

CHALLENGE UNLIMITED, INC.

REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

CHALLENGE UNLIMITED, INC.

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ALTON EDWARDSVILLE BELLEVILLE HIGHLAND  
JERSEYVILLE COLUMBIA CARROLLTON  
December 15, 2022

## INDEPENDENT AUDITOR'S REPORT

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

### Qualified Opinion

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, 2022 and 2021, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects on the 2022 and 2021 financial statements of Challenge Unlimited, Inc. of the matter discussed in the Basis for Qualified Opinion section of our report, 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, 2022 and 2021, 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.

### 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. and Project CU, Inc. (nonprofit organizations). 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., Residential Options, Inc. and Project CU, Inc.

We conducted our audit 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 Challenge Unlimited, Inc. 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 qualified audit opinion.

### Responsibilities of Management 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, 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 Challenge Unlimited Inc'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, intentional omissions, 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 Challenge Unlimited Inc'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 Challenge Unlimited Inc'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.

## **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, 2022, 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 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 Challenge Unlimited 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 Challenge Unlimited, Inc's internal control over financial reporting and compliance.



Alton, Illinois

CHALLENGE UNLIMITED, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 AND 2021

	<u>ASSETS</u>	
	<u>2022</u>	<u>2021</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,598,322	\$ 4,506,544
Investments	5,415,999	5,379,408
Accounts Receivable (Net)	3,860,209	2,811,505
Accounts Receivable - Related Organization	193,964	317,224
Accrued Income	82,840	109,318
Prepaid Expenses	209,168	314,299
Total Current Assets	<u>\$ 13,360,502</u>	<u>\$ 13,438,298</u>
<b>LONG-TERM INVESTMENTS</b>		
Investments - Deferred Compensation	<u>\$ 255,290</u>	<u>\$ 286,152</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>		
	<u>\$ 5,466,583</u>	<u>\$ 5,917,491</u>
<b>OTHER ASSETS</b>		
Notes Receivable (Net)	\$ 450,242	\$ 3,369,266
Deposits	18,901	18,901
Total Other Assets	<u>\$ 469,143</u>	<u>\$ 3,388,167</u>
TOTAL ASSETS	<u>\$ 19,551,518</u>	<u>\$ 23,030,108</u>
<u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 759,947	\$ 662,288
Notes and Capital Lease Obligations Payable - Current Maturities		2,802
Accrued Expenses	2,335,742	2,253,494
Deferred Income	3,944	23,945
Total Current Liabilities	<u>\$ 3,099,633</u>	<u>\$ 2,942,529</u>
<b>LONG-TERM LIABILITIES:</b>		
Deferred Compensation	<u>\$ 255,290</u>	<u>\$ 286,152</u>
Total Long Term Liabilities	<u>\$ 255,290</u>	<u>\$ 286,152</u>
Total Liabilities	<u>\$ 3,354,923</u>	<u>\$ 3,228,681</u>
<b>NET ASSETS</b>		
Net Assets Without Donor Restrictions:		
Board Designated Operating Reserve	\$ 6,944,125	\$ 6,944,125
Undesignated	9,252,470	12,847,302
Total Net Assets Without Donor Restrictions	<u>\$ 16,196,595</u>	<u>\$ 19,791,427</u>
Net Assets With Donor Restrictions:		
Purpose Restricted	<u>\$ 0</u>	<u>\$ 10,000</u>
Total Net Assets	<u>\$ 16,196,595</u>	<u>\$ 19,801,427</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,551,518</u>	<u>\$ 23,030,108</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net Assets Without Donor Restrictions Support and Revenue		
Fees and Purchases for Services	\$ 2,260,608	\$ 2,033,909
Grants	476,898	525,696
In-Kind Grants	20,000	78,498
Sales of Goods and Services	22,719,696	24,438,307
Rental Income	422,424	422,424
Management Fees	787,608	618,127
Contributions and Other	279,642	223,689
Investment Income	55,369	107,059
Net Gain on Sale of Assets	6,931	64,670
Net Appreciation in Fair Value of Investments		789
Total Net Assets Without Donor Restrictions Support and Revenue	<u>\$ 27,029,176</u>	<u>\$ 28,513,168</u>
Net Assets released from restrictions	<u>\$ 10,000</u>	<u>\$ 0</u>
Total Net Assets Without Donor Restrictions Support and Revenue	\$ 27,039,176	\$ 28,513,168
EXPENSES:		
Program Services:		
Developmental Training	\$ 3,218,106	\$ 3,418,560
Individual w/ Job Coach	0	30,876
Supported Employment	204,388	183,452
Vocational Development	289,167	236,990
Transitional Services	26,294	28,795
Vocational Rehabilitation	96,583	77,356
Federal Contract Sites	18,747,566	18,900,641
Call Center	151,119	81,002
Supporting Services:		
General and Administration	7,900,785	4,800,161
Total Expenses	<u>\$ 30,634,008</u>	<u>\$ 27,757,833</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (3,594,832)	\$ 755,335
NET ASSETS WITH DONOR RESTRICTION		
Net Assets released from restrictions	<u>\$ (10,000)</u>	<u>\$ 0</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ (10,000)</u>	<u>\$ 0</u>
CHANGE IN NET ASSETS	\$ (3,604,832)	\$ 755,335
NET ASSETS, BEGINNING OF YEAR	<u>19,801,427</u>	<u>19,046,092</u>
NET ASSETS, END OF YEAR	<u>\$ 16,196,595</u>	<u>\$ 19,801,427</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Change in Net Assets	\$ (3,604,832)	\$ 755,335
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	745,495	846,526
(Appreciation) of Investments		(245)
(Gain) on Sale of Property and Equipment	(6,931)	(64,670)
(Increase) Decrease in Assets:		
Accounts Receivable	(1,048,704)	(143,389)
Accounts Receivable-Related Organization	123,260	(110,653)
Accrued Income	26,478	18,023
Prepaid Expenses	105,131	(80,008)
Deposits		
Increase (Decrease) in Liabilities:		
Accounts Payable	97,659	(371,650)
Accrued Expenses	82,248	173,832
Deferred Income	(20,001)	(78,498)
Deferred Compensation	(30,862)	91,562
Net Cash Provided (Used) By Operating Activities	<u>\$ (3,531,059)</u>	<u>\$ 1,036,165</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Property and Equipment	\$ (298,656)	\$ (704,089)
Purchase of Investments	(5,403,282)	(155,773)
Proceeds from Sale of Investments	5,397,553	530,179
Proceeds from Sale of Property and Equipment	11,000	26,532
Note Receivable Issued	(659,528)	(380,949)
Note Receivable Retired	300,000	
Note Receivable Forgiven	3,278,552	52,683
Net Cash Provided (Used By) Investing Activities	<u>\$ 2,625,639</u>	<u>\$ (631,417)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Borrowings	\$ (2,802)	\$ (3,736)
Net Cash (Used By) Financing Activities	<u>\$ (2,802)</u>	<u>\$ (3,736)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (908,222)	\$ 401,012
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,506,544</u>	<u>4,105,532</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,598,322</u>	<u>\$ 4,506,544</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, 2022 AND 2021

