

CHALLENGE UNLIMITED, INC.

REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

CHALLENGE UNLIMITED, INC.

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FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

20-21



**SCHEFFEL
BOYLE**

Certified Public Accountants

ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON

December 15, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Challenge Unlimited, Inc.
Alton, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Challenge Unlimited, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, 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.

Basis for Qualified Opinion

As more fully described in Note 14 to the financial statements, the Organization has significant managerial and financial relationships with Residential Options, Inc. (a nonprofit organization). The financial statements do not present the combined results of activities or financial position of these related organizations. In our opinion, accounting principles generally accepted in the United States of America require the financial statements to be adjusted to combine the results of activities and financial position of Challenge Unlimited, Inc. and Residential Options, Inc.

Qualified Opinion

In our opinion, except for the effects on the 2021 and 2020 financial statements of Challenge Unlimited, Inc. of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Challenge Unlimited, Inc. as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information listed as schedules 1-2 in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2021, on our consideration of Challenge Unlimited, Inc's internal control over financial reporting and on our test 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 Challenge Unlimited, Inc's internal control over financial reporting and compliance.

Scheffel Boyle

Alton, Illinois

CHALLENGE UNLIMITED, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,506,544	\$ 4,105,532
Investments	5,379,408	5,845,131
Accounts Receivable (Net)	2,811,505	2,513,636
Accounts Receivable - Related Organization	317,224	206,571
Accrued Income	109,318	127,341
Prepaid Expenses	314,299	234,291
Total Current Assets	<u>\$ 13,438,298</u>	<u>\$ 13,032,502</u>
LONG-TERM INVESTMENTS		
Investments - Deferred Compensation	\$ 286,152	\$ 194,590
PROPERTY AND EQUIPMENT (NET)	<u>\$ 5,917,491</u>	<u>\$ 6,021,789</u>
OTHER ASSETS		
Notes Receivable (Net)	\$ 3,369,266	\$ 3,195,480
Deposits	18,901	18,901
Total Other Assets	<u>\$ 3,388,167</u>	<u>\$ 3,214,381</u>
TOTAL ASSETS	<u>\$ 23,030,108</u>	<u>\$ 22,463,262</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 662,288	\$ 1,033,938
Notes and Capital Lease Obligations Payable - Current Maturities	2,802	3,736
Accrued Expenses	2,253,494	2,079,662
Deferred Income	23,945	76,511
Total Current Liabilities	<u>\$ 2,942,529</u>	<u>\$ 3,193,847</u>
LONG-TERM LIABILITIES:		
Notes and Capital Lease Obligations Payable		\$ 2,801
Deferred Compensation	\$ 286,152	194,590
Deferred Income		25,932
Total Long Term Liabilities	<u>\$ 286,152</u>	<u>\$ 223,323</u>
Total Liabilities	<u>\$ 3,228,681</u>	<u>\$ 3,417,170</u>
NET ASSETS		
Net Assets Without Donor Restrictions:		
Board Designated Operating Reserve	\$ 6,944,125	\$ 6,310,000
Undesignated	12,847,302	12,726,092
Total Net Assets Without Donor Restrictions	<u>\$ 19,791,427</u>	<u>\$ 19,036,092</u>
Net Assets With Donor Restrictions:		
Purpose Restricted	\$ 10,000	\$ 10,000
Total Net Assets	<u>\$ 19,801,427</u>	<u>\$ 19,046,092</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,030,108</u>	<u>\$ 22,463,262</u>

The accompanying notes are an integral part of the financial statements.

CHALLENGE UNLIMITED, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net Assets Without Donor Restrictions Support and Revenue		
Fees and Purchases for Services	\$ 2,033,909	\$ 3,135,517
Grants	604,194	683,735
Sales of Goods and Services	24,438,307	22,966,485
Rental Income	422,424	422,424
Management Fees	618,127	617,628
Contributions and Other	223,689	369,159
Investment Income	107,059	407,698
Net Gain on Sale of Assets	64,670	73,528
Net Appreciation in Fair Value of Investments	789	11,113
Total Net Assets Without Donor Restrictions Support and Revenue	<u>\$ 28,513,168</u>	<u>\$ 28,687,287</u>
EXPENSES:		
Program Services:		
Developmental Training	\$ 3,418,560	\$ 3,816,428
Individual w/ Job Coach	30,876	38,792
Supported Employment	183,452	235,957
Vocational Development	236,990	313,121
Transitional Services	28,795	26,286
Vocational Rehabilitation	77,356	88,708
Federal Contract Sites	18,900,641	18,129,818
Call Center	81,002	
Supporting Services:		
General and Administration	4,800,161	4,902,370
Total Expenses	<u>\$ 27,757,833</u>	<u>\$ 27,551,480</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 755,335	\$ 1,135,807
NET ASSETS,		
BEGINNING OF YEAR	<u>19,046,092</u>	<u>17,910,285</u>
NET ASSETS,		
END OF YEAR	<u>\$ 19,801,427</u>	<u>\$ 19,046,092</u>

The accompanying notes are an integral part of the financial statements.

