SHELTER CARE MINISTRIES, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

For the Years Ended June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shelter Care Ministries, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Shelter Care Ministries, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelter Care Ministries, Inc. (Organization) as of June 30, 2023 and 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization adopted new accounting guidance as issued by the Financial Accounting Standards Board under Financial Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024, on our consideration of Shelter Care Ministries, Inc.'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Shelter Care Ministries, Inc.'s 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 Shelter Care Ministries, Inc.'s internal control over financial reporting and compliance.

Sikich LLP

Brookfield, Wisconsin
March 28, 2024

FINANCIAL STATEMENTS

SHELTER CARE MINISTRIES, INC.

STATEMENTS OF FINANCIAL POSITION

For the Years Ended June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 30,771	$ 273,350
Cash restricted for vehicle, housing, and supportive program services	164,169	29,841
Accounts receivable	3,681	23
Grants receivable	327,414	148,276
Unconditional promises to give, current	14,126	19,124
Prepaid assets	952	665
Total current assets	541,113	471,279
OTHER ASSETS		
Unconditional promises to give, long term	-	11,986
Property and equipment - net	719,821	740,361
Operating lease right-of-use asset	60,332	-
TOTAL ASSETS	$ 1,321,266	$ 1,223,626
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 3,152	$ 3,343
Accrued liabilities	44,890	50,824
Operating lease liability, current portion	10,442	-
Total current liabilities	58,484	54,167
LONG-TERM LIABILITIES		
Operating lease liability, noncurrent portion	50,001	-
Total long-term liabilities	50,001	-
Total liabilities	108,485	54,167
NET ASSETS		
Without donor restrictions		
Undesignated	1,031,969	1,105,991
Board designated	2,517	2,517
Total net assets without donor restrictions	1,034,486	1,108,508
With donor restrictions	178,295	60,951
Total net assets	1,212,781	1,169,459
TOTAL LIABILITIES AND NET ASSETS	$ 1,321,266	$ 1,223,626

See accompanying notes to financial statements.

SHELTER CARE MINISTRIES, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2023 and 2022

	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
REVENUE			
Contributions	$ 127,512	$ 5,600	$ 133,112
Governmental grants	659,825	-	659,825
Grants	183,288	158,569	341,857
In-kind contributions	153,570	-	153,570
Midtown rental income	48,470	-	48,470
Fundraising	78,784	-	78,784
Other income	9,031	-	9,031
Net assets released from restrictions	46,825	(46,825)	-
Total revenue	1,307,305	117,344	1,424,649
EXPENSES			
Program services	1,086,161	-	1,086,161
Management and general	228,810	-	228,810
Fund raising	58,070	-	58,070
Costs of direct benefits to donors	8,286	-	8,286
Total expenses	1,381,327	-	1,381,327
CHANGE IN NET ASSETS	(74,022)	117,344	43,322
NET ASSETS, BEGINNING OF YEAR	1,108,508	60,951	1,169,459
NET ASSETS, END OF YEAR	$ 1,034,486	$ 178,295	$ 1,212,781

See accompanying notes to financial statements.

SHELTER CARE MINISTRIES, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2023 and 2022

	2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
REVENUE			
Contributions	$ 127,895	$ -	$ 127,895
Governmental grants	599,103	-	599,103
Grants	193,564	22,000	215,564
In-kind contributions	149,364	-	149,364
Midtown rental income	36,850	-	36,850
Fundraising	61,809	-	61,809
Loss on sale of property and equipment	(2,188)	-	(2,188)
Other income	4,371	-	4,371
Net assets released from restrictions	82,732	(82,732)	-
Total revenue	1,253,500	(60,732)	1,192,768
EXPENSES			
Program services	915,764	-	915,764
Management and general	237,248	-	237,248
Fund raising	54,125	-	54,125
Costs of direct benefits to donors	5,768	-	5,768
Total expenses	1,212,905	-	1,212,905
CHANGE IN NET ASSETS	40,595	(60,732)	(20,137)
NET ASSETS, BEGINNING OF YEAR	1,067,913	121,683	1,189,596
NET ASSETS, END OF YEAR	$ 1,108,508	$ 60,951	$ 1,169,459

See accompanying notes to financial statements.