	2022							2021			
	COMMUNITY DAY SERVICE	INDIVIDUAL W/ JOB COACH	SUPPORTED EMPLOYMENT	VOCATIONAL DEVELOPMENT	TRANSITIONAL SERVICES	MO DVR SERVICES	FEDERAL CONTRACT SITES	CALL CENTER	TOTAL	GENERAL AND ADMINISTRATION	TOTAL
Salaries and Wages	\$ 1,712,327	\$ 147,213	\$ 147,213	\$ 201,034	\$ 17,570	\$ 60,823	\$ 5,700,524	\$ 3,861	\$ 7,843,352	\$ 2,548,401	\$ 10,391,753
Employee Benefits	437,767	34,381	34,381	57,821	5,005	11,761	1,540,580	224	2,087,539	532,598	2,620,137
Client Wages and Benefits	155,635			2,500	1	5	6,620,820	147,021	6,923,476	4,299	6,927,775
Consultants and Contractual	25,991		700	2,998	36	2,903	428,447		457,644	449,858	907,502
Consumable Supplies	51,614	1,362	1,362	4,174	752	3,589	1,128,400	15	1,187,313	77,749	1,265,062
Occupancy	213,225	4,964	4,964	10,312	2,705	5,035	1,735,408		1,962,127	175,366	2,137,493
Transportation	252,917	5,914	5,914	8,235		4,800	317,445		594,328	60,066	654,394
Lease/Rent/Taxes	104,279		8,235				41,741		167,290	45,341	212,631
Bad Debt Expense			1,619	2,093	225	7,667	839,565	(2)	889,045	3,276,222	3,276,222
Miscellaneous Administration Expenses Before Depreciation	37,878	\$ 0	\$ 204,388	\$ 289,167	\$ 26,294	\$ 96,583	\$ 18,352,930	\$ 151,119	\$ 22,112,114	\$ 7,776,399	\$ 29,888,513
Depreciation	226,473	\$ 0	\$ 204,388	\$ 289,167	\$ 26,294	\$ 96,583	394,636	\$ 151,119	621,109	124,386	745,495
Total Expenses	\$ 3,218,106	\$ 0	\$ 204,388	\$ 289,167	\$ 26,294	\$ 96,583	\$ 18,747,566	\$ 151,119	\$ 22,733,223	\$ 7,900,785	\$ 30,634,008