CHALLENGE UNLIMITED, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Change in Net Assets	\$ 755,335	\$ 1,135,807
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	846,526	794,934
(Appreciation) of Investments	(245)	(11,113)
(Gain) on Sale of Property and Equipment	(64,670)	(73,528)
(Increase) Decrease in Assets:		
Accounts Receivable	(143,389)	2,255,204
Accounts Receivable-Related Organization	(110,653)	(188,626)
Accrued Income	18,023	(17,585)
Prepaid Expenses	(80,008)	(33,356)
Deposits		(4,062)
Increase (Decrease) in Liabilities:		
Accounts Payable	(371,650)	212,720
Accrued Expenses	173,832	172,087
Deferred Income	(78,498)	(108,588)
Deferred Compensation	91,562	44,001
Net Cash Provided By Operating Activities	<u>\$ 1,036,165</u>	<u>\$ 4,177,895</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Property and Equipment	\$ (704,089)	\$ (3,356,490)
Purchase of Investments	(155,773)	(125,822)
Proceeds from Sale of Investments	530,179	73,528
Proceeds from Sale of Property and Equipment	26,532	73,528
Note Receivable Issued	(380,949)	(977,456)
Note Receivable Retired	52,683	39,359
Net Cash (Used By) Investing Activities	<u>\$ (631,417)</u>	<u>\$ (4,346,881)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Borrowings	\$ (3,736)	\$ (3,736)
Net Cash (Used By) Financing Activities	<u>\$ (3,736)</u>	<u>\$ (3,736)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 401,012	\$ (172,722)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,105,532</u>	<u>4,278,254</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,506,544</u></u>	<u><u>\$ 4,105,532</u></u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

CHALLENGE UNLIMITED, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021										
	PROGRAM SERVICES										
	DEVELOPMENTAL TRAINING	INDIVIDUAL W/ JOB COACH	SUPPORTED EMPLOYMENT	VOCATIONAL DEVELOPMENT	TRANSITIONAL SERVICES	MO DVR SERVICES	FEDERAL CONTRACT SITES	CALL CENTER	TOTAL	GENERAL AND ADMINISTRATION	2021 TOTAL
Salaries and Wages	\$ 1,655,815	\$ 23,806	\$ 127,585	\$ 169,303	\$ 20,121	\$ 45,239	\$ 5,173,341	\$ 16,477	\$ 7,231,687	\$ 2,322,152	\$ 9,553,839
Employee Benefits	459,670	6,276	35,859	47,771	5,261	11,962	1,516,499	6,026	2,089,324	481,401	2,570,725
Client Wages and Benefits	333,611			71		51	7,082,278	58,583	7,474,594	2,418	7,477,012
Consultants and Contractual	62,055	83	601	4,712	1	2	164,797		232,251	506,123	738,374
Consumable Supplies	91,484		1,067	2,180	3	4,167	970,560		1,069,461	121,928	1,191,389
Occupancy	192,015		5,288	3,900	907	3,350	2,479,096		2,684,556	178,648	2,863,204
Transportation	218,860	711	7,436	4,480	2,432	3,959	229,217		467,095	44,414	511,509
Lease/Rent/Taxes	104,947		707	677		4,800	45,114		156,245	79,885	236,130
Bad Debt Expense										241,117	241,117
Miscellaneous Administration	42,065		2,426	1,413	70	3,826	827,281	(84)	876,997	651,011	1,528,008
Expenses Before Depreciation	\$ 3,160,522	\$ 30,876	\$ 180,969	\$ 234,507	\$ 28,795	\$ 77,356	\$ 18,488,183	\$ 81,002	\$ 22,282,210	\$ 4,629,097	\$ 26,911,307
Depreciation	258,038		2,483	2,483			412,458		675,462	171,064	846,526
Total Expenses	<u>\$ 3,418,560</u>	<u>\$ 30,876</u>	<u>\$ 183,452</u>	<u>\$ 236,990</u>	<u>\$ 28,795</u>	<u>\$ 77,356</u>	<u>\$ 18,900,641</u>	<u>\$ 81,002</u>	<u>\$ 22,957,672</u>	<u>\$ 4,800,161</u>	<u>\$ 27,757,833</u>
	2020										
	PROGRAM SERVICES										
	DEVELOPMENTAL TRAINING	INDIVIDUAL W/ JOB COACH	SUPPORTED EMPLOYMENT	VOCATIONAL DEVELOPMENT	COMMUNITY SUPPORT	MO DVR SERVICES	FEDERAL CONTRACT SITES	CALL CENTER	TOTAL	GENERAL AND ADMINISTRATION	2020 TOTAL
Salaries and Wages	\$ 1,832,336	\$ 26,343	\$ 153,913	\$ 196,062	\$ 17,103	\$ 48,998	\$ 5,024,959		\$ 7,299,714	\$ 2,109,532	\$ 9,409,246
Employee Benefits	474,817	6,675	46,525	56,596	5,414	13,369	1,408,570		2,011,966	503,673	2,515,639
Client Wages and Benefits	355,912						7,234,283		7,590,195	21	7,590,216
Consultants and Contractual	74,400	65	5,390	31,590	1	2	62,313		173,761	514,030	687,791
Consumable Supplies	208,573		2,433	2,370	295	3,655	1,255,543		1,472,869	102,888	1,575,757
Occupancy	221,337		7,401	5,288	855	3,995	1,643,818		1,882,694	198,924	2,081,618
Transportation	309,969	5,709	11,239	11,924	2,489	11,832	259,025		612,187	72,966	685,153
Lease/Rent/Taxes	75,227		130	106		4,801	47,903		128,167	46,201	174,368
Bad Debt Expense										636,641	636,641
Miscellaneous Administration	65,403		1,299	1,737	129	2,056	819,035		889,659	510,458	1,400,117
Expenses Before Depreciation and Amortization	\$ 3,617,974	\$ 38,792	\$ 228,330	\$ 305,673	\$ 26,286	\$ 88,708	\$ 17,755,449	\$ 0	\$ 22,061,212	\$ 4,695,334	\$ 26,756,546
Depreciation and Amortization	198,454		7,627	7,448			374,369		587,898	207,036	794,934
Total Expenses	<u>\$ 3,816,428</u>	<u>\$ 38,792</u>	<u>\$ 235,957</u>	<u>\$ 313,121</u>	<u>\$ 26,286</u>	<u>\$ 88,708</u>	<u>\$ 18,129,818</u>	<u>\$ 0</u>	<u>\$ 22,649,110</u>	<u>\$ 4,902,370</u>	<u>\$ 27,551,480</u>