SHELTER CARE MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2023

	Program Services			Supporting Services			
	Homeless Program	Jubilee Drop in Center	Total Programs	Management & General	Fund Raising	Cost of Direct Benefit to Donors	Total Expenses
Client food	$ -	$ 8,146	$ 8,146	$ -	$ -	$ -	$ 8,146
Scattered site housing							
Rent and utilities	257,986	22,821	280,807	-	-	-	280,807
Furnishings	31,230	396	31,626	-	-	-	31,626
Maintenance	18,980	-	18,980	-	-	-	18,980
Salaries, benefits, and payroll taxes	208,143	215,389	423,532	116,670	14,194	-	554,396
Vehicle expense	3,924	4,573	8,497	-	-	-	8,497
Client household items	34,210	16,534	50,744	-	-	-	50,744
Dues, publications, and seminars	875	1,720	2,595	1,709	80	-	4,384
Office expense	548	1,709	2,257	5,535	8,796	-	16,588
Insurance	7,439	14,784	22,223	17,229	3	-	39,455
Professional fees	1,914	7,911	9,825	26,898	32,500	-	69,223
Repairs and maintenance	963	2,712	3,675	11,692	-	-	15,367
Rent and utilities	3,076	841	3,917	21,960	-	-	25,877
Rent - in-kind	-	102,827	102,827	-	-	-	102,827
Telephone	3,462	7,134	10,596	2,166	-	-	12,762
Advertising	-	-	-	1,332	-	-	1,332
Meals and entertainment	-	-	-	582	-	8,286	8,868
Bad debt expense	31,451	-	31,451	-	-	-	31,451
Miscellaneous	6,130	47	6,177	11,223	1,060	-	18,460
Other program expenses	3,795	21,606	25,401	-	-	-	25,401
Expenses before depreciation	614,126	429,150	1,043,276	216,996	56,633	8,286	1,325,191
Depreciation	21,076	21,809	42,885	11,814	1,437	-	56,136
TOTAL EXPENSES	$ 635,202	$ 450,959	$ 1,086,161	$ 228,810	$ 58,070	$ 8,286	$ 1,381,327

See accompanying notes to financial statements.

SHELTER CARE MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022

	Program Services				Supporting Services			
	Homeless Program	Jubilee Drop in Center	Maya's House	Total Programs	Management & General	Fund Raising	Cost of Direct Benefit to Donors	Total Expenses
Client transportation	$ 3,536	$ 591	$ -	$ 4,127	$ -	$ -	$ -	$ 4,127
Client food	-	3,967	-	3,967	-	-	-	3,967
Scattered site housing								
Rent and utilities	279,730	9,342	-	289,072	-	-	-	289,072
Furnishings	6,798	2,803	-	9,601	-	-	-	9,601
Maintenance	16,951	-	-	16,951	-	-	-	16,951
Salaries, benefits, and payroll taxes	178,552	149,527	340	328,419	120,300	11,144	-	459,863
Vehicle expenses	175	236	-	411	(47)	-	-	364
Client household items	28,350	58,314	-	86,664	-	-	-	86,664
Dues, publications, and seminars	-	-	-	-	4,721	-	-	4,721
Office expense	1,260	2,350	164	3,774	6,241	3,674	-	13,689
Insurance	7,901	18,733	-	26,634	24,910	250	-	51,794
Professional fees	1,678	837	-	2,515	31,244	37,925	-	71,684
Repairs and maintenance	22,142	1,742	-	23,884	3,457	-	-	27,341
Rent and utilities	-	-	520	520	23,367	-	-	23,887
Rent in-kind	-	60,900	1,800	62,700	-	-	-	62,700
Telephone	4,001	3,735	-	7,736	5,788	-	-	13,524
Advertising	-	-	-	-	879	-	-	879
Meals and entertainment	-	-	-	-	91	-	5,768	5,859
Miscellaneous	-	-	-	-	4,076	-	-	4,076
Other program expenses	2,730	5,998	6,698	15,426	-	-	-	15,426
Expenses before depreciation	553,804	319,075	9,522	882,401	225,027	52,993	5,768	1,166,189
Depreciation	18,139	15,224	-	33,363	12,221	1,132	-	46,716
TOTAL EXPENSES	$ 571,943	$ 334,299	$ 9,522	$ 915,764	$ 237,248	$ 54,125	$ 5,768	$ 1,212,905

See accompanying notes to financial statements.

