,120	0	0	62,120
Fundraising	69,746	0	0	69,746
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>1,286,911</u>	<u>0</u>	<u>0</u>	<u>1,286,911</u>
<b>CHANGE IN NET ASSETS</b>	1,736,983	(68,401)	0	1,668,582
<b>NET ASSETS,</b>				
<b>BEGINNING OF YEAR</b>	<u>1,161,418</u>	<u>544,870</u>	<u>0</u>	<u>1,706,288</u>
<b>END OF YEAR</b>	<u>\$ 2,898,401</u>	<u>\$ 476,469</u>	<u>\$ 0</u>	<u>\$ 3,374,870</u>

See the Accompanying Notes to the Financial Statements.



**SARAH'S CIRCLE  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>PROGRAM SERVICES</b>	<b>MANAGEMENT AND GENERAL</b>	<b>FUNDRAISING</b>	<b>TOTAL</b>
<b>FUNCTIONAL EXPENSES</b>				
Bank Fees	\$ 2,363	\$ 195	\$ 222	\$ 2,780
Board and Staff Expenses	4,467	368	420	5,255
Building Expenses	17,322	1,427	1,630	20,379
Client Services	97,230	2,221	2,536	101,987
Contractual Services	56,000	4,521	5,162	65,683
Depreciation and Amortization	122,456	10,091	11,523	144,070
Development	233	19	22	274
Employee Benefits	107,011	8,818	10,069	125,898
Food Supplies	12,526	1,032	1,179	14,737
Insurance	26,448	2,179	2,489	31,116
Interest	124,665	10,273	11,730	146,668
Marketing	996	82	94	1,172
Payroll Taxes	50,129	4,131	4,717	58,977
Postage	3,417	282	322	4,021
Printing	7,474	616	703	8,793
Professional Fees	10,793	889	1,016	12,698
Professional Fees: In-Kind	37,680	3,105	3,546	44,331
Rent	81,070	0	0	81,070
Repairs and Maintenance	32,362	2,667	3,045	38,074
Salaries	583,618	48,091	54,916	686,625
Supplies	25,603	2,111	2,407	30,121
Supplies: In-Kind	17,414	1,435	1,640	20,489
Telephone and Internet	14,302	1,178	1,346	16,826
Transportation	6,716	553	632	7,901
Utilities	32,062	2,642	3,017	37,721
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,474,357</b>	<b>\$ 108,926</b>	<b>\$ 124,383</b>	<b>\$ 1,707,666</b>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>PROGRAM SERVICES</b>	<b>MANAGEMENT AND GENERAL</b>	<b>FUNDRAISING</b>	<b>TOTAL</b>
<b>FUNCTIONAL EXPENSES</b>				
Bank Fees	\$ 2,005	\$ 142	\$ 159	\$ 2,306
Board and Staff Expenses	7,030	499	558	8,087
Client Services	157,862	1,398	1,568	160,828
Contractual Services	84,393	872	980	86,245
Depreciation and Amortization	7,935	562	632	9,129
Development	63	4	6	73
Employee Benefits	60,990	4,322	4,853	70,165
Food Supplies	15,120	1,053	1,183	17,356
Insurance	3,038	215	242	3,495
Interest	42,628	4	4	42,636
Marketing	178	13	15	206
Payroll Taxes	38,189	2,706	3,040	43,935
Postage	3,104	219	247	3,570
Printing	7,263	515	579	8,357
Professional Fees	8,000	567	637	9,204
Professional Fees: In-Kind	56,743	4,021	4,516	65,280
Rent	77,595	3,696	4,149	85,440
Repairs and Maintenance	9,433	669	751	10,853
Salaries	502,497	35,611	39,982	578,090
Supplies	12,329	875	979	14,183
Supplies: In-Kind	21,851	1,549	1,738	25,138
Telephone and Internet	23,172	1,642	1,845	26,659
Transportation	6,034	428	480	6,942
Utilities	7,593	538	603	8,734
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,155,045</b>	<b>\$ 62,120</b>	<b>\$ 69,746</b>	<b>\$ 1,286,911</b>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Donors and Patrons	\$ 2,197,626	\$ 2,187,473
Interest Received	982	828
Paid to Suppliers and Staff	(1,510,290)	(717,285)
Interest Paid	(19,037)	(64)
Income Taxes Paid	0	0
	<hr/>	<hr/>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>669,281</b>	<b>1,470,952</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for the Purchase of Property	(1,512,415)	(3,095,628)
Change in Deposits into Building Escrow	911,234	(1,314,369)
Payments for the Purchase of Investments	0	(113)
Proceeds from the Sale of Investments	5,710	0
	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(595,471)</b>	<b>(4,410,110)</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the Issuance of Notes Payable	492,132	2,818,215
Principal Payments on Notes Payable	(26,115)	(11,471)
	<hr/>	<hr/>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>466,017</b>	<b>2,806,744</b>
	<hr/>	<hr/>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>539,827</b>	<b>(132,414)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>727,275</b>	<b>859,689</b>
<b>END OF YEAR</b>	<b><u>\$ 1,267,102</u></b>	<b><u>\$ 727,275</u></b>
	<hr/>	<hr/>
<b>NON-CASH OPERATING ACTIVITIES</b>		
Donated Services	\$ 44,331	\$ 65,280
Imputed Interest	110,336	42,572
Donated Materials	20,488	25,138
	<hr/>	<hr/>
	<b><u>\$ 175,155</u></b>	<b><u>\$ 132,990</u></b>
	<hr/>	<hr/>
<b>NON-CASH INVESTING ACTIVITIES</b>		
Capitalized Donated Services	\$ 139,223	\$ 475,701
Capitalized Interest	17,295	0
	<hr/>	<hr/>
	<b><u>\$ 156,518</u></b>	<b><u>\$ 475,701</u></b>
	<hr/>	<hr/>