The accompanying notes are an integral part of the financial statements.

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1. NATURE OF OPERATIONS

Challenge Unlimited, Inc. is an Illinois nonprofit corporation formed in 1960 which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Challenge Unlimited, Inc. provides job and life skills training, job placement services, and direct employment to people with all types of disabilities through the following programs:

Community Support

Program includes: 39U – Individual with Job Coach; SEP – Supported Employment

Assists individuals with disabilities in choosing, obtaining and retaining paid employment in integrated community-based settings. Ongoing support enables workers to achieve their highest level of independence.

Developmental Training

Program includes: 31U

Provides habitation services for individuals who are mentally, emotionally, and physically disabled. The program is divided into four components, which stress independence and community integration; Alternative Services, Work Services, Work Activity and Special Needs.

Vocational Development

Program includes: VOC – Vocational Development; BTXX-DHS – Transitional Services; Contract Sites

Direct employment provided for people with disabilities at contract sites. Job and life skills training offered to assess and enhance the vocation potential of an individual. On-the-job evaluation, interpersonal observation and interviews are used to measure progress.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by Challenge Unlimited, Inc.

Method of Accounting

The financial statements of the Organization are presented on the accrual basis of accounting.

Cash and Cash Equivalents

For the purpose of the statement of financial position and the statement of cash flows, the Organization considers all highly liquid investments available for current use with an original maturity of three months or less, excluding amounts whose use is limited under loan indenture agreements, to be cash equivalents.

Investments

Investments are classified as available for sale and are reported at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Notes Receivable

Notes receivable is recorded net of an estimated allowance for doubtful accounts of \$2,237,480 and \$2,083,000 at June 30, 2021 and 2020, respectively. Interest is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are recorded net of an estimated allowance for doubtful accounts of \$27,032 and \$232,079 at June 30, 2021 and 2020, respectively. The Organization provides for losses on accounts receivable using the allowance method. The allowance method is based on experience, third-party contracts, and knowledge of circumstances that may affect the ability of clients to meet their obligations. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Net Assets

Contributions received are recorded as an increase in net assets without donor restrictions and net assets with donor restrictions depending on the existence or nature of any donor 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 restrictions. Net Assets without donor restrictions of the Organization are primarily represented by program revenues and contributions.

Net Assets With Donor Restrictions– Net Assets that have not yet met donor restrictions or for which the ultimate purpose of the assets is a permanent restriction. The Organization currently has \$10,000 of Net Assets with donor restrictions.

As of June 30, 2021, the Organization has \$19,791,427 in net assets without donor restrictions, of which, the board has designated \$6,944,125 held as a 3 month operating reserve to help with cash flow management.

Functional Allocation of Expenses

The financial statements present expenses by functional classifications in accordance with the overall service mission of the organization. Each functional classification displays all expenses related to the underlying operation by natural classifications. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions.

In-kind Support

Donated materials are recorded as contributions at their estimated fair market values at date of receipt. Donated services are recorded as contributions only if an objective basis is available to measure the value of such services.

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Building, Equipment, and Depreciation

The Organization capitalized the cost of expenditures for land, buildings, leasehold improvement, and equipment in excess of \$2,500. Donated fixed assets are recorded based on the fair market value at the date of donation. Depreciation is computed using the straight-line method and is provided over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of their estimated useful lives or the remaining period of lease obligations and anticipated extension.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Advertising expenses of the Organizations are expensed as incurred.