	2022							2021			
	COMMUNITY DAY SERVICE	INDIVIDUAL W/ JOB COACH	SUPPORTED EMPLOYMENT	VOCATIONAL DEVELOPMENT	TRANSITIONAL SERVICES	MO DVR SERVICES	FEDERAL CONTRACT SITES	CALL CENTER	TOTAL	GENERAL AND ADMINISTRATION	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	1,067	2,180	3	4,167	970,560		1,069,461	121,928	1,191,389
Occupancy	192,015	5,288	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			2,426	1,413	70	3,826	827,281	(84)	876,997	241,117	1,118,114
Miscellaneous Administration Expenses Before Depreciation and Amortization	42,065	\$ 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 and Amortization	258,038	\$ 30,876	\$ 183,452	\$ 236,990	\$ 28,795	\$ 77,356	412,458	\$ 81,002	675,462	171,064	846,526
Total Expenses	\$ 3,418,560	\$ 30,876	\$ 183,452	\$ 236,990	\$ 28,795	\$ 77,356	\$ 18,900,641	\$ 81,002	\$ 22,957,672	\$ 4,800,161	\$ 27,757,833

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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.

Community Day Service

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 \$-0- and \$2,237,480 at June 30, 2022 and 2021, 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, 2022 AND 2021

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are recorded net of an estimated allowance for doubtful accounts of \$3,877 and \$27,032 at June 30, 2022 and 2021, 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.

As of June 30, 2022, the Organization has \$16,196,595 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, 2022 AND 2021

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.

Reclassifications

Certain items in the financial statements for the prior year have been reclassified to conform to the current year presentation.

NOTE 3. FAIR VALUE MEASUREMENT

Fair Values of assets measured on a recurring basis at June 30, 2022 and 2021 are as follows:

Fair Value Measurements Using:

<u>June 30, 2022</u>	<u>Fair Value</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>
Money Market	\$ 631	\$ 631		
CD	5,415,974	5,415,974		
Stocks				
Consumer Cyclical	13,107	13,107		
Technology	31,921	31,921		
Exchange Traded Funds				
Miscellaneous	2,767	2,767		
Technology	5,124	5,124		
Blended	22,110	22,110		
Large Value	6,897	6,897		
Mutual Funds				
Target Date	18,447	18,447		
Growth	30,321	30,321		
Value	123,990	123,990		
Total	<u>\$ 5,671,289</u>	<u>\$ 5,671,289</u>	<u>\$ 0</u>	<u>\$ 0</u>

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 3. FAIR VALUE MEASUREMENT (CONTINUED)

<u>June 30, 2021</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	\$ 21,818	\$ 21,818		
CD	5,379,383	5,379,383		
Stocks				
Consumer Cyclical	20,515	20,515		
Real Estate	5,816	5,816		
Technology	35,019	35,019		
Exchange Traded Funds				
Miscellaneous	7,393	7,393		
Technology	10,491	10,491		
Mutual Funds				
Target Date	17,297	17,297		
Growth	47,930	47,930		
Value	<u>119,898</u>	<u>119,898</u>		
Total	<u>\$ 5,665,560</u>	<u>\$ 5,665,560</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 cost 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, 2022 and 2021 cash deposits exceeded federally insured limits by \$523,123 and \$1,580,291 respectively.

