

**SHORE COMMUNITY SERVICES, INC.**

**FINANCIAL STATEMENTS  
AS OF JUNE 30, 2020 AND 2019**

**TOGETHER WITH AUDITOR'S REPORT**



## 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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 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.

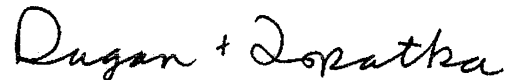
Independent Auditor's Report  
To the Board of Directors of  
Shore Community Services, Inc.  
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*Opinion*

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, 2020 and 2019, 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 a report dated October 29, 2020, on our consideration of Shore Community Services, Inc.'s internal control over financial reporting and our tests on 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 controls 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 Shore Community Services, Inc.'s internal control over financial reporting and compliance.



DUGAN & LOPATKA

Warrenville, Illinois  
October 29, 2020



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

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

We have audited, 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, the financial statements of Shore Community Services, Inc. which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows and functional expenses for the year then ended and the related notes to the financial statements and have issued our report thereon dated October 29, 2020.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Shore Community Services, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shore Community Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Shore Community Services, Inc.'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 combination 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing  
Standards*

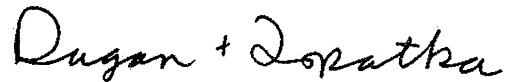
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***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Shore Community Services, Inc.'s financial statements are free of 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 audit 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 over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Shore Community Services, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shore Community Services, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



DUGAN & LOPATKA

Warrenville, Illinois  
October 29, 2020

SHORE COMMUNITY SERVICES, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2020 AND 2019

A S S E T S

	<u>2020</u>	<u>2019</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents - Unrestricted	\$ 1,060,041	\$ 262,152
- Restricted for HUD-related deposits	485,214	447,296
- Restricted	<u>13,583</u>	<u>13,572</u>
Total	1,558,838	723,020
Investments	1,872,389	1,865,739
Receivables -		
Program fees/grant receivable	282,522	452,003
Pledge receivable	100,857	63,511
Prepaid expenses	<u>419</u>	<u>8,156</u>
Total current assets	<u>3,815,025</u>	<u>3,112,429</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Land	1,521,361	1,521,361
Buildings and improvements	8,791,674	8,650,730
Furniture and equipment	1,222,240	1,213,083
Vehicles	956,925	956,925
Less - Accumulated depreciation	<u>(5,465,626)</u>	<u>(5,174,372)</u>
Net property and equipment	<u>7,026,574</u>	<u>7,167,727</u>
Total assets	<u>\$ 10,841,599</u>	<u>\$ 10,280,156</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES:		
Notes payable, current maturities	\$ 1,333,880	\$ 198,610
Line of credit	1,320,000	1,240,000
Accounts payable	132,661	219,850
Accrued expenses	411,112	395,081
HUD grant advance	21,804	21,803
Refundable advance	521,528	-
Tenant security deposits	1,565	1,779
	<u>3,742,550</u>	<u>2,077,123</u>
LONG-TERM LIABILITIES:		
Notes payable, net of current maturities	<u>1,255,111</u>	<u>2,585,434</u>
	<u>4,997,661</u>	<u>4,662,557</u>
NET ASSETS:		
Without donor restrictions	3,957,966	3,738,288
With donor restrictions	<u>1,885,972</u>	<u>1,879,311</u>
	<u>5,843,938</u>	<u>5,617,599</u>
	<u>\$ 10,841,599</u>	<u>\$ 10,280,156</u>