SHELTER CARE MINISTRIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 43,322	$ (20,137)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	56,136	46,716
Bad debt expense	31,451	-
Non-cash operating lease expense	111	-
Loss on sale of property and equipment	-	2,188
Decrease (increase) in		
Accounts receivable	(3,658)	577
Grants receivable	(210,589)	50,404
Unconditional promises to give	16,984	26,265
Prepaid assets	(287)	(475)
Increase (decrease) in		
Accounts payable	(191)	3,304
Accrued liabilities	(5,934)	7,157
Paycheck protection program loan payable	-	(99,092)
Refundable grant advance	-	(47,965)
Net cash from operating activities	(72,655)	(31,058)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(35,596)	(54,643)
Net cash from investing activities	(35,596)	(54,643)
NET CHANGE IN CASH AND RESTRICTED CASH	(108,251)	(85,701)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	303,191	388,892
CASH AND RESTRICTED CASH, END OF YEAR	$ 194,940	$ 303,191
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash	$ 30,771	$ 273,350
Cash restricted for vehicle, housing, and supportive program services	164,169	29,841
CASH AND RESTRICTED CASH, END OF YEAR	$ 194,940	$ 303,191
Noncash forgiveness of Paycheck Protection Program grant	$ -	$ 99,092
Right-of-use assets obtained in exchange for lease liabilties	$ 70,472	$ -

See accompanying notes to financial statements.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Shelter Care Ministries, Inc. (the "Organization") is a nonprofit organization founded in 1985. The Organization's mission is to provide shelter, awaken hope and honor dignity in every person who seeks comfort, support or assistance through our programs. The Organization's focus is on individuals with a chronic mental illness and families that are homeless in the Winnebago/Boone County area.

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions:

Net assets that are not subject to donor-imposed restrictions or imposed stipulations by the Organization’s Board of Directors (the Board).

Net Assets With Donor Restrictions:

Net assets subject to donor-imposed restrictions that either expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those restrictions or are required to be maintained in perpetuity by the Organization. Generally, the donors of the assets permit the Organization to use all of part of the income earned on any related investments for general or specific purposes. The Organization did not have any net assets required to be held in perpetuity as of June 30, 2023 and 2022.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 these estimates.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events are events or transactions that occur after year end but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at year end, including estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at year end but arose after that date (that is, non-recognized subsequent events).

The Organization has evaluated subsequent events through March 28, 2024, the date on which the financial statements were available to be issued and determined that there were no significant nonrecognized subsequent events through that date.

Cash and Cash Equivalents

The Organization considers all short-term investments in interest-bearing bank accounts, debt securities and other instruments having an original maturity of three months or less, to be equivalent to cash. The Organization did not hold any cash equivalents at June 30, 2023 and 2022.

The Organization maintains its cash in financial institutions, which at times may exceed federally insured limits. At June 30, 2023 and 2022, the Organization’s cash accounts did not exceed the federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Grants Receivable

Grants receivable consists primarily of amounts due from a governmental agency for program costs incurred and are carried at the amount management expects to collect from outstanding balances. Amounts are reviewed for collectability by management and an allowance for doubtful accounts is recorded as needed based on collectability history. The Organization considers these receivables to be collectible and, therefore, no allowance for uncollectible amounts has been recorded as of June 30, 2023 and 2022.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in more than one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions. Based on management's judgment and analysis of the credit worthiness of the donors and other relevant factors, management has determined an allowance is not necessary for June 30, 2023 and 2022. However, actual write-offs may occur.