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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, 2022 and 2021 were \$26,549 and \$13,342.

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, 2022 and 2021. The Organization's contribution for the years ended June 30, 2022 and 2021, were \$79,902 and \$77,658 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, 2022 and 2021 were \$32,000 and \$32,000, respectively.

NOTE 7. ACCOUNTS RECEIVABLE

At June 30, accounts receivable consisted of the following:

	<u>2022</u>	<u>2021</u>
Accounts Receivable:		
Trade –		
Government	\$ 3,379,690	\$ 2,236,766
Nongovernment	325,065	402,176
Department of Health and Human Services –		
Fees for Service – ROCS	121,126	126,934
Grants	22,390	49,789
SEP	12,581	21,983
DORS	270	(989)
Other –		
Private Pay	<u>2,964</u>	<u>1,878</u>
Total Accounts Receivable	\$ 3,864,086	\$ 2,838,537
Less Allowance for Doubtful Accounts	<u>(3,877)</u>	<u>(27,032)</u>
Net Accounts Receivable	<u>\$ 3,860,209</u>	<u>\$ 2,811,505</u>

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 8. PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Land	\$ 688,953	\$ 688,953
Land Improvements	31,930	31,930
Building and Improvements	9,907,485	9,877,872
Leasehold Improvements	396,643	386,643
Furniture and Equipment	2,755,127	2,622,737
Vehicles	3,093,991	2,988,200
Projects in Process	<u>22,541</u>	<u>57,985</u>
Total	\$16,896,670	\$16,654,320
Less Accumulated Depreciation	<u>(11,430,087)</u>	<u>(10,736,829)</u>
Net Property and Equipment	<u>\$ 5,466,583</u>	<u>\$ 5,917,491</u>

Depreciation expense for the year ended June 30, 2022 and 2021, was \$745,495 and \$846,526 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 30<sup>th</sup> 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, 2022, and 2021 the net carrying values of the note receivable are \$450,242 and \$3,369,266. The note receivable is net of an estimated allowance for doubtful accounts of \$-0- and \$2,237,480 at June 30, 2022 and 2021, respectively. A portion of the note was deemed uncollectible due to ceased production operations in April 2022 and \$3,276,222 of the note was written off for the year ended June 30, 2022.

NOTE 10. NOTES AND CAPITAL LEASE OBLIGATIONS PAYABLE

Notes Payable at June 30, consisted of the following:

	<u>2022</u>	<u>2021</u>
<u>Capital Lease Obligations:</u>		
Wells Fargo. Payable in monthly installments of \$311. Secured by vehicles, maturity March 2022.	\$ <u>0</u>	<u>2,802</u>
Total	\$ <u>0</u>	<u>\$ 2,802</u>

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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, 2022 and 2021 were \$3,916 and \$4,058, 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, 2020 and running until September 1, 2025. The total amount of rent paid under this lease in the fiscal year ended June 30, 2022 and 2021 was \$28,156 and \$27,152, 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 lease was renewed for a one year period. The total amount of rent paid under this lease in the fiscal year ended June 30, 2022 and 2021 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, 2023. The total amount of rent paid under this lease in the fiscal year ended June 30, 2022 and 2021 was \$21,752 and \$21,954, 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, 2022 and 2021 was \$97,770 and \$97,770, 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, 2022 and 2021 was \$48,750 and \$48,750, respectively.

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

Year Ended <u>June 30,</u>	<u>Amount</u>
2023	\$ 203,113
2024	180,979
2025	182,201
2026	143,817
2027	<u>48,885</u>
Total	<u>\$ 758,995</u>

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 12. OPERATING LEASES

The Company leases facilities to Residential Options, Inc., a related organization. The leases are operating leases, and expire in 2023. The total rent received during the fiscal year ended June 30, 2022 and 2021 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>
2023	<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, 2022. Accumulated amortization of the leased equipment at June 30, 2022 was \$18,678. Amortization of assets under capital leases is included in depreciation expense.

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, 2022 and 2021 was \$72,000.

Challenge Unlimited is in year 7 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, 2022 and 2021 was \$97,777 and \$95,669 respectively.

