

**SARAH'S CIRCLE
REPORT ON THE AUDIT
OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015**

**SARAH'S CIRCLE
TABLE OF CONTENTS**

	Page
Independent Auditors' Report	2 - 3
Statements of Financial Position	4
Statement of Activities	
For the Year Ended June 30, 2016	5
For the Year Ended June 30, 2015	6
Statement of Functional Expenses	
For the Year Ended June 30, 2016	7
For the Year Ended June 30, 2015	8
Statements of Cash Flows	9 - 10
Notes to the Financial Statements	11 - 17
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 <i>Government Auditing Standards</i>	18 - 19



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, 2016 and 2015, 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, 2016 and 2015, 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 6, 2016 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, 2016 AND 2015**

ASSETS

	2016	2015
CURRENT ASSETS		
Cash	\$ 2,446,751	\$ 1,868,897
Grants Receivable (Net of Allowance for Doubtful Accounts of \$0, Respectively)	89,698	140,471
Gift Cards	11,415	0
Prepaid Expenses	18,946	6,060
Building Escrow	91,755	100,491
TOTAL CURRENT ASSETS	2,658,565	2,115,919
FIXED ASSETS		
Land and Building	5,732,083	5,732,083
Leasehold Improvements	383,948	378,294
Furniture and Fixtures	204,566	195,212
	6,320,597	6,305,589
Less -- Accumulated Depreciation and Amortization	774,428	600,015
TOTAL FIXED ASSETS	5,546,169	5,705,574
OTHER ASSETS		
Security Deposit	10,874	10,874
TOTAL OTHER ASSETS	10,874	10,874
 TOTAL ASSETS	 \$ 8,215,608	 \$ 7,832,367