Revenue Recognition and Revenue

Revenue is recognized when earned. Amounts received under government grants, and program service revenue are recorded as revenue in the financial statements when services are provided. Contributions are recognized when cash or other assets are received.

NOTE 3. FAIR VALUE MEASUREMENT

Fair Values of assets measured on a recurring basis at June 30, 2021 and 2020 are as follows:

<u>Quoted Prices</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>	<u>Significant in Active Markets For Similar Assets (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
<u>June 30, 2021</u>	<u>Fair Value</u>		
Money Market	\$ 21,818		
CD	5,379,383		
Stocks			
Consumer Cyclical	20,515		
Real Estate	5,816		
Technology	35,019		
Exchange Traded Funds			
Miscellaneous	7,396		
Technology	10,491		
Mutual Funds			
Target Date	17,297		
Growth	47,930		
Value	119,898		
Total	<u>\$ 5,665,560</u>	<u>\$ 0</u>	<u>\$ 0</u>

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 3. FAIR VALUE MEASUREMENT (CONTINUED)

<u>June 30, 2020</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>	<u>Quoted Prices in Active Markets For Similar Assets (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money Market	\$ 1,764	\$ 1,764		
CD	5,843,402	5,843,402		
Stocks				
Consumer Cyclical	11,035	11,035		
Consumer Defensive	5,484	5,484		
Technology	35,517	35,517		
Exchange Traded Funds				
Government	4,483	4,483		
Technology	4,984	4,984		
Blended	5,385	5,385		
Mutual Funds				
Target Date	10,562	10,562		
Growth	20,489	20,489		
Value	<u>96,616</u>	<u>96,616</u>		
Total	<u>\$ 6,039,721</u>	<u>\$ 6,039,721</u>	<u>\$ 0</u>	<u>\$ 0</u>

Accounting Standards Codification Topic 820, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority with Level 3 inputs having the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Level 1 Fair Value Measurements

The fair values of the money market and CD are based on the value of the money market fund or CD. The fair values of the mutual funds are valued at the net asset valuation based on quoted market prices in an active market. Exchange traded funds and stocks are valued at quoted market prices in active market for identical assets.

NOTE 4. CONCENTRATION OF CREDIT RISK

The Organization provides services primarily in Madison and St. Clair Counties in Illinois. The Organization grants credit without collateral to federal, state, and local government agencies, non-related non-profit organizations, and privately and publicly held for –profit organizations.

The Organization maintains their cash in bank deposit accounts at high credit quality financial institutions. Accounts at an institution are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2021 and 2020 cash deposits exceeded federally insured limits by \$1,580,291 and \$1,132,150 respectively.

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 5. UNEMPLOYMENT PAYMENTS IN LIEU OF CONTRIBUTIONS

The Organization entered into an agreement with Futures in Rehabilitation Management (FIRM) to provide administration of direct payment of unemployment compensation claims in lieu of contributions to the Illinois Department of Employment Security (IDES).

Under the agreement, FIRM reimburses the state for the actual unemployment benefits paid claimants for which the Organization is liable. The Organization is liable for unemployment benefits paid for insured work incurred during the period the claimants are employed by the Organization.

Unemployment expenses during the period ended June 30, 2021 and 2020 were \$13,342 and \$86,512.

NOTE 6. RETIREMENT PLANS

The Organization has a qualified deferred compensation retirement plan. The Organization contributes 50% of eligible employees' elective deferrals up to a maximum of \$2,500 per employee for the years ended June 30, 2021 and 2020. The Organization's contribution for the years ended June 30, 2021 and 2020, were \$77,658 and \$76,663 respectively.

The Organization has a defined contribution plan which qualifies under Section 457(f) of the Internal Revenue Code. The Plan covers Executive Management. The contributions to the plan are discretionary. The organization's contribution for the years ended June 30, 2021 and 2020 were \$32,000 and \$30,000, respectively.

NOTE 7. ACCOUNTS RECEIVABLE

At June 30, accounts receivable consisted of the following:

	<u>2021</u>	<u>2020</u>
Accounts Receivable:		
Trade –		
Government	\$ 2,236,766	\$ 1,862,347
Nongovernment	402,176	606,112
Department of Health and Human Services –		
Fees for Service – ROCS	126,934	192,886
Grants	49,789	44,890
SEP	21,983	37,550
DORS	(989)	2,207
Other –		
Private Pay	<u>1,878</u>	<u>(277)</u>
Total Accounts Receivable	\$ 2,838,537	\$ 2,745,715
Less Allowance for Doubtful Accounts	<u>(27,032)</u>	<u>(232,079)</u>
Net Accounts Receivable	<u>\$ 2,811,505</u>	<u>\$ 2,513,636</u>

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 8.