The Board of Directors and management of Challenge Unlimited, Inc. provides substantial oversight, management, and common directorship of Residential Options, Inc and Project CU, 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 provides administrative services to Project CU, Inc.

A summary of transactions with related organizations is as follows:

	Residential Options, Inc.	Project CU, Inc.	Total 2022	Total 2021
Revenue:				
Day Training	\$ 319,135		\$ 319,135	\$ 376,806
Management Fees	550,000	\$ 32,400	582,400	399,996
Contract Labor	151,513	40,119	191,632	156,250
Building Rental	422,424		422,424	422,424
Total Revenue	\$ 1,443,072	\$ 72,519	\$ 1,515,591	\$ 1,355,476
Accounts Receivable - Related	\$ 193,964	\$ 242	\$ 194,206	\$ 317,224
Accounts Receivable	\$ 1,149	\$ 21,292	\$ 22,441	\$ 32,688

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 14. RELATED PARTY TRANSACTIONS (CONTINUED)

Summarized financial data of Residential Options, Inc. at June 30, 2022 and 2021 is as follows:

Statement of Financial Position

	<u>2022</u>	<u>2021</u>
Current Assets	\$ 6,802,856	\$ 6,600,752
Other Assets	3,421,631	3,823,362
Net Property, Equipment, and Goodwill	<u>1,561,411</u>	<u>1,563,621</u>
Total Assets	<u>\$ 11,785,898</u>	<u>\$ 11,987,735</u>
Current Liabilities	\$ 905,811	\$ 1,252,070
Long-Term Liabilities	0	1,466
Total Net Assets	<u>10,880,087</u>	<u>10,734,199</u>
Total Liabilities and Net Assets	<u>\$ 11,785,898</u>	<u>\$ 11,987,735</u>

Statement of Activities

Total Revenue	\$ 10,851,564	\$ 11,312,636
Total Expenses	<u>10,705,676</u>	<u>10,205,244</u>
Change in Net Assets	<u>\$ 145,888</u>	<u>\$ 1,107,392</u>

Summarized financial data of Project CU, Inc. at June 30, 2022 and 2021 is as follows:

Statement of Financial Position

	<u>2022</u>	<u>2021</u>
Current Assets	\$ 796,821	\$ 606,405
Net Property, Equipment, and Goodwill	<u>1,580,335</u>	<u>1,620,837</u>
Total Assets	<u>\$ 2,377,156</u>	<u>\$ 2,227,242</u>
Current Liabilities	\$ 165,611	\$ 134,938
Long-Term Liabilities	963,661	1,021,619
Total Net Assets	<u>1,247,884</u>	<u>1,070,685</u>
Total Liabilities and Net Assets	<u>\$ 2,377,156</u>	<u>\$ 2,227,242</u>

Statement of Activities

Total Revenue	\$ 1,917,447	\$ 1,879,243
Total Expenses	<u>1,740,248</u>	<u>1,542,349</u>
Change in Net Assets	<u>\$ 177,199</u>	<u>\$ 336,894</u>

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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, 2022 and 2021, 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, 2019 through June 30, 2022. The June 30, 2022 tax return has not been filed as of the date of this report.

NOTE 16. DONATED SERVICES AND ASSETS

In-kind grants included in the statement of activities are comprised of the following:

<u>Program or</u> <u>Service</u>	<u>Supporting</u> <u>Donated Assets</u>
Community Day Service	\$ 20,000

All donated assets were utilized by the Organization's community day service program. Donor imposed restrictions on the vehicles are that vehicle must be used for the useful life of the project as determined in accordance with IDOT guidelines. If it is not used as required by the terms of the agreements or is sold or otherwise disposed, vehicle must be transferred back to IDOT or remit the fair market value of the vehicle to IDOT. Donated assets are valued at estimated prices of identical or similar products.