Revenue Recognition

Contributions

Contributions, including unconditional promises to give, are recognized as revenue when received. Conditional contributions and promises to give are recognized as revenue when the barriers to entitlement are overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets is removed. Assets received for which the condition has not been satisfied are recorded as a refundable advance on the statements of financial position. There were no conditional contributions as of June 30, 2023 and 2022.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

In-Kind Contributions

Donated services are recognized as revenue if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized as revenues and expenses and are not reported in the accompanying financial statements. The estimated fair value of donated services, materials and use of facilities is reflected in the statements of activities.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Grants

A portion of the Organization's revenue is derived from cost-reimbursable grants, which are conditioned upon the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable grant advance in the statements of financial position. There are no amounts received in advance from cost-reimbursement grants for the years ended June 30, 2023 and 2022. The Organization did not have any cost-reimbursable grants that were not recognized as of June 30, 2023 and 2022 because the qualifying expenditures had not yet been incurred.

In addition, the Organization receives funding from non-cost reimbursement based grants that have conditions that must be met with a measurable performance or other barrier and right of return. These grants are not recognized until the conditions on which they depend have been met. During 2023 and 2022, the Organization did not receive payments on grants with a right of return.

Grants received from non-government sources are primarily received from individuals and other third-party organizations. Revenue from these grants are non-exchange in nature and recorded when conditions per the grant agreement are met and all barriers are overcome. Grants received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions.

Governmental Agencies Grant Revenue

The Organization recognized revenues from contracts with state and federal governmental agencies of $676,105 in 2023 and $599,103 in 2022. Contract terms are established through an annual grant application process and, ultimately, a grant agreement with the Illinois Department of Human Services and the United States Department of Housing and Urban Development. Grant amounts awarded and the specific purpose the grant monies are to be used for are stated in the grant agreements. Payments from the Illinois Department of Human Services and the United States Department of Housing and Urban Development are considered third-party reimbursements on behalf of the families and Jubilee members receiving housing and supportive services, and are treated as exchange transactions. Payments are to be made monthly by the Illinois Department of Human Services and the United States Department of Housing and Urban Development. No payments, discounts or financing options are provided.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Organization considers the performance obligation to be providing housing and supportive services and the performance obligation is satisfied when the housing and supportive services are provided to the families and Jubilee members. Revenue is recognized over time using the elapsed method, an output method, as the families and Jubilee members are simultaneously receiving and consuming the benefits of housing and supportive services. The Organization feels this output method is the most faithful depiction of the transfer of goods or services as the result achieved represents a satisfaction of the performance obligations, and neither the families or the Jubilee members, nor the Organization are obligated beyond that time.

Special Events

Revenue from special events contains an exchange element based on the value of benefits provided and a contribution element for the difference between the total amounts paid and the exchange element. The Organization recognizes the exchange portion of special events revenue equal to the fair value of direct benefits to donors when the event takes place and contribution revenue for the excess received. Any amounts received in advance of when the event occurs are presented as contract liabilities in deferred revenue. There were no amounts received in advance as of June 30, 2023 and 2022.

Significant Judgments and Estimates

There are no significant judgments or estimates involved in the recognition of revenue from any of the revenue streams.

Disaggregation of Revenue from Contracts with Customers

	2023	2022
Special event revenue recognized at a point in time	$ 78,784	$ 61,809
Governmental grants recognized over time	659,825	599,103
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	$ 738,609	$ 660,912

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Assets and Liabilities

Contract assets include amounts due under the terms of the contracts as of June 30, 2023 and 2022. There are no contract liabilities as of June 30, 2023, 2022 and 2021. Beginning and ending contract assets are included with accounts receivable and grants receivable on the statements of financial position and were as follows as of June 30:

	2023	2022	2021
Contract assets-accounts receivable	$ 3,681	$ 23	$ 600
Contract assets-grants receivable	327,414	148,276	198,680

Property and Equipment

Property and equipment are valued at cost if purchased or fair value as of the date donated, with an expected life greater than one year and a cost greater than $1,000. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of property and equipment are reflected in income. Depreciation is computed on a straight-line basis over the estimated useful lives. Estimated lives of property and equipment are as follows:

	Years
Buildings	39
Leasehold improvements	5-39
Vehicles	7
Furniture and equipment	3-7

Leasehold improvements are depreciated over the shorter of the lease term or useful life.

Leases

The Organization leases office space and apartments. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the statements of financial position. The Organization does not have any financing leases.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Organization's leases do not provide an implicit rate and therefore the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option.

Leases with an initial term of 12 months or less are not recorded on the statements of financial position and lease expense is recognized on a straight-line basis over the lease term. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Organization accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next.