PROPERTY AND EQUIPMENT

At June 30, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 688,953	\$ 688,953
Land Improvements	31,930	31,930
Building and Improvements	9,877,872	7,479,904
Leasehold Improvements	386,643	60,962
Furniture and Equipment	2,622,737	2,473,581
Vehicles	2,988,200	3,078,128
Projects in Process	<u>57,985</u>	<u>2,606,092</u>
Total	\$16,654,320	\$16,419,550
Less Accumulated Depreciation	<u>(10,736,829)</u>	<u>(10,397,761)</u>
Net Property and Equipment	<u>\$ 5,917,491</u>	<u>\$ 6,021,789</u>

Depreciation expense for the year ended June 30, 2021 and 2020, was \$846,526 and \$794,934 respectively.

NOTE 9.

NOTES RECEIVABLE

The Organization has a line of credit agreement for \$5,200,000 with another not for profit entity, which carries interest at 5%. Borrower shall pay interest and principal as the funds become available on the 30th day following each calendar quarter after July 1, 2018. The entire unpaid principal balance and accrued interest is payable on the maturity date of December 1, 2024. As of June 30, 2021, and 2020 the net carrying values of the note receivable are \$3,369,266 and \$3,195,480. The note receivable is net of an estimated allowance for doubtful accounts of \$2,237,480 and \$2,083,000 at June 30, 2021 and 2020, respectively

NOTE 10.

NOTES AND CAPITAL LEASE OBLIGATIONS PAYABLE

Notes Payable at June 30, consisted of the following:

	<u>2021</u>	<u>2020</u>
<u>Capital Lease Obligations:</u>		
Wells Fargo. Payable in monthly installments of \$311. Secured by vehicles, maturity March 2022.	\$ 2,802	<u>6,537</u>
Total	<u>\$ 2,802</u>	<u>\$ 6,537</u>

Future maturities of long-term debt at June 30, 2021 are as follows:

	<u>Year Ended</u>	<u>Capital Lease</u>
	<u>June 30,</u>	<u>Obligations</u>
2022	<u>\$ 2,802</u>	<u>\$ 2,802</u>

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 11. LEASED EQUIPMENT AND FACILITIES

The Organization leases a postage machine under an operating lease. The lease is for 5 years starting March 2021 and running until March 2026. The lease payments for the year ended June 30, 2021 and 2020 were \$4,058 and \$4,106, respectively.

The Organization leases office space at 916 & 918 Missouri Avenue, St Roberts, MO under operating leases. The lease is for 5 years starting September 1, 2015 and running until August 31, 2020. A five year renewal has been signed, set to take effect September 1, 2020 and run until September 1, 2025. The total amount of rent paid under this lease in the fiscal year ended June 30, 2021 and 2020 was \$27,152 and \$25,687, respectively.

The Organization leased office space in Hannibal, MO from the NEMO Workforce Development Board under operating leases. The lease at 655 Clinic Rd., Hannibal, MO was for 1 year starting on March 1, 2021 and running until February 28, 2022 with monthly payments of \$400. The total amount of rent paid under this lease in the fiscal year ended June 30, 2021 and 2020 was \$4,800 and \$4,800, respectively.

The Organization leases office space at 11830 Borman Drive, Maryland Heights, MO under operating leases. The lease is for 5 years starting May 1, 2018 and running until April 30, 2022. The total amount of rent paid under this lease in the fiscal year ended June 30, 2021 and 2020 was \$26,054 and \$20,865, respectively.

The Organization leases space at 1701 Locust, Quincy, IL under an operating lease. The lease is for 93 months starting April 1, 2019. The total amount of rent paid under this lease in the fiscal year ended June 30, 2021 and 2020 was \$97,770 and \$94,638, respectively.

The Organization leases space in Swansea, IL from Oak Mesa Properties under an operating lease. The lease is for 6 years starting April 1, 2020 and running until April 1, 2026. The total amount of rent paid under this lease in the fiscal year ended June 30, 2021 and 2020 was \$48,750 and \$12,187, respectively.

The minimum future rental payments under the above operating leases for each of the next five years and in aggregate are:

Year Ended June 30,	<u>Amount</u>
2022	\$ 200,421
2023	198,313
2024	181,385
2025	183,826
2026	156,410
Thereafter	<u>135,551</u>
Total	<u>\$ 1,055,906</u>

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 12. OPERATING LEASES

The Company leases facilities to Residential Options, Inc., a related organization. The leases are operating leases, and expire in 2022. The total rent received during the fiscal year ended June 30, 2021 and 2020 was \$422,424 and \$422,424, respectively. The following is a schedule by year of future minimum rental payments due to the Company under the operating lease agreements.

Year Ended <u>June 30,</u>	<u>Amount</u>
2022	\$ <u>422,424</u>

NOTE 13. CAPITAL LEASES

The Organization leases equipment under agreements that are classified as capital leases. The cost of these items is included in the balance sheet as property and equipment and was \$18,678 at June 30, 2021. Accumulated amortization of the leased equipment at June 30, 2021 was \$16,499. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital leases and the present values of the net minimum lease payments as of June 30, 2021 are as follows:

Year Ending <u>June 30,</u>	
2022	\$ <u>2,802</u>
Total Minimum Lease Payments	\$ 2,802
Less Amount Representing Interest	<u>(0)</u>
Present Value of Minimum Lease Payments	\$ 2,802
Less Current Maturities	<u>(2,802)</u>
Long-Term Capital Lease Obligation	\$ <u>0</u>

NOTE 14. RELATED PARTY TRANSACTIONS

A member of the board of directors provides legal services to Challenge Unlimited. The total amount paid to the board member for legal services for the years ended June 30, 2021 and 2020 was \$72,000.