NOTE 17. 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>2022</u>	<u>2021</u>
Financial assets, at year end:	\$ 13,151,334	\$ 13,123,999
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with purpose restrictions	-	(10,000)
Board Designations:		
Amounts set aside for liquidity reserve	<u>(6,944,125)</u>	<u>(6,944,125)</u>
Financial assets available to meet cash needs for general expenditures:		
Within one year:	<u>\$ 6,207,209</u>	<u>\$ 6,169,874</u>

CHALLENGE UNLIMITED, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

NOTE 18. NEW ACCOUNTING PRONOUNCEMENT

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard clarified the presentation and disclosures of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized. The adoption of this new guidance did not have a material effect on the financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” This update includes a lease accounting model that recognizes two types of leases—finance leases and operating leases. The standard requires that a lessee recognize on the balance sheet assets and liabilities relating to leases with terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. This update is effective for the Organization beginning in July 2022. The Organization will be required to record a “right of use” asset and a lease liability payable and believes that the increase in assets and liabilities for all of its existing leases upon adoption will be material. The Organization is currently evaluating the impact of this adoption including the use of practical expedients provided in the guidance.

NOTE 19. 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 21. SUBSEQUENT EVENTS

Management has evaluated the effect of subsequent events through December 15, 2022. From this evaluation, there are no events identified that met the requirement for disclosure.

CHALLENGE UNLIMITED, INC.  
 SCHEDULE OF PROGRAM REVENUES  
 FOR THE YEAR ENDED JUNE 30, 2022

LINE #	PROGRAM 311U COMMUNITY DAY SERVICES	PROGRAM 31C COMMUNITY DAY SERVICES	SEP SUPPORTED EMPLOYMENT	VOC. VOCATIONAL DEVELOPMENT	BTXX - DHS TRANSITIONAL SERVICES	MODVR SERVICES	FEDERAL CONTRACT SITES	CALL CENTER	ADMINISTRATIVE	TOTAL
<b>FEES AND PURCHASES FOR SERVICES:</b>										
5	\$ 1,514,888	\$ 91,172	\$ 9,183	\$ 3,453		\$ 34,476				\$ 1,653,172
6	577,777									577,777
12	29,659									29,659
16	\$ 2,122,324	\$ 91,172	\$ 9,183	\$ 3,453	\$ 0	\$ 34,476	\$ 0	\$ 0	\$ 0	\$ 2,260,608
<b>GRANT REVENUES:</b>										
20	\$ 7,019								\$ 1,000	\$ 8,019
21	20,001		\$ 134,119	\$ 296,160	\$ 17,941					488,879
30	\$ 27,020	\$ 0	\$ 134,119	\$ 296,160	\$ 17,941	\$ 0	\$ 0	\$ 1,000	\$ 0	\$ 496,898
<b>CONTRIBUTIONS AND OTHER</b>										
37	\$ 247,759		\$ 249	\$ 3,910	\$ 558		\$ 154,482	\$ 1,100,104		\$ 23,779,552
38								422,424		422,424
39									6,931	6,931
40	706								2,790	2,790
41	1,445		1,045	556					1,558	4,604
42	\$ 249,910	\$ 0	\$ 1,294	\$ 4,466	\$ 558	\$ 0	\$ 154,482	\$ 1,524,086	\$ 0	\$ 24,216,301
<b>INVESTMENT INCOME</b>										
44	\$ 27								\$ 54,745	\$ 55,369
45	\$ 27	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 54,745	\$ 0	\$ 55,369
47	\$ 2,399,281	\$ 91,172	\$ 144,596	\$ 304,079	\$ 18,499	\$ 34,476	\$ 154,482	\$ 1,579,831	\$ 0	\$ 27,029,176