**See the Accompanying Notes to the Financial Statements.**

**SARAH'S CIRCLE  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	<u>\$ 687,735</u>	<u>\$ 1,668,582</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Capitalized Donated Services	(139,223)	(475,701)
Capitalized Interest	(17,295)	0
Depreciation and Amortization	144,070	9,129
Realized Gain on Investments	(836)	0
Unrealized Gain on Investments	558	(791)
Changes in Certain Assets and Liabilities:		
Grants Receivable	130,330	(159,593)
Prepaid Expenses	880	8,600
Accounts Payable	(137,923)	426,414
Accrued Liabilities	1,955	2,636
Accrued Vacation	(970)	(8,324)
Total Adjustments	<u>(18,454)</u>	<u>(197,630)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 669,281</u></u>	<u><u>\$ 1,470,952</u></u>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Sarah's Circle (the "Organization") is an Illinois not-for-profit corporation that was established in 1979 and operates in Chicago, Illinois. The Organization's mission is to provide a refuge for women who are homeless or in need of a safe space. This mission is carried out by providing housing assistance, case management, referral services, life necessities and shelter, and encouraging women to empower themselves by rebuilding both emotionally and physically, realizing their unique potential. This is achieved through the following programs:

*Daytime Support Center* - The Daytime Support Center is a safe and welcoming community for any woman in need, whether street homeless, doubled up with friends or family, formerly homeless, struggling with domestic violence, or simply low-income and in need of community. Services include basic necessities, such as food, bathrooms, showers, laundry, telephone, computers with internet access, and an address for mail; educational and general interest programming on a variety of topics; individualized case management; and housing coordination.

*Clinical Services* - Group and individual clinical services to address trauma, domestic violence, mental illness, and other personal challenges are also provided at the Daytime Support Center. These services provide women with tools and support to move towards greater self-determination and empowerment, helping them recognize and build on the strengths they already have.

*Interim Housing* - Every day the Interim Housing Program provides 24-hour shelter, basic necessities, and supportive services to 50 women who are currently homeless. The goal of the program is to help women move into permanent housing as quickly as possible with intensive case management, housing coordination, and other services, and other individualized services tailored to the strengths and challenges of the individual.

*Permanent Supportive Housing* - Sarah's Circle provides Permanent Supportive Housing to women who have a disabling condition who have been chronically homeless. Some women in this program were homeless for over a decade before being housed. Each woman in the program is provided with a housing subsidy, intensive case management, and other individualized supportive services to help her improve her health, well-being, and self-sufficiency. This type of housing has been proven to improve outcomes for the most difficult to serve individuals and reduce public costs for jails, emergency rooms, and other crisis services.

**SARAH'S CIRCLE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A) Method of Accounting

The Organization's accounts are maintained on the accrual basis of accounting. Grants and other contributions are reported as temporarily restricted support if they are received with stipulations that limit the use of the funding. When the 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. Expenses are recorded when incurred.

The Organization reports 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. The Organization does not use fund accounting.

B) Cash and Cash Equivalents

For purposes of reporting cash flows, cash is defined as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Investments with an original maturity of three months or less are considered short-term for these purposes.

The Organization has deposits at a financial institution in excess of federally insured limited of approximately \$425,000 and \$310,000 at June 30, 2014 and 2013, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

C) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values. Fair value is determined by reference to quoted market prices and other relevant information generated by market transactions. Unrealized and realized gains and losses are included in the change in net assets.

**SARAH'S CIRCLE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D) Allowance for Doubtful Accounts

Grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable. The allowance for doubtful accounts for grants receivable is \$0 at June 30, 2014 and 2013, respectively.