Challenge Unlimited is in year 6 of a 10 year consulting agreement with a former executive officer of the Organization. The former executive officer will be paid an annual sum of \$85,000 with a 3% increase every year. The total amount paid to the former executive for the year ended June 30, 2021 and 2020 was \$95,669 and \$92,882 respectively.

The Board of Directors and management of Challenge Unlimited, Inc. provides substantial oversight, management, and common directorship of Residential Options, Inc.

Challenge Unlimited, Inc. provides management services, day training services, contract labor, food services, and leases facilities, equipment and group homes to Residential Options, Inc.

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 14. RELATED PARTY TRANSACTIONS (CONTINUED)

A summary of transactions with related organizations is as follows:

	<u>2021</u>	<u>2020</u>
Revenue:		Total
Day Training	\$ 376,806	\$ 449,399
Management Fees	399,996	399,996
Contract Labor	156,250	195,683
Building Rental	<u>422,424</u>	<u>422,424</u>
Total Revenue	<u>\$ 1,355,476</u>	<u>\$ 1,467,502</u>
Accounts Receivable–Related	<u>\$ 317,224</u>	<u>\$ 206,571</u>
Accounts Receivable	<u>\$ 32,688</u>	

Summarized financial data of Residential Options, Inc. at June 30, 2021 and 2020 is as follows:

Statement of Financial Position

	<u>2021</u>	<u>2020</u>
Current Assets	\$ 6,600,752	\$ 5,836,524
Other Assets	3,823,362	3,281,641
Net Property, Equipment, and Goodwill	<u>1,563,621</u>	<u>1,655,964</u>
Total Assets	<u>\$ 11,987,735</u>	<u>\$ 10,774,129</u>
Current Liabilities	\$ 1,252,070	\$ 1,115,773
Long-Term Liabilities	1,466	31,549
Total Net Assets	<u>10,734,199</u>	<u>9,626,807</u>
Total Liabilities and Net Assets	<u>\$ 11,987,735</u>	<u>\$ 10,774,129</u>

Statement of Activities

Total Revenue	\$ 11,312,636	\$ 10,404,870
Total Expenses	<u>10,205,244</u>	<u>9,993,248</u>
Change in Net Assets	<u>\$ 1,107,392</u>	<u>\$ 411,622</u>

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 15. INCOME TAXES

The organization applies the provisions of FASB Accounting Standards Codification 740, Income Taxes. The application of FASB Accounting Standards Codification 740 had no impact on the Organization's financial statements and accordingly, no interest or penalties were accrued. Management believes it has no material uncertain tax positions or any related penalties and interest to accrue for the years ended June 30, 2021 and 2020, and, accordingly, there is no liability for unrecognized tax benefit.

The Organization files tax returns in all appropriate jurisdictions. The open tax years are those years ending June 30, 2018 through June 30, 2021. The June 30, 2021 tax return has not been filed as of the date of this report.

NOTE 16. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization is primarily funded by program revenue. As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. The Organization invests its cash in excess of daily needs in short-term investments. The Board of Directors designates amounts to its liquidity reserve that could be utilized in the event of an unanticipated liquidity need. The Organization's goal is to have financial assets on hand to cover 3 months of normal operating expenses.

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year of the statement of financial position date.

	<u>2021</u>	<u>2020</u>
Financial assets, at year end:	\$ 13,123,999	\$ 12,798,211
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with purpose restrictions	(10,000)	(10,000)
Board Designations:		
Amounts set aside for liquidity reserve	<u>(6,944,125)</u>	<u>(6,310,000)</u>
Financial assets available to meet cash needs for general expenditures:		
Within one year:	<u>\$ 6,169,874</u>	<u>\$ 6,478,211</u>

NOTE 17. NEW ACCOUNTING PRONOUNCEMENT

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measure (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurements*. ASU 2018-13 applies to all entities that are required, under existing GAAP, by amending the disclosures required for recurring or nonrecurring fair value measurement by removing, modifying and adding certain disclosures. ASU 2018-13 will be effective all entities for fiscal years beginning after December 15, 2019. The amendments to changes in unrealized gains and losses, the range and weighted average of significant observable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent annual period presented in the initial fiscal year of operation. All other amendments should be applied retrospectively to all periods upon their effective date. ASU 2018-13 is not expected to have a material impact on the Organization's financial statements.

CHALLENGE UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 17. NEW ACCOUNTING PRONOUNCEMENT (CONTINUED)

For the year ended June 30, 2021 the Organization adopted ASU 2014-09, Revenue from Contract with Customer (ASC 606) that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 is effective for fiscal years beginning after December 15, 2019. The adoption has no material change in the revenue recognition policies of the Organization.