SHORE COMMUNITY SERVICES, INC.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020		2019		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
<b>SUPPORT, FEES AND OTHER REVENUE:</b>					
Public Support -					
Contributions	\$ 492,220	\$ 25,000	\$ 507,012	\$ -	\$ 507,012
Bequests	201,983	-	212,233	-	212,233
Department of Rehab Services	19,850	-	12,050	-	12,050
Evanston Mental Health Board	44,267	-	39,874	-	39,874
U.S. Department of Housing and Urban Development	254,243	-	266,964	-	266,964
Illinois Department of Public Aid	328,673	-	302,067	-	302,067
Grants under CARES Act	336,772	-	-	-	-
Fundraising events, net of direct expenses of \$20,579 and \$54,162 in 2020 and 2019, respectively	91,678	-	143,066	-	143,066
<b>Total support</b>	<b>1,769,686</b>	<b>25,000</b>	<b>1,483,266</b>	<b>-</b>	<b>1,483,266</b>
Program Fees -					
Illinois Department of Human Services	3,932,415	-	3,730,175	-	3,730,175
Work contracts	175,208	-	161,447	-	161,447
Sheltered Workshop	176,656	-	276,738	-	276,738
Client rental income	581,010	-	601,618	-	601,618
<b>Total fees</b>	<b>4,865,289</b>	<b>-</b>	<b>4,769,978</b>	<b>-</b>	<b>4,769,978</b>
Other Revenue -					
Second Time Around	41,360	-	75,872	-	75,872
Interest and dividend income	348	46,167	5,139	40,127	45,266
Unrealized gain (loss) on investments	-	(69,956)	-	75,009	75,009
Realized gain on investments	-	42,949	-	8,992	8,992
Miscellaneous	20,522	-	10,112	-	10,112
In-kind revenue	36,694	-	13,869	-	13,869
Release of restrictions	37,499	(37,499)	41,466	(41,466)	-
<b>Total other revenue</b>	<b>136,423</b>	<b>(18,339)</b>	<b>146,458</b>	<b>82,662</b>	<b>229,120</b>
<b>Total support, fees and revenue</b>	<b>6,771,398</b>	<b>6,661</b>	<b>6,399,702</b>	<b>82,662</b>	<b>6,482,364</b>

The accompanying notes are an integral part of this statement.



SHORE COMMUNITY SERVICES, INC.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020		2019		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
FUNCTIONAL EXPENSES:					
Program services	\$ 5,453,026	\$ -	\$ 5,489,252	\$ -	\$ 5,489,252
Administrative	928,069	-	1,026,333	-	1,026,333
Fundraising	170,625	-	71,255	-	71,255
Total functional expenses:	6,551,720	-	6,586,840	-	6,586,840
CHANGE IN NET ASSETS	219,678	6,661	(187,138)	82,662	(104,476)
NET ASSETS, Beginning of year	3,738,288	1,879,311	3,925,426	1,796,649	5,722,075
NET ASSETS, End of year	\$ 3,957,966	\$ 1,885,972	\$ 3,738,288	\$ 1,879,311	\$ 5,617,599

The accompanying notes are an integral part of this statement.

SHORE COMMUNITY SERVICES, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 226,339	\$ (104,476)
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation expense	291,254	266,506
Unrealized (gain) loss on investments	69,956	(75,020)
Realized (gain) on investments	(42,949)	(8,992)
Changes in assets and liabilities -		
Decrease in receivables	132,135	237,206
Decrease in prepaid expenses	7,737	19,205
Increase (decrease) in accounts payable	(87,189)	110,582
Increase in accrued expenses	16,031	8,955
Increase in HUD grant advance	1	723
Increase in refundable advance	521,528	-
Increase (decrease) in tenant security deposits	(214)	1
(Decrease) in deferred revenue	-	(6,170)
	<u>1,134,629</u>	<u>448,520</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(147,101)	(226,807)
Purchases of investments	(535,962)	(70,393)
Proceeds from sales of investments	502,305	38,337
	<u>(180,758)</u>	<u>(258,863)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(198,053)	(180,785)
Net proceeds from line of credit	80,000	115,000
	<u>(118,053)</u>	<u>(65,785)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	835,818	123,872
CASH AND CASH EQUIVALENTS, Beginning of year	<u>723,020</u>	<u>599,148</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,558,838</u>	<u>\$ 723,020</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 205,545</u>	<u>\$ 222,518</u>
Equipment financed with notes payable	<u>\$ 3,000</u>	<u>\$ 62,685</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, 2020