E) Fixed Assets

Fixed assets are recorded at cost when purchased. Capitalized donated services and materials are recorded at their estimated fair value on the date of donation. Expenditures for repairs and maintenance are charged to expense as incurred, whereas renewals and betterments that extend the lives of property are capitalized. Depreciation is computed on the straight-line method over various useful lives. Depreciation expense is \$124,892 and \$1,938 for the years ended June 30, 2014 and 2013, respectively.

During the year ended June 30, 2014, the Organization capitalized \$17,295 in interest costs associated with the construction of its new building. This amount is included in buildings on the statements of financial position.

F) Leasehold Improvements

Leasehold improvements are stated at cost and amortized using the straight-line method over the lesser of the useful lives of the assets or the lease term, which generally includes options. Amortization expense is \$19,178 and \$7,191 for the years ended June 30, 2014 and 2013, respectively.

G) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SARAH'S CIRCLE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H) Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, a provision for income taxes has not been made on the financial statements.

**NOTE 2 - INVESTMENTS**

During the year ended June 30, 2014, the Organization sold its investments and recognized the following investment income:

Dividends and Interest	\$	982
Realized Gain		836
Unrealized loss		<u>(558)</u>
		<u><u>\$ 1,260</u></u>

At June 30, 2013, investments are stated at fair value and consist of mutual funds as follows:

	Balance at June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Cost	Accumulated Unrealized Loss
Mutual Funds				
Equity	\$ 5,330	\$ 5,330	\$ 4,777	\$ 553
Fixed Income	<u>\$ 102</u>	<u>\$ 102</u>	<u>\$ 99</u>	<u>\$ 3</u>
	<u><u>\$ 5,432</u></u>	<u><u>\$ 5,432</u></u>	<u><u>\$ 4,876</u></u>	<u><u>\$ 556</u></u>

Generally accepted accounting principles provide the definition of fair value for financial reporting, establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, and require disclosure about the use of fair value measurements. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were used.



**SARAH'S CIRCLE  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 2 - INVESTMENTS (CONTINUED)**

Level 1 Fair Value Measurements

The fair value of mutual funds is based on unadjusted quoted market prices in active markets for identical assets.

No investment return was restricted during the years ended June 30, 2014 and 2013, respectively.

**NOTE 3 - GRANTS RECEIVABLE**

Grants receivable are deemed to be fully collectible by management and are composed of the following amounts due at June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Department of Family and Support Services	\$ 132,453	\$ 126,164
City of Chicago Department of Housing and Economic Development	0	120,000
U.S. Department of Housing and Urban Development	0	16,619
	<u>\$ 132,453</u>	<u>\$ 262,783</u>

**NOTE 4 - BUILDING ESCROW**

In June 2010, the Organization entered into a Purchase Sale Agreement with Chinese Mutual Association, for the acquisition of the property located at 4836 N. Sheridan Road, Chicago, Illinois. The deposit for the purchase was made to the escrow agent, First American Title Insurance Company. The deposit totaled \$40,000 at June 30, 2012. The Organization purchased the building on August 23, 2012 for \$930,000.

As of June 30, 2014 and 2013, as part of the closing agreement, money is being held in escrow at the Illinois Housing Development Authority in the amount of \$84,662 and \$74,886, respectively, and at Stewart Title Guaranty Company for \$358,473 and \$1,279,483, respectively, for future construction costs. The amount is expected to be expended within one year as of June 30, 2014.

**SARAH'S CIRCLE  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - NOTES PAYABLE**

The Organization has the following notes payable at June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Note payable dated August 23, 2012 with an original balance of \$208,000 to Chinese Mutual Aid Association, Inc. payable in 147 monthly payments of \$2,001 inclusive of interest at 6%, matures on November 23, 2024 and is unsecured.	\$ 183,961	\$ 196,529
Note Payable dated August 23, 2012 with an original balance of \$1,227,790 to the City of Chicago with no interest and no monthly payments, final balloon payment due August 23, 2044. Secured by the new building.	1,227,790	1,227,790
Note payable dated August 23, 2012 for \$1,400,000 to the Illinois Housing Development Authority, \$965,584 drawn as of June 30, 2013 and the remaining balance drawn during the year ended June 30, 2014, with no interest and no monthly payments. Note is forgivable on December 31, 2043 if all provisions are met. Secured by the new building.	1,400,000	965,584
Village Bank & Trust note payable dated August 23, 2012 with an original balance of \$475,000 interest only payments at prime plus 1% until construction is complete with monthly payments of \$4,008 at 6% interest until August 23, 2028 and is secured by the new building.	461,010	416,841
Total Debt	3,272,761	2,806,744
Less: Current Portion	34,207	24,436
Total Long-Term Debt	<u>\$ 3,238,554</u>	<u>\$ 2,782,308</u>