In June 2018, The FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction. The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Organization adopted this update on a prospective basis. The adoption of this new guidance had no material changes in revenue related to contributions and grants.

NOTE 18. COST ALLOCATION

The Financial Statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The Organization first groups indirect or shared costs into various pools. These pools then have different ordering rules when determining which programs to allocate the expenses to. The Organization uses the indirect cost allocation method of 10% of total modified direct costs. The expenses that are allocated include, salaries and wages, employee benefits and payroll taxes, client wages and benefits, consultants and contractual, consumable supplies, occupancy, transportation, lease and rent, bad debt expense, depreciation, and administrative.

NOTE 19. RESTRICTIONS ON NET ASSETS

Restrictions placed by donors limit the expendability of the Organization's resources. The limitations placed by donors are as follows:

Tom Moehn Entrepreneurial Fund	\$ <u>10,000</u>
Total	\$ <u><u>10,000</u></u>

NOTE 20. SUBSEQUENT EVENTS

Management has evaluated the effect of subsequent events through December 15, 2021. From this evaluation, the following events were identified that met the criteria to be classified as a subsequent event subject to disclosure:

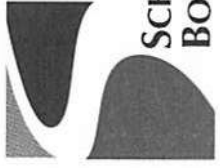
- Challenge Unlimited, Inc., having received a request from Project CU, Inc. agreed to affiliate with Project CU, Inc. This affiliation has an effective date of July 1, 2021.

CHALLENGE UNLIMITED, INC.
 SCHEDULE OF PROGRAM REVENUES
 FOR THE YEAR ENDED JUNE 30, 2021

	PROGRAM 31U	PROGRAM 39U	SEP	VOC	BTXX - DHS		FEDERAL	CALL		
LINE	DEVELOPMENTAL	INDIVIDUAL	SUPPORTED	VOCATIONAL	TRANSITIONAL	MO DVR	CONTRACT	CENTER	ADMINISTRATIVE	TOTAL
#	TRAINING	W/JOB COACH	EMPLOYMENT	DEVELOPMENT	SERVICES	SERVICES	SITES			
FEES AND PURCHASES FOR SERVICES:										
Department of Human Services	5	\$ 1,543,987	\$ 500			\$ 25,930				\$ 1,570,417
Department of Public Aid	6	449,755								449,755
Client/Family Program	12	14,237								14,237
Total Fees and Purchases for Services	16	\$ 2,007,979	\$ 500	\$ 0	\$ 0	\$ 25,930	\$ 0	\$ 0	\$ 0	\$ 2,034,409
GRANT REVENUES:										
Donated/Certified Funds Initiative	20	\$ 75,026								\$ 75,026
Department of Human Services	21		\$ 181,886	\$ 318,425	\$ 25,460	\$ 3,397				529,168
Other	29									
Total Grant Revenues	30	\$ 75,026	\$ 181,886	\$ 318,425	\$ 25,460	\$ 3,397	\$ 0	\$ 0	\$ 0	\$ 604,194
CONTRIBUTIONS AND OTHER										
Sales of Goods and Services	37	\$ 635,520	\$ 1,156	\$ 16,612			\$ 23,700,018	\$ 82,284	\$ 764,717	\$ 25,200,307
Rent Income	38								422,424	422,424
Gain (Loss) on Sale of Fixed Asset	39	2,008					62,662			64,670
Cafeteria and Vending Machine	40	40,343					931			41,274
Other	41	3,503	48	2					34,489	38,042
Total Contributions and Other	42	\$ 681,374	\$ 1,204	\$ 16,614	\$ 0	\$ 0	\$ 23,763,611	\$ 82,284	\$ 1,221,630	\$ 25,766,717
INVESTMENT INCOME										
Interest	44	\$ 492				\$ 55	\$ 344		\$ 106,957	\$ 107,848
Total Investment Income	45	\$ 492	\$ 0	\$ 0	\$ 0	\$ 55	\$ 344	\$ 0	\$ 106,957	\$ 107,848
TOTAL REVENUES	47	\$ 2,764,871	\$ 183,590	\$ 335,039	\$ 25,460	\$ 29,382	\$ 23,763,955	\$ 82,284	\$ 1,328,587	\$ 28,513,168