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts Payable	\$ 21,022	\$ 12,370
Accrued Liabilities	35,345	16,740
Notes Payable	38,557	36,317
Accrued Vacation	15,962	12,936
TOTAL CURRENT LIABILITIES	<u>110,886</u>	<u>78,363</u>
LONG-TERM LIABILITIES		
Notes Payable	3,164,329	3,202,526
TOTAL LONG-TERM LIABILITIES	<u>3,164,329</u>	<u>3,202,526</u>
TOTAL LIABILITIES	<u>3,275,215</u>	<u>3,280,889</u>
NET ASSETS		
Unrestricted		
Non-Board Designated	3,957,554	3,745,953
Board Designated	925,000	700,000
Total Unrestricted	<u>4,882,554</u>	<u>4,445,953</u>
Temporarily Restricted	57,839	105,525
TOTAL NET ASSETS	<u>4,940,393</u>	<u>4,551,478</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 8,215,608</u></u>	 <u><u>\$ 7,832,367</u></u>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUES				
Grants and Contributions	\$ 1,888,920	\$ 80,000	\$ 0	\$ 1,968,920
In-Kind Donations	305,712	0	0	305,712
Special Events (Net of Cost of Direct Benefit to Donors of \$7,206)	75,711	0	0	75,711
Program Rental Income	35,569	0	0	35,569
Interest Income	1,875	0	0	1,875
Net Assets Released from Restrictions	127,686	(127,686)	0	0
TOTAL PUBLIC SUPPORT AND REVENUES	<u>2,435,473</u>	<u>(47,686)</u>	<u>0</u>	<u>2,387,787</u>
FUNCTIONAL EXPENSES				
Program Services				
Interim Housing	976,061	0	0	976,061
Permanent Supportive Housing	245,987	0	0	245,987
Daytime Support Center	370,618	0	0	370,618
Clinical Services	155,640	0	0	155,640
Total Program Services	1,748,306	0	0	1,748,306
Management and General	121,259	0	0	121,259
Fundraising	129,307	0	0	129,307
TOTAL FUNCTIONAL EXPENSES	<u>1,998,872</u>	<u>0</u>	<u>0</u>	<u>1,998,872</u>
CHANGE IN NET ASSETS	436,601	(47,686)	0	388,915
NET ASSETS,				
BEGINNING OF YEAR	<u>4,445,953</u>	<u>105,525</u>	<u>0</u>	<u>4,551,478</u>
END OF YEAR	<u>\$ 4,882,554</u>	<u>\$ 57,839</u>	<u>\$ 0</u>	<u>\$ 4,940,393</u>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUES				
Grants and Contributions	\$ 1,934,587	\$ 70,493	\$ 0	\$ 2,005,080
In-Kind Donations	342,346	0	0	342,346
Special Events (Net of Cost of Direct Benefit to Donors of \$6,527)	41,973	0	0	41,973
Program Rental Income	20,545	0	0	20,545
Interest Income	1,237	0	0	1,237
Net Assets Released from Restrictions	100,217	(100,217)	0	0
TOTAL PUBLIC SUPPORT AND REVENUES	<u>2,440,905</u>	<u>(29,724)</u>	<u>0</u>	<u>2,411,181</u>
FUNCTIONAL EXPENSES				
Program Services				
Interim Housing	945,044	0	0	945,044
Permanent Supportive Housing	247,124	0	0	247,124
Daytime Support Center	341,588	0	0	341,588
Clinical Services	152,138	0	0	152,138
Total Program Services	1,685,894	0	0	1,685,894
Management and General	115,792	0	0	115,792
Fundraising	120,622	0	0	120,622
TOTAL FUNCTIONAL EXPENSES	<u>1,922,308</u>	<u>0</u>	<u>0</u>	<u>1,922,308</u>
CHANGE IN NET ASSETS	518,597	(29,724)	0	488,873
NET ASSETS,				
BEGINNING OF YEAR	<u>3,927,356</u>	<u>135,249</u>	<u>0</u>	<u>4,062,605</u>
END OF YEAR	<u>\$ 4,445,953</u>	<u>\$ 105,525</u>	<u>\$ 0</u>	<u>\$ 4,551,478</u>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
FUNCTIONAL EXPENSES				
Bank Fees	\$ 3,624	\$ 276	\$ 294	\$ 4,194
Board and Staff Expenses	12,380	944	1,007	14,331
Client Services	117,155	2,661	2,837	122,653
Contractual Services	81,248	6,196	6,608	94,052
Depreciation and Amortization	150,668	11,491	12,254	174,413
Development	445	34	36	515
Employee Benefits	98,401	7,505	8,003	113,909
Food Supplies	31,526	2,404	2,564	36,494
Insurance	13,617	1,039	1,107	15,763
Interest	145,223	11,075	11,811	168,109
Marketing	2,111	161	172	2,444
Payroll Taxes	47,611	3,631	3,872	55,114
Postage	5,023	386	407	5,816
Printing	7,839	597	638	9,074
Professional Fees	10,452	797	850	12,099
Professional Fees: In-Kind	96,742	7,378	7,868	111,988
Rent	76,080	0	0	76,080
Repairs and Maintenance	45,360	3,459	3,689	52,508
Salaries	668,316	50,970	54,353	773,639
Supplies	27,801	2,120	2,261	32,182
Supplies: In-Kind	53,850	4,106	4,379	62,335
Telephone and Internet	14,896	1,136	1,211	17,243
Transportation	8,417	642	685	9,744
Utilities	29,521	2,251	2,401	34,173
TOTAL FUNCTIONAL EXPENSES	\$ 1,748,306	\$ 121,259	\$ 129,307	\$ 1,998,872