**SARAH'S CIRCLE  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - NOTES PAYABLE (CONTINUED)**

Future maturities of long-term debt are as follows:

Year Ended June 30, 2016	36,317
2017	38,557
2018	40,935
2019	43,459
2020	46,140
Thereafter	3,033,146
	<u>\$ 3,238,554</u>

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Building Construction	\$ 0	\$ 410,756
Director of Operations Position	114,329	65,713
Development Position	20,920	0
Total Temporarily Restricted Net Assets	<u>\$ 135,249</u>	<u>\$ 476,469</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors during the years ended June 30, 2014 and 2013:

Purpose Restriction Accomplished:	<b>2014</b>	<b>2013</b>
Building Construction	\$ 421,806	\$ 581,318
Director of Operations/Program		
Director Position	16,384	52,083
Development Position	24,080	0
Computers	500	0
Washing Machine	300	0
Total Restrictions Released	<u>\$ 463,070</u>	<u>\$ 633,401</u>

**SARAH'S CIRCLE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 7 - IN-KIND DONATIONS**

Donated services are recognized as revenues at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. The Organization received donated services for the construction of a new building valued at \$139,223 and \$475,701 during the years ended June 30, 2014 and 2013, respectively. These amounts are included within in-kind donations revenue on the statements of activities and is capitalized as construction in progress on the statements of financial position.

The Organization also received donated professional services for its programs valued at \$44,331 and \$65,280 and donated materials valued at \$20,488 and \$25,138 during the years ended June 30, 2014 and 2013, respectively. These amounts are included within in-kind donations revenue and program services expense on the statements of activities. The Organization also receives donated services from a variety of unpaid volunteers assisting the Organization in its programs. No amounts have been recognized for these services in the accompanying statements of activities because the criteria for recognition of such volunteer effort have not been satisfied.

Additionally, the Organization recognizes as income and expense the imputed interest on its non-interest bearing loans. The imputed interest rate used was five percent which was the incremental borrowing rate at the time of the notes. The amount included in the Statements of Activities as donations revenue and program services expense for the year ended June 30, 2014 and 2013 was \$110,336 and \$42,572, respectively.

**NOTE 8 - LEASE COMMITMENTS**

The Organization leases its interim housing facility at 4750 N. Sheridan Road on a year-long lease ending June 30, 2014 for \$5,000 per month. The lease was revised on September 1, 2013 and the terms were amended to include a \$200 monthly rent increase until the base rent for the space reached a maximum of \$6,000 per month. The Organization had a lease for the property at 1011 W Wilson Avenue to operate a night shelter. This lease expired on June 30, 2013 and called for monthly payments of \$2,160. The Organization continued making rent payments of \$2,120 for six months of the year. Rent expense is \$81,070 and \$85,440 and for the years ended June 30, 2014 and 2013, respectively.

**NOTE 9 - 401(K) RETIREMENT PLAN**

The Organization has a 401(k) Plan which covers employees who have a minimum of 90 days of service. The Organization matches up to 3% of an eligible employees' gross wage. The Organization's contribution to the plan is \$7,064 and \$5,086 for the years ended June 30, 2014 and 2013, respectively.

**SARAH'S CIRCLE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 10 - CONCENTRATIONS OF RISK**

The Organization receives a significant portion of its funding from government sources. Thus, its funding is vulnerable to changes in the legislative priorities of the City, State and federal governments. The Organization's management does not expect that the support from these government agencies will be lost in the near term.

**NOTE 11 - ACCOUNTING FOR UNCERTAIN TAX POSITIONS**

The Organization files its tax returns with the U.S. federal and various state and local tax jurisdictions. With few exceptions, the Organization is no longer subject to examinations by major tax jurisdictions for tax years 2010 and prior. The Organization has no income tax expense for the years ended June 30, 2014 and 2013.

The Organization includes penalties and interest assessed by taxing authorities in its operating expenses. These total to \$0 for the years ended June 30, 2014 and 2013, respectively.

**NOTE 12 - SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is October 1, 2014, the date on which the financial statements were available to be issued.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Sarah's Circle

We have audited, in accordance with the 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, the accompanying financial statements of Sarah's Circle, which comprise the statements of position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 1, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Sarah's Circle's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sarah Circle's internal control. Accordingly, we do not express an opinion on the effectiveness of Sarah Circle's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combinations of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, additional material weaknesses may exist that have not been identified.

We consider the deficiency listed below to be a material weakness for the year ended June 30, 2013:

- Internal accounting records not maintained on a full accrual basis

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sarah Circle's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Sarah Circle's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kuntze & Associates, P.C.*