Functional Allocation of Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs are attributed to more than one program or supporting function and, therefore, require allocation among the programs and supporting services benefited. Salaries, benefits, and payroll taxes, vehicle expenses, office expenses, insurance, professional fees, repairs and maintenance, rent and utilities, and telephone are allocated between the programs and supporting services benefited. Management believes their allocations are done on a reasonable and consistent basis with estimates of time and effort being used as the basis for allocation.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the code as other than a private foundation.

The Organization evaluates its uncertain tax provisions on an annual basis, and there have been no recorded uncertain tax provisions in 2023 or 2022. Therefore, no provision for liability for income taxes has been included in the financial statements. The Organization files various federal or state non-profit tax returns. The Organization is no longer subject to U.S. federal or state examination by tax authorities for tax years prior to 2020.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02"), to increase the transparency and comparability about leases among entities by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statements of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ending June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Organization elected the available expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022 a lease liability and asset of $9,177.

The standard had a material impact on the statements of financial position but did not have an impact on the statements of activities, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of June 30:

	2023	2022
Cash and cash equivalents	$ 30,771	$ 273,350
Cash restricted for vehicle, housing, and supportive program services	164,169	29,841
Accounts receivable	3,681	23
Grants receivable	327,414	148,276
Unconditional promises to give	14,126	31,110
Total financial assets and liquid resources	540,161	482,600
Less board designated and donor imposed restrictions:		
Time & purpose restriction	(178,295)	(29,841)
Board designated	(2,517)	(2,517)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	$ 359,349	$ 450,242

The Organization does not have a formal liquidity policy.

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following as of June 30:

	2023	2022
Due within one year	$ 14,126	$ 19,124
Due in one to five years	-	11,986
NET UNCONDITIONAL PROMISES TO GIVE	$ 14,126	$ 31,110

4. IN-KIND CONTRIBUTIONS

The Organization received the following contributions of nonfinancial assets for the years ending June 30:

	2023	2022
Donated materials and supplies	$ 50,743	$ 59,166
Donated rent	102,827	90,198
TOTAL	$ 153,570	$ 149,364

The Organization also receives contributions of donated materials and supplies without restrictions. The donated goods are valued utilizing the Salvation Army's method of valuation, which utilizes a low and high valuation form to determine the value of the goods. The donated goods consist of various household goods and supplies and were used in the Organization's program services.

The Organization also receives in-kind rent without restrictions which is utilized in the Jubilee and Maya House programs. The value of rent received is based on the fair value of rent for similar surrounding properties. The donated rent is used in the Organization's program services.

The Organization has a conditional contribution for in-kind space through an agreement to utilize space in the Jubilee program through December 2106. This agreement can be cancelled by either party at any time.

5. BOARD DESIGNATED ENDOWMENT

As of June 30, 2023 and 2022, the Board of Directors has designated $2,517 of net assets without donor restrictions as a general endowment fund to provide an additional source of support for the Organization's activities. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions. The Organization has a spending policy of appropriating for distributions based on investment earnings and the Organization's management.

Investment Return Objective, Risk Parameters and Strategies: The Organization has adopted an informal investment policy for endowment assets that attempts to provide a predictable stream of funding to its programs. Accordingly, the investment process seeks to achieve an after-cost total real rate of return with acceptable levels of risk.

Endowment assets are intended to result in a consistent rate of return and sufficient liquidity to make distributions when necessary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the funds to unacceptable levels of risk.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2023	2022
Land	$ 18,060	$ 18,060
Buildings	187,473	187,473
Leasehold improvements	1,159,158	1,151,909
Vehicles	84,383	84,383
Furniture and equipment	148,821	120,474
	1,597,895	1,562,299
Less: Accumulated depreciation	(878,074)	(821,938)
PROPERTY AND EQUIPMENT, NET	$ 719,821	$ 740,361

7. LEASES

The Organization has operating leases for office space and apartments. Leases have remaining lease terms of 1 to 5 years.

