

Chicago Commons Association

Reports Required by the Uniform Guidance
and *Government Auditing Standards*
June 30, 2016

Contents

Independent auditor's report	1-2
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Financial statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5-6
Statement of cash flows	7
Notes to financial statements	8-17

Supplementary information	
Schedule of expenditures of federal awards	18
Notes to schedule of expenditures of federal awards	19

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 <i>Government Auditing Standards</i>	20-21
---	-------

Independent auditor's report on compliance for the major federal program and report on internal control over compliance required by The Uniform Guidance	22-23
--	-------

Schedule of findings and questioned costs	24-25
---	-------

Summary schedule of prior audit findings	26
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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Chicago Commons Association
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Chicago Commons Association (Commons), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 audit. 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chicago Commons Association as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Chicago Commons Association's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 consolidated 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 November 14, 2016 on our consideration of Commons' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commons' internal control over financial reporting and compliance.

RSM US LLP

Chicago, Illinois
November 14, 2016

Chicago Commons Association

**Statement of Financial Position
June 30, 2016 (With Comparative Totals For 2015)**

	2016	2015
Assets		
Cash	\$ 228,278	\$ 3,692,514
Accounts receivable, net	8,459,653	3,373,160
Other current assets	70,220	97,764
Contributions receivable	393,750	311,500
Investments	85,359	80,435
Other investments	-	25,000
Property and equipment, net	4,460,934	4,506,175
Beneficial interest in trusts	3,021,356	3,188,820
	\$ 16,719,550	\$ 15,275,368
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,333,077	\$ 815,344
Accrued expenses	829,692	995,193
Line of credit	650,000	-
Accrued settlement and retirement obligations	50,000	60,000
Notes payable	1,855,054	1,966,459
	4,717,823	3,836,996
Net assets:		
Unrestricted	8,004,621	7,339,117
Unrestricted Board Designated - Valliere Sustainability Fund	240,000	240,000
Total Unrestricted	8,244,621	7,579,117
Temporarily restricted	658,750	593,435
Permanently restricted	3,098,356	3,265,820
	12,001,727	11,438,372
	\$ 16,719,550	\$ 15,275,368

See notes to financial statements.

Chicago Commons Association

Statement of Activities

Year Ended June 30, 2016 (With Comparative Totals For 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Public support and revenue:					
Direct public support:					
Contributions	\$ 276,428	\$ 524,500	\$ -	\$ 800,928	\$ 747,701
Allocations from trusts	115,682	-	-	115,682	160,718
Special events, net of expenses of \$94,179 in 2016 and \$108,469 in 2015	67,730	-	-	67,730	122,673
Indirect public support:					
Allocations by United Way	75,000	-	-	75,000	75,000
Net assets released from restrictions	459,185	(459,185)	-	-	-
	<u>994,025</u>	<u>65,315</u>	<u>-</u>	<u>1,059,340</u>	<u>1,106,092</u>
Fees and grants from governmental agencies	25,862,236	-	-	25,862,236	27,580,569
Fee for service revenue	1,158,800	-	-	1,158,800	802,806
Client fees and other support	416,522	-	-	416,522	351,009
Investment income	23,249	-	-	23,249	1,555
Decrease in beneficial interest in trusts	-	-	(167,464)	(167,464)	(140,164)
Other income	165,394	-	-	165,394	3,571
	<u>28,620,226</u>	<u>65,315</u>	<u>(167,464)</u>	<u>28,518,077</u>	<u>29,705,438</u>
Expenses:					
Program services:					
Child development	12,958,683	-	-	12,958,683	12,308,490
Senior services	12,052,742	-	-	12,052,742	13,044,218
Community services	-	-	-	-	302,193
Adult education and youth services	417,215	-	-	417,215	692,119
	<u>25,428,640</u>	<u>-</u>	<u>-</u>	<u>25,428,640</u>	<u>26,347,020</u>
Supporting services:					
Management and general	2,012,925	-	-	2,012,925	2,000,439
Fundraising	513,157	-	-	513,157	457,118
	<u>2,526,082</u>	<u>-</u>	<u>-</u>	<u>2,526,082</u>	<u>2,457,557</u>
Operating expenses	<u>27,954,722</u>	<u>-</u>	<u>-</u>	<u>27,954,722</u>	<u>28,804,577</u>
Increase (decrease) in net assets	665,504	65,315	(167,464)	563,355	900,861
Net assets:					
Beginning of year	<u>7,579,117</u>	<u>593,435</u>	<u>3,265,820</u>	<u>11,438,372</u>	<u>10,537,511</u>
End of year	<u>\$ 8,244,621</u>	<u>\$ 658,750</u>	<u>\$ 3,098,356</u>	<u>\$ 12,001,727</u>	<u>\$ 11,438,372</u>

See notes to financial statements.

Chicago Commons Association

Statement of Functional Expenses

Year Ended June 30, 2016 (With Comparative Totals For 2015)

	Program Services			Total Program Services
	Child Development	Senior Services	Adult Education & Youth Services	
Functional expenses:				
Salary and wages	\$ 6,185,834	\$ 8,588,453	\$ 177,009	\$ 14,951,296
Payroll taxes and employee benefits	1,331,852	1,272,550	65,552	2,669,954
	<u>7,517,686</u>	<u>9,861,003</u>	<u>242,561</u>	<u>17,621,250</u>
Professional development, travel, and conferences	119,608	8,802	897	129,307
Supplies	812,638	109,892	4,833	927,363
Operating expenses	2,188,272	1,281,537	27,053	3,496,862
Professional services	734,174	40,350	58,702	833,226
Building, utilities, and insurance	1,206,190	468,421	75,914	1,750,525
Equipment rental and maintenance	203,654	103,904	-	307,558
Depreciation and amortization	176,461	148,922	7,255	332,638
Interest expense	-	29,911	-	29,911
	<u>\$ 12,958,683</u>	<u>\$ 12,052,742</u>	<u>\$ 417,215</u>	<u>\$ 25,428,640</u>

See notes to financial statements.