	Program Services										Total Expenses		
	Lois Lloyd Center	Shore Training Center	Supported Living Arrangement	Shore Homes	CIL-A	DHS Training	Second Time Around	Respite Care	SLS 55A	Total Program Services		Administrative	Fundraising
Salaries and benefits	\$ 780,833	\$ 1,141,998	\$ 86,865	\$ 840,787	\$ 1,111,228	\$ 38,360	\$ 26,484	\$ 3,866	\$ 36,219	\$ 4,066,640	\$ 485,035	\$ 153,204	\$ 4,704,879
Professional fees	124,767	46,550	3,392	93,727	71,021	-	-	-	128	339,585	59,387	-	398,972
Occupancy	62,301	106,473	18,620	103,025	36,452	-	7,546	-	67	334,484	59,615	691	394,790
Meetings	599	1,158	12	24	209	-	-	-	12	2,014	4,242	2,125	8,381
Repairs and maintenance	11,156	4,789	28	2,861	2,395	-	-	-	-	21,229	6,367	-	27,596
Transportation	56,803	78,393	2,547	13,666	18,103	-	-	-	237	169,749	3,029	257	173,035
Telephone	8,465	16,903	582	6,797	8,079	138	857	-	233	42,054	15,209	-	57,263
Supplies	13,874	44,224	497	85,131	26,193	-	12	-	196	170,127	4,666	-	174,793
Printing and copying	316	305	81	1,735	273	-	(94)	-	-	2,616	837	11,077	14,530
Dues and fees	4,947	6,418	458	4,492	5,233	36	382	150	150	22,266	7,801	538	30,605
Interest	682	923	-	39,165	1,754	-	-	-	-	42,524	163,022	-	205,546
Special events	-	425	-	-	-	-	-	-	-	425	-	20,154	20,579
Contingency	-	5	-	(17,865)	3,129	13	-	-	-	(14,718)	444	-	(14,274)
Depreciation	80,147	74,868	1,200	49,312	29,908	-	5,824	-	-	241,259	49,995	-	291,254
Other expenses	1,607	3,926	120	1,907	4,332	-	1,065	120	120	13,197	68,420	2,733	84,350
<b>Total functional expenses</b>	<b>\$ 1,146,497</b>	<b>\$ 1,527,358</b>	<b>\$ 114,402</b>	<b>\$ 1,224,764</b>	<b>\$ 1,318,309</b>	<b>\$ 38,547</b>	<b>\$ 42,076</b>	<b>\$ 4,136</b>	<b>\$ 37,362</b>	<b>\$ 5,453,451</b>	<b>\$ 928,069</b>	<b>\$ 190,779</b>	<b>\$ 6,572,299</b>
Less expenses included with revenues on statement of activities	-	(425)	-	-	-	-	-	-	-	(425)	-	(20,154)	(20,579)
<b>Total expenses included in the expense section of the statement of activities</b>	<b>\$ 1,146,497</b>	<b>\$ 1,526,933</b>	<b>\$ 114,402</b>	<b>\$ 1,224,764</b>	<b>\$ 1,318,309</b>	<b>\$ 38,547</b>	<b>\$ 42,076</b>	<b>\$ 4,136</b>	<b>\$ 37,362</b>	<b>\$ 5,453,026</b>	<b>\$ 928,069</b>	<b>\$ 170,625</b>	<b>\$ 6,551,720</b>

The accompanying notes are an integral part of this statement.