The components of lease expense were as follows for the year ending June 30, 2023:

Operating lease cost	$ 10,350
Short-term lease cost	280,807
Variable lease cost	543
TOTAL	$ 291,700

7. LEASES (Continued)

Other information related to leases was as follows as of June 30, 2023:

Supplemental cash flows information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	10,250
Right-of-use assets obtained in exchange for lease obligation:		
Operating leases	$	61,295
Weighted average remaining lease term		
Operating leases		4.9
Weighted average discount rate		
Operating leases		2.94%

Future minimum lease payments under non-cancellable leases as of June 30, 2023 were as follows:

Year Ending June 30,		
2024	$	12,050
2025		12,650
2026		13,250
2027		13,850
2028		13,200
Total future minimum lease payments		65,000
Less: Imputed interest		(4,557)
TOTAL	$	60,443

For the year ended June 30, 2022, which was prior to the adoption of Topic 842, rent expense was $312,989.

8. RENTAL INCOME

The Organization, as lessor, leases apartments to third parties under lease agreements which expire from November 2023 through June 30, 2024. The total carrying value of the underlying buildings which are leased is $91,160. The total rental income under the leases was $48,470 and $36,850 for the years ended June 30, 2023 and 2022, respectively.

The following is a summary of the future minimum rental income from operating leases with third parties having lease terms in excess of one year at June 30:

	Amount
2024	$ 26,550
TOTAL	$ 26,550

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30:

	2023	2022
Restricted as to time and purpose:		
Time restriction	$ 14,126	$ 37,485
Vehicle, housing, and supportive program services	164,169	23,466
TOTAL	$ 178,295	$ 60,951

10. PAYCHECK PROTECTION PROGRAM

The Organization requested and received funding in the amount of $99,092 on March 19, 2021. The funding was in the form of an unsecured bank Promissory Note bearing an interest rate of 1% with a maturity of March 19, 2026. The amount was determined using the SBA required formula of certain average historical monthly payroll expenses times 2.5. The loan proceeds will be used to retain workers and maintain payroll or make mortgage, lease or utility payments. The Organization has recognized the income within grants on the statement of activities for June 30, 2022 as the money was used for qualifying expenses (i.e. payroll and related benefits) under the terms of the SBA loan. Formal forgiveness was received from the SBA on October 26, 2021.

The SBA reserves the right to audit any PPP loan. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan is repaid in full and to provide that documentation to the SBA upon request. The Organization does not believe the results of any audits or reviews by the SBA would have a material impact on the financial statements.

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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*

Board of Directors
Shelter Care Ministries, Inc.
Rockford, Illinois

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 Shelter Care Ministries, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2023-01 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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*.

Shelter Care Ministries Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and recommendations. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Brookfield, Wisconsin
March 28, 2024

SHELTER CARE MINISTRIES, INC.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the Year Ended June 30, 2023

I. Summary of Auditor's Results

Financial Statements

Type of Auditors Report Issued — Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	X Yes	___ No
Significant deficiency(ies) identified?	___ Yes	X None Reported
Noncompliance material to financial statements noted?	___ Yes	X No

II. Financial Statement Findings

FINDING 2023-01

Condition: During our audit, we noted several adjustments required to properly reflect financial information in accordance with accounting principles generally accepted in the United States of America (GAAP). The entries, collectively, resulted in a material misstatement to the change in net assets and to individual financial statement line items. The entries made were to properly record the following:

- Depreciation expense and fixed assets
- Pledges receivable and revenue
- Opening balances – certain statement of financial position accounts and net assets
- Write off uncollectible grants receivable

Recommendation: We recommend the Organization review the year-end financial close procedures in place to improve the effectiveness of the process to ensure all information is properly recorded and review internal control procedures for effectiveness in identifying errors in the financial statements.

Current Status:

III. Prior Audit Findings

None

IV. Other Issues

Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern	____ Yes	X No
Does the audit report show audit issues (i.e. – material noncompliance, nonmaterial noncompliance, questioned costs, material weaknesses, reportable condition, manage letter comment) related to grants/ contracts with funding agencies that require audits to be in accordance with the DHS audit guide:		
Illinois Department of Health Services	____ Yes	X No
Was a management letter or other document conveying audit comments issued as a result of this audit?	X Yes	____ No

Name and Signature of Director:

Ashley Johnson

Ashley Johnson, CPA
March 28, 2024