CHALLENGE UNLIMITED, INC.
SCHEDULE OF PROGRAM COSTS
FOR THE YEAR ENDED JUNE 30, 2021

	PROGRAM 31U	PROGRAM 39U	SEP	VOC	BTXX - DHS		FEDERAL	CALL	ADMINISTRATIVE	TOTAL
LINE #	DEVELOPMENTAL TRAINING	INDIVIDUAL W/ JOB COACH	SUPPORTED EMPLOYMENT	VOCATIONAL DEVELOPMENT	TRANSITIONAL SERVICES	MO DVR SERVICES	CONTRACT SITES	CENTER		
PROGRAM EXPENSES:										
Program Staff Salaries	1	\$ 1,158,036	\$ 21,974	\$ 117,020	\$ 155,654	\$ 18,463	\$ 40,784	\$ 4,598,146	\$ 16,476	\$ 6,126,553
Program Payroll Taxes and Fringe Benefits	3	406,362	5,780	32,998	44,074	4,812	10,756	1,389,805	6,026	1,900,613
Program Consultants	4	61,848	83	601	4,712	1		164,797		232,042
Consumer Wages and Fringe Benefits	5	333,611			71		51	7,082,278	58,583	\$ 2,418 7,477,012
Medicine and Drugs	6	3,271		175	111		203	5,140		1,793 10,693
All Other Program Equipment and Supplies	7	73,528		261	400		1,121	748,790	3,105	827,205
Staff Transportation	8	16,644	195	1,442	265	2,432	3,619	23,208		47,805
Client Transportation	9	503,223	516	5,994	4,216		339	206,640	16,927	737,855
Direct Service Staff Conference and Conventions	11	1,043		85			15	4,109		5,257
Telecommunications Costs Assigned to Program	14	27,677		3,736	2,974		553	40,993		77,458
Other	16							46,649		46,649
Total Program Expenses	17	\$ 2,585,243	\$ 28,548	\$ 162,312	\$ 212,477	\$ 26,266	\$ 58,413	\$ 14,310,555	\$ 81,085	\$ 24,243 17,489,142
OCCUPANCY EXPENSES:										
Building & Equipment Operations & Maintenance	26	\$ 164,305		\$ 1,505	\$ 865	\$ 346	\$ 1,805	\$ 2,502,579		\$ 131,623 \$ 2,803,028
Vehicle Depreciation	27	94,358		2,482	2,482			220,785	10,592	330,699
All Other Depreciation and Amortization	28	163,681						191,673	160,472	515,826
All Other Lease/Rent/Taxes	30	104,946		707	677		4,800	45,114	79,885	236,129
Equipment Under \$500	31	5,016		46	1,006	1	694	85,696	16,371	108,830
Total Occupancy Expenses	35	\$ 532,306	\$ 0	\$ 4,740	\$ 5,030	\$ 347	\$ 7,299	\$ 3,045,847	\$ 0	\$ 398,943 3,994,512
ADMINISTRATIVE AND OFFICE EXPENSES										
Administrative Salaries	36	\$ 196,826	\$ 1,832	\$ 10,566	\$ 13,649	\$ 1,658	\$ 4,455	\$ 575,195	\$ 2,452,105	\$ 3,256,286
Administrative Payroll Taxes and Fringe Benefits	37	53,515	496	2,861	3,697	449	1,207	126,694	507,247	696,166
Administrative Consultants	38							742,186	350,324	1,092,512
Telecommunications Costs Not Assigned to Program	39			47	61	7	20	3,340	47,025	50,500
Office Supplies and Equipment	40	13,045		843	936	1	3,258	27,566	100,659	146,308
Allocation of Management and General	41	293,390	2,964	17,312	22,445	2,765	6,967	1,767,386	(2,113,229)	0
Administrative Other	42	37,626		2,083	1,139	65	2,701	69,257	\$ (84) 919,620	1,032,407
Total Administrative Expenses	43	\$ 594,402	\$ 5,292	\$ 33,712	\$ 41,927	\$ 4,945	\$ 18,610	\$ 3,311,624	\$ (84) 2,263,751	\$ 6,274,179
TOTAL EXPENSES	44	\$ 3,711,951	\$ 33,840	\$ 200,764	\$ 259,434	\$ 31,558	\$ 84,322	\$ 20,668,026	\$ 81,001	\$ 2,686,937 27,757,833
LESS, NON-REIMBURSABLE EXPENSES										
Other	47	\$ 616,078		\$ 98	\$ 205		\$ 1	\$ 20,668,026	\$ 573,649	\$ 21,858,057
Total Non-Reimbursable Expenses	48	\$ 616,078	\$ 0	\$ 98	\$ 205	\$ 0	\$ 1	\$ 20,668,026	\$ 0 573,649	\$ 21,858,057
NET EXPENSES	49	\$ 3,095,873	\$ 33,840	\$ 200,666	\$ 259,229	\$ 31,558	\$ 84,321	\$ 0	\$ 81,001	\$ 2,113,288 5,899,776



**SCHEFFEL
BOYLE**

Certified Public Accountants

ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON

December 15, 2021

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
Challenge Unlimited, Inc.
Alton, IL

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 financial statements of Challenge Unlimited, Inc (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2021.

Our opinion was qualified because the financial statements are not prepared in accordance with generally accepted accounting principles. However, the financial statements were found to be fairly stated, except for the effects that the financial statements do not present the combined results of activities or financial position with Residential Options, Inc., which has a significant managerial and financial relationship with Challenge Unlimited, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Challenge Unlimited, 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 Challenge Unlimited Inc.'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Challenge Unlimited, Inc.'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 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 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.



Alton, Illinois