SHORE COMMUNITY SERVICES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services											Total Program Services	Fundraising	Total Expenses			
	Lois Lloyd Center	Shore Training Center	Supported Living Arrangement	Shore Homes	CILA	DHS Training	Second Time Around	Respite Care	SLS 55A	Administrative	Fundraising						
<b>FUNCTIONAL EXPENSES:</b>																	
Salaries and benefits	\$ 895,448	\$ 1,307,718	\$ 58,419	\$ 778,666	\$ 933,961	\$ 23,589	\$ 54,982	\$ 4,267	\$ 14,064	\$ 488,399	\$ 71,255	\$ 4,630,768					
Professional fees	68,011	31,415	8,541	83,559	61,140	319	-	3,146	-	90,109	-	346,240					
Occupancy	87,461	137,828	19,448	93,766	37,818	559	12,886	-	67	87,988	-	477,821					
Meetings	859	623	36	822	675	-	113	-	-	19,738	-	22,866					
Repairs and maintenance	259	799	478	4,005	45	-	-	47	47	942	-	6,622					
Transportation	96,943	80,294	3,515	18,841	19,223	68	217	138	166	3,402	-	222,807					
Telephone	9,439	14,543	456	5,067	7,018	-	1,603	-	-	15,622	-	53,748					
Supplies	16,139	44,656	819	81,208	16,164	23	33	-	65	2,524	-	161,431					
Printing and copying	375	1,292	-	953	113	25	535	-	-	18,373	-	21,666					
Dues and fees	4,728	6,065	306	4,333	4,757	-	448	8	67	15,027	-	35,739					
Interest	865	673	-	44,561	2,094	-	-	-	-	165,364	-	213,557					
Special events	-	425	-	-	-	-	-	-	-	425	-	54,162					
Contingency	-	518	-	723	-	-	5	-	-	82	-	1,328					
Depreciation	72,788	68,345	853	43,072	29,798	-	5,824	-	-	45,826	-	266,506					
Other expenses	311	33,145	645	2,022	14,074	-	2,167	120	120	73,137	-	125,741					
<b>Total functional expenses</b>	\$ 1,253,626	\$ 1,728,339	\$ 93,516	\$ 1,161,598	\$ 1,126,880	\$ 24,583	\$ 78,813	\$ 7,726	\$ 14,596	\$ 1,026,333	\$ 124,992	\$ 6,641,002					
Less expenses included with revenues on statement of activities		(425)									(53,737)						
Special events																	
<b>Total expenses included in the expense section of the statement of activities</b>	\$ 1,253,626	\$ 1,727,914	\$ 93,516	\$ 1,161,598	\$ 1,126,880	\$ 24,583	\$ 78,813	\$ 7,726	\$ 14,596	\$ 1,026,333	\$ 71,255	\$ 6,586,840					

The accompanying notes are an integral part of this statement.

SHORE COMMUNITY SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

(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 October 29, 2020 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 they are earned and expenses as they are incurred.

Basis of Presentation-

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC), *Financial Statements for Not-for-Profit Organizations*. Under the ASC, Shore is required to report information regarding two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

*Without donor restrictions* – Net assets that are not subject to donor-imposed stipulations.

*With donor restrictions* – Net assets subjects to donor-imposed stipulations that will be met either by actions of Shore and/or passage of time. As of June 30, 2020, and 2019, net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Regenstein Fund	\$ 1,872,389	\$ 1,865,739
Lang Fund	<u>13,583</u>	<u>13,572</u>
	<u>\$ 1,885,972</u>	<u>\$ 1,879,311</u>

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.

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.

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

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, 2020 and 2019, was \$291,254 and \$266,506, respectively.

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.

Revenue Recognition for Contributions -

Shore recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions resulting from split-interest agreements, measured at the time into which the agreements are entered, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract. Shore reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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

Revenue Recognition for Program Fees -

Shore receives program fees from the Illinois Department of Human Services (DHS) through fee for service arrangements. Shore bills for various services provided to DHS based on preapproved rates for each service provided. These services are considered a single performance obligation which is satisfied at a point in time. The performance obligation is met, and revenue recognized, when the services are provided.

Shore receives program fee revenue for its Sheltered Workshop. Shore bills for its sheltered workshop using preapproved rates based on the clients being served by the workshop. These services are considered a single performance obligation which is satisfied at a point in time. The performance obligation is met, and revenue recognized, when the services are provided to a client.

Shore receives program fee revenue for its Work Contracts. Shore bills for its work contracts using preapproved rates based on the production of products for the business. These services are considered a single performance obligation which is satisfied at a point in time. The performance obligation is met, and revenue recognized, when the services are provided to a client.

Shore receives rental income from clients who reside in certain residential programs. Rental income is considered a single performance obligation that is recognized over time. Rental income is charged each month, and the monthly fees are recognized ratably over the life of the lease.

Allocation of Expenses -

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, professional fees, occupancy, transportation, supplies, and other expenses which are allocated on the basis of estimated of time and effort.