CHALLENGE UNLIMITED, INC.  
 SCHEDULE OF PROGRAM COSTS  
 FOR THE YEAR ENDED JUNE 30, 2022

LINE #	PROGRAM 31U COMMUNITY DAY SERVICES	PROGRAM 31C COMMUNITY DAY SERVICES	SEP SUPPORTED EMPLOYMENT	VOC VOCATIONAL DEVELOPMENT	BIXX - DHS TRANSITIONAL SERVICES	MO/DVR SERVICES	FEDERAL CONTRACT SITES	CALL CENTER	ADMINISTRATIVE	TOTAL
	<b>PROGRAM EXPENSES:</b>									
1	Program Staff Salaries	\$ 1,123,339	\$ 133,391	\$ 181,478	\$ 15,792	\$ 54,291	\$ 5,154,571	\$ 3,862	\$	\$ 6,704,737
3	Program Payroll Taxes and Fringe Benefits	312,930	28,857	50,005	4,294	9,150	1,312,683	224	\$ 1,980	1,734,895
4	Program Consultants	24,432	700	2,499	1	5	428,447	147,021	4,299	6,927,775
5	Consumer Wages and Fringe Benefits	146,297					6,620,820		2,544	6,550
6	Medicine and Drugs	926	10	8		5	2,998		6,185	1,002,626
7	All Other Program Equipment and Supplies	34,132	647	400	98	1,219	957,809			79,407
8	Staff Transportation	20,537	2,681	6,345	2,676	4,819	41,234		21,002	853,782
9	Client Transportation	525,729	3,017	3,661	1	113	266,702			1,195
11	Direct Service Staff Conference and Conventions	(342)	35			240	1,313			75,540
14	Telecommunications Costs Assigned to Program	23,492	3,385	3,199	397	920	42,710		59	40,526
16	Other						40,467			
17	Total Program Expenses	\$ 2,211,472	\$ 172,723	\$ 247,595	\$ 23,259	\$ 70,762	\$ 14,869,754	\$ 151,107	\$ 36,069	\$ 17,886,657
	<b>OCCUPANCY EXPENSES:</b>									
26	Building & Equipment Operations & Maintenance	\$ 175,975	\$ 1,508	\$ 874	\$ 345	\$ 2,636	\$ 1,734,904	\$ 15	\$ 126,370	\$ 2,053,859
27	Vehicle Depreciation	33,593					205,712		13,287	254,736
28	All Other Depreciation and Amortization	179,292					188,924		111,099	490,759
30	All Other Lease/Rent/Taxes	98,022	8,235	8,235		4,800	41,741		45,341	212,631
31	Equipment Under \$500	9,199	64			18	57,080		6,429	73,377
35	Total Occupancy Expenses	\$ 496,081	\$ 9,807	\$ 9,109	\$ 345	\$ 7,454	\$ 2,228,361	\$ 15	\$ 302,526	\$ 3,085,362
	<b>ADMINISTRATIVE AND OFFICE EXPENSES</b>									
36	Administrative Salaries	\$ 208,888	\$ 13,194	\$ 18,667	\$ 1,697	\$ 6,235	\$ 545,953		\$ 2,675,699	\$ 3,482,866
37	Administrative Payroll Taxes and Fringe Benefits	102,505	5,273	7,461	678	2,492	227,896		557,603	910,245
38	Administrative Consultants						707,919	\$ (3)	295,575	1,003,491
39	Telecommunications Costs Not Assigned to Program	1,041	66	93	8	31	3,440		48,996	53,738
40	Office Supplies and Equipment	10,199	1,069	2,860	35	2,672	39,821		62,608	119,915
41	Allocation of Management and General	299,256	16,816	21,954	2,764	6,960	1,768,632		(2,116,382)	0
42	Administrative Other	33,485	1,312	2,045	148	6,490	124,421	1	3,921,712	4,091,734
43	Total Administrative Expenses	\$ 655,374	\$ 37,730	\$ 53,080	\$ 5,330	\$ 24,880	\$ 3,418,082	\$ (2)	\$ 5,445,811	\$ 9,661,989
44	TOTAL EXPENSES	\$ 3,362,927	\$ 220,260	\$ 309,784	\$ 28,934	\$ 103,096	\$ 20,516,197	\$ 151,120	\$ 5,784,406	\$ 30,634,008
	<b>LESS, NON-REIMBURSABLE EXPENSES</b>									
47	Other	\$ 617,431	\$ 177	\$ 198	\$ 7	\$ 54	\$ 20,516,197		\$ 3,361,707	\$ 24,495,771
48	Total Non-Reimbursable Expenses	\$ 617,431	\$ 177	\$ 198	\$ 7	\$ 54	\$ 20,516,197	\$ 0	\$ 3,361,707	\$ 24,495,771
49	NET EXPENSES	\$ 2,745,496	\$ 220,083	\$ 309,586	\$ 28,927	\$ 103,042	\$ 0	\$ 151,120	\$ 2,422,699	\$ 6,138,237



ALTON EDWARDSVILLE BELLEVILLE HIGHLAND  
JERSEYVILLE COLUMBIA CARROLLTON

December 15, 2022

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, 2022, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2022.

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. and Project CU, Inc., which have a significant managerial and financial relationship with Challenge Unlimited, Inc.

**Report on 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) 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 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.

### **Report on 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