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015**

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
FUNCTIONAL EXPENSES				
Bank Fees	\$ 155	\$ 12	\$ 12	\$ 179
Board and Staff Expenses	11,199	855	891	12,945
Building Expenses	16	1	2	19
Client Services	118,928	1,706	1,777	122,411
Contractual Services	28,170	2,152	2,241	32,563
Depreciation and Amortization	148,656	11,355	11,828	171,839
Development	564	43	45	652
Employee Benefits	121,872	9,309	9,697	140,878
Food Supplies	17,277	1,319	1,375	19,971
Insurance	13,636	1,042	1,085	15,763
Interest	146,923	11,222	11,691	169,836
Marketing	1,128	86	90	1,304
Payroll Taxes	46,897	3,582	3,731	54,210
Postage	2,908	222	232	3,362
Printing	7,149	546	569	8,264
Professional Fees	13,602	1,040	1,082	15,724
Professional Fees: In-Kind	167,212	12,772	13,305	193,289
Rent	73,380	0	0	73,380
Repairs and Maintenance	48,568	3,710	3,865	56,143
Salaries	630,398	48,152	50,161	728,711
Supplies	15,253	1,165	1,214	17,632
Supplies: In-Kind	15,284	1,168	1,216	17,668
Telephone and Internet	15,266	1,166	1,215	17,647
Transportation	8,474	648	674	9,796
Utilities	32,979	2,519	2,624	38,122
TOTAL FUNCTIONAL EXPENSES	\$ 1,685,894	\$ 115,792	\$ 120,622	\$ 1,922,308

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Donors and Patrons	\$ 2,138,179	\$ 2,066,107
Interest Received	1,875	1,237
Paid to Suppliers and Staff	(1,483,251)	(1,665,652)
Interest Paid	(36,720)	(38,447)
Income Taxes Paid	0	0
	620,083	363,245
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the Purchase of Fixed Assets	(15,008)	(70,176)
Change in Deposits into Building Escrow	8,736	342,644
	(6,272)	272,468
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable	(35,957)	(33,918)
	(35,957)	(33,918)
NET CASH USED IN FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	577,854	601,795
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	1,868,897	1,267,102
END OF YEAR	\$ 2,446,751	\$ 1,868,897
NON-CASH OPERATING ACTIVITIES		
Donated Services	\$ 111,988	\$ 193,289
Imputed Interest	131,389	131,389
Donated Materials	62,335	17,668
	\$ 305,712	\$ 342,346

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ 388,915</u>	<u>\$ 488,873</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	174,413	171,839
Changes in Certain Assets and Liabilities:		
Grants Receivable	50,773	(8,018)
Gift Cards	(11,415)	0
Prepaid Expenses	(12,886)	180
Accounts Payable	8,652	(291,179)
Accrued Liabilities	18,605	0
Accrued Vacation	3,026	1,550
Total Adjustments	<u>231,168</u>	<u>(125,628)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 620,083</u></u>	<u><u>\$ 363,245</u></u>

See the Accompanying Notes to the Financial Statements.

**SARAH'S CIRCLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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, 2016 AND 2015

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 \$51,000 and \$335,000 at June 30, 2016 and 2015, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

C) 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, 2016 and 2015, respectively.

SARAH'S CIRCLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

D) 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 \$163,576 and \$161,072 for the years ended June 30, 2016 and 2015, respectively.

E) 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 \$10,837 and \$10,767 for the years ended June 30, 2016 and 2015, respectively.

F) 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.

G) 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. With few exceptions, the Organization is no longer subject to examinations by major tax jurisdictions for tax years 2012 and prior.

**SARAH'S CIRCLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 2 - GRANTS RECEIVABLE

Grants receivable are deemed to be fully collectible by management and are composed of the following amounts due at June 30, 2016 and 2015:

	2016	2015
Department of Family and Support Services	\$ 89,698	\$ 130,551
U.S. Department of Housing and Urban Development	0	9,920
	<u>\$ 89,698</u>	<u>\$ 140,471</u>

NOTE 3 - 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 Organization purchased the building on August 23, 2012 for \$930,000.

As of June 30, 2016 and 2015, as part of the closing agreement, funds are being held in escrow at the Illinois Housing Development Authority in the amount of \$91,755 and \$98,430, respectively, and at Stewart Title Guaranty Company for \$0 and \$2,061, respectively, for future construction costs.