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 fiscal years before 2017. Shore does not expect a material net change in unrecognized tax benefits in the next twelve months.

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

New Accounting Pronouncement -

Effective January 1, 2019, Shore adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), and all subsequently issued clarifying ASU's which replaced most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (GAAP). The new guidance requires Shore to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which Shore expects to be entitled in exchange for those goods or services. The new guidance also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue, and cashflows arising from contracts with customers.

The adoption of this new guidance was done using the modified retrospective method. Shore applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019

Also, Effective January 1, 2019, Shore adopted ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions.

The adoption of this new standard did not result in a material impact to the Shore's financial statements. There was no significant effect on the financial statements related to the adoption of this new standard which would require a cumulative adjustment to net assets at the date of adoption under the modified retrospective method.

(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, 2020 and 2019.

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, 2020 and 2019:

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 364,208	\$ -	\$ -	\$ 364,208
Common stock	832,284	-	-	832,284
Corporate bonds	228,579	-	-	228,579
Certificates of deposit	-	263,388	-	263,388
Total assets at fair value	<u>\$ 1,425,071</u>	<u>\$ 263,388</u>	<u>\$ -</u>	\$ 1,688,459
Money market funds				183,930
Total investments				<u>\$ 1,872,389</u>

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 291,111	\$ -	\$ -	\$ 291,111
Common stock	883,665	-	-	883,665
Corporate bonds	202,238	-	-	202,238
Certificates of deposit	-	451,169	-	451,169
Total assets at fair value	<u>\$ 1,377,014</u>	<u>\$ 451,169</u>	<u>\$ -</u>	\$ 1,828,183
Money market funds				37,556
Total investments				<u>\$ 1,865,739</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:

	2020	2019
Replacement reserve deposit	\$ 362,326	\$ 335,751
Insurance deposit	93,390	81,963
Residual receipts deposit	27,804	27,803
Tenant security deposits	1,694	1,779
	<u>\$ 485,214</u>	<u>\$ 447,296</u>

(4) COMMITMENTS:

Shore has several operating leases for vehicles and a copier that expire at various dates through October 2022. Lease expense for the years ended June 30, 2020 and 2019 was \$26,527 and \$32,062, respectively.

Future minimum lease payments are as follows:

Year ending June 30,		
2021	\$	20,824
2022		20,100
2023		6,700

(5) LINE OF CREDIT:

Shore has a line of credit from a bank with a limit of the lesser of \$1,500,000 or 80% of the aggregate amount of the Regenstein Fund. The line bears interest at prime minus .50%, (3.25% at June 30, 2020). The line is secured by the Regenstein Fund and a blanket lien on all business assets and is due in August, 2021. At June 30, 2020 and 2019, the outstanding balance of the line of credit was \$1,320,000 and \$1,240,000, respectively. Shore must maintain a debt service coverage ratio of at least 1:00 to 1:00. As of June 30, 2020, Shore has met the ratio.

(6) NOTES PAYABLE:

	<u>2020</u>	<u>2019</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.	\$ 358,045	\$ 430,561
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. The Organization is in the process of refinancing the loan with the lender and anticipates the loan will be refinance within the next few months.	1,188,474	1,252,033
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, 2020, Shore has met the ratio.	948,082	984,883

(6) NOTES PAYABLE: (Continued)

	<u>2020</u>	<u>2019</u>
Payable to HUD in monthly installments of \$451, noninterest bearing, due in January 2024 and unsecured.	\$ 18,729	\$ 24,141
Vehicle loan payable in monthly installments of \$288, principal and interest, bearing interest of 6.03% a maturity date of October 2023.	10,161	12,920
Server capital lease in monthly installments of \$194, principal and interest, bearing interest of 17% and secured by the server with a maturity date of March 2022.	3,213	4,843
Server capital lease in monthly installments of \$102, principal and interest, bearing interest of 13.66% and secured by the server with a maturity date of January 2023.	2,581	-
Vehicle loan payable for three vehicles in monthly installments of \$1,102, principal and interest, bearing interest of 5.75% and secured by the vehicles with a maturity date of November 2023.	40,879	51,379
Vehicle loan payable in monthly installments of \$516, principal and interest, bearing interest of 8.04% and secured by the vehicle with a maturity date of December 2023.	<u>18,827</u>	<u>23,284</u>
	2,588,991	2,784,044
Less - Current maturities	<u>1,333,880</u>	<u>198,610</u>
Long-term maturities	<u>\$ 1,255,111</u>	<u>\$ 2,585,434</u>