NOTE 4 - NOTES PAYABLE

The Organization has the following notes payable at June 30, 2016 and 2015:

	2016	2015
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.	\$ 156,452	\$ 170,618
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
Subtotal Forwarded	<u>\$ 1,384,242</u>	<u>\$ 1,398,408</u>

**SARAH'S CIRCLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 4 - NOTES PAYABLE (CONTINUED)

	2016	2015
Subtotal Forwarded	<u>\$ 1,384,242</u>	<u>\$ 1,398,408</u>
Note payable dated August 23, 2012 for \$1,400,000 to the Illinois Housing Development Authority 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	1,400,000
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.	<u>418,644</u>	<u>440,435</u>
Total Debt	3,202,886	3,238,843
Less: Current Portion	<u>38,557</u>	<u>36,317</u>
Total Long-Term Debt	<u><u>\$ 3,164,329</u></u>	<u><u>\$ 3,202,526</u></u>

Future maturities of long-term debt are as follows:

Year Ended June 30, 2018	\$ 40,935
2019	43,459
2020	46,140
2021	48,986
2022	52,007
Thereafter	<u>2,932,802</u>
	<u><u>\$ 3,164,329</u></u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2016 and 2015:

	2016	2015
Art Therapy Program	\$ 47,607	\$ 28,708
Asset Manager Position	10,232	15,000
Director of Operations Position	0	48,642
Part Time Case Manger	<u>0</u>	<u>13,175</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 57,839</u></u>	<u><u>\$ 105,525</u></u>

**SARAH'S CIRCLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors during the years ended June 30, 2016 and 2015:

Purpose Restriction Accomplished:	2016	2015
Director of Operations/Program		
Director Position	\$ 48,642	\$ 65,687
Art Therapy Program	46,101	8,792
Asset Manager Position	19,768	0
Part-Time Case Manager Position	13,175	4,818
Development Position	0	20,920
Total Restrictions Released	<u>\$ 127,686</u>	<u>\$ 100,217</u>

NOTE 6 - BOARD DESIGNATED NET ASSETS

Sarah's Circle's Board of Directors has instituted a policy of maintaining 6 months operating reserves. The Board determined the need for sufficient reserves to maintain fiscal operating strength, and these funds are to be used only with Board approval. The Board had a projected time line of 5 years to establish the reserves starting in 2013. At June 30, 2016, the agency has established 100% of the required reserves. Board designated net assets amount to \$925,000 and \$700,000 for the years ended June 30, 2016 and 2015, respectively.

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 professional services for its programs valued at \$111,988 and \$193,289 and donated materials valued at \$62,335 and \$17,668 during the years ended June 30, 2016 and 2015, 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.

**SARAH'S CIRCLE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 7 - IN-KIND DONATIONS (CONTINUED)

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 years ended June 30, 2016 and 2015 is \$131,389, respectively.

NOTE 8 - LEASE COMMITMENTS

The Organization leased its interim housing facility at 4750 N. Sheridan Road on a year-long lease ended June 30, 2014 for \$5,000 per month. The Organization exercised the second of two renewal options during the year ended June 30, 2015 extending the lease through June 30, 2016 and the terms were amended to increase the monthly rent payment to \$6,365. Rent expense is \$76,080 and \$73,380 for the years ended June 30, 2016 and 2015, 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 eligible employees' gross wage. The Organization's contribution to the plan is \$9,177 and \$8,408 for the years ended June 30, 2016 and 2015, respectively.

NOTE 10 - CONCENTRATIONS OF RISK

The Organization receives approximately 43% its funding from public sources. At June 30, 2016 and 2015 approximately 72% and 56% of all public grants received are from federal sources, respectively, 28% and 40% from city sources, respectively, and 0% and 4% from state sources, respectively. 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 - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2016, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is October 6, 2016 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, 2016 and 2015, 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 6, 2016.

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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Knuttle & Associates, P.C.