Future maturities are summarized as follows:

Year ending <u>June 30,</u>	
2021	\$ 1,333,880
2022	1,024,579
2023	123,145
2024	<u>107,387</u>
	<u>\$ 2,588,991</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 years ended June 30, 2020 and 2019.

(8) CONCENTRATIONS:

Shore has received significant program fees from the Illinois Department of Human Services in the years ended June 30, 2020 and 2019. In the years ended June 30, 2020 and 2019, the Illinois Department of Human Services provided 58% and 57%, respectively, of Shore's total support, fees, and revenue, respectively.

(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) CONDITIONAL GRANT:

As part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in April, 2020, the Organization obtained a Payroll Protection Program (PPP) loan in the amount of \$858,300. The interest rate on this loan is 1% with the amount to be repaid in equal installments of principal and interest, beginning at the earlier of the date the SBA remits the loan forgiveness amount or 10 months after the end of the forgivable covered period, with the final payment due in April, 2022. As part of the PPP loan agreement, a portion of the loan can be forgiven. The Organization intends to maximize the forgiven portion of this loan as allowed under the Act.

The Organization has determined that the loan represents, in substance, a conditional grant as allowed under ASC 958-605 which recognizes revenue on nonexchange transactions when the barriers to the grants have been met. Per stipulations outlined in the CARES Act, the Organization is using the monies from the PPP loan to fund payroll and other costs. Accordingly, the Organization recognizes a portion of the loan as contribution at the end of each payroll period that is funded by the PPP monies.

Funds received under PPP conditional grant	\$ 858,300
Payroll expenses funded by PPP conditional grant	<u>336,772</u>
Refundable advance as of June 30, 2020	<u>\$ 521,528</u>

(11) LIQUIDITY AND AVAILABILITY:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 1,558,838	\$ 723,020
Investments	1,872,389	1,865,739
Program fees/grants receivable	282,522	452,003
Pledges receivable	<u>100,857</u>	<u>63,511</u>
Total financial assets	<u>3,814,606</u>	<u>3,104,273</u>
Less:		
Restricted for HUD-related deposits	485,214	447,296
Donor imposed restrictions	<u>1,885,972</u>	<u>1,879,311</u>
Financial assets available to meet cash needs for general expenditures that is without donor or other restrictions limiting their use within one year	<u>\$ 1,443,420</u>	<u>\$ 777,666</u>

Shore manages its liquidity and reserves adhering to the following principles:

- operating within a prudent range of financial soundness and stability.
- incurring unbudgeted costs only when such costs are funded.
- maintaining adequate liquid assets to fund near-term operating needs.

Shore has received their fiscal year 2021 grant from Illinois Department of Human Services. Historically, Illinois Department of Human Services has paid for the services provided within 90 days, assuming there is no dispute with the services. Shore also continues to focus on generating more contribution which tends to come in the second quarter of their fiscal year.

(12) MANAGEMENT'S RESPONSE TO EFFECTS OF COVID-19 PANDEMIC

In March 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As a part of these mitigation measures, Shore was required to temporarily shut down its day programs beginning in March 2020, leading to substantial loss of revenue. Management expects the day program to reopen in September 2020, at less than 100% occupancy. In response to the effects of COVID-19, management is implementing strategies to help mitigate the losses in relation to this Pandemic. In its day programs, the health and safety of our staff and participants is the highest priority. While Shore is carefully working toward expanding the number of people being served, adhering strictly to the health and safety guidelines is paramount. Shore is also implementing strategies to help grow other programs, such as home based services, in order to make up for lost day program revenue. Finally, management is looking for ways to reduce costs, in order to make up for the loss in day program revenue due to the COVID-19 pandemic.