Chicago Commons Association

**Statement of Functional Expenses (Continued)
Year Ended June 30, 2016 (With Comparative Totals For 2015)**

	Supporting Services			Total	
	Management and General	Fundraising	Total Supporting Services	2016	2015
Functional expenses:					
Salary and wages	\$ 855,582	\$ 330,586	\$ 1,186,168	\$ 16,137,464	\$ 16,596,526
Payroll taxes and employee benefits	125,739	39,788	165,527	2,835,481	2,715,160
	<u>981,321</u>	<u>370,374</u>	<u>1,351,695</u>	<u>18,972,945</u>	<u>19,311,686</u>
Professional development, travel, and conferences	34,434	14,521	48,955	178,262	227,199
Supplies	9,483	2,279	11,762	939,125	920,322
Operating expenses	78,148	11,301	89,449	3,586,311	3,843,748
Professional services	601,254	97,125	698,379	1,531,605	1,609,336
Building, utilities, and insurance	198,134	11,015	209,149	1,959,674	2,506,525
Equipment maintenance, rentals, and repairs	17,109	-	17,109	324,667	50,131
Depreciation and amortization	48,632	5,241	53,873	386,511	267,689
Interest expense	44,410	1,301	45,711	75,622	67,941
	<u>\$ 2,012,925</u>	<u>\$ 513,157</u>	<u>\$ 2,526,082</u>	<u>\$ 27,954,722</u>	<u>\$ 28,804,577</u>

See notes to financial statements.

Chicago Commons Association

Statement of Cash Flows
Year Ended June 30, 2016 (With Comparative Totals For 2015)

	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 563,355	\$ 900,861
Depreciation and amortization	386,511	267,689
Decrease in market value of beneficial interest in perpetual trusts	167,464	140,164
Realized and unrealized (gains) losses on investments	(21,208)	417
Changes in:		
Accounts receivable	(5,086,493)	309,362
Other current assets	27,544	85,814
Contributions receivable	(82,250)	(89,810)
Accounts payable and accrued expenses	352,232	231,099
Advances from government agencies	-	(183,503)
Net cash (used in) provided by operating activities	(3,692,845)	1,662,093
Cash flows from investing activities:		
Purchases of property and equipment	(341,270)	(1,016,099)
Liquidation of capital	25,000	-
Sales (purchases) of investments	16,284	(1,784)
Net cash used in investing activities	(299,986)	(1,017,883)
Cash flows from financing activities:		
Net proceeds from line of credit	650,000	-
Payments of notes payable	(111,405)	(105,541)
Repayments of settlement obligation	(10,000)	(10,000)
Net cash provided by (used in) financing activities	528,595	(115,541)
(Decrease) increase in cash	(3,464,236)	528,669
Cash:		
Beginning of year	3,692,514	3,163,845
End of year	\$ 228,278	\$ 3,692,514
Supplemental disclosure of cash flow information:		
Interest paid	\$ 75,622	\$ 67,941

See notes to financial statements.

Chicago Commons Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Chicago Commons Association (Commons) is a nonprofit social services agency that partners with individuals, families, and communities to overcome poverty, discrimination, and isolation. Commons creates programs that promote self-sufficiency and strengthen individuals at key stages of life from child development to elderly care. Commons targets its program services to communities affected by high rates of poverty and limited educational and economic resources for families. Commons operates four core programs - Child Development, Senior Services, and Adult Education and Youth Services, and bases its operations in four Chicago neighborhoods - West Humboldt Park, Pilsen, New City/Back of the Yards, and Grand Boulevard.

Commons was founded in 1894 as a settlement house on the near west side of Chicago, Illinois, a neighborhood then populated by recent immigrants who were vulnerable to the largely unregulated growth of industrial, urban America. Throughout its history, Commons has successfully adjusted its programs and targeted communities to respond to changes in the needs of Chicago's neighborhoods. As in previous times, Commons continues to transform itself to ensure that resources are used in the way to make a deep and lasting impact on the people and neighborhoods that participate in its programs.

Commons receives a significant portion of its funding from city, state and federal government programs. In addition, Commons continues to raise significant private resources from individuals, corporations, foundations and through federated appeals such as the United Way.

Commons is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state law.

Basis of presentation: The Commons' financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to nonprofit organizations.

Accounting standards: Commons follows accounting standards established by the Financial Accounting Standards Board (the FASB) to ensure consistent reporting of financial condition, results of activities, and cash flows. References to U.S. GAAP in these footnotes are to the *FASB Accounting Standards CodificationTM*, sometimes referred to as the Codification or ASC.

Cash: Commons maintains its cash balances in bank accounts which, at times, may exceed federally insured limits. Commons has not experienced any losses in such accounts and management believes that Commons is not exposed to any significant credit risk on cash.

Accounts receivable: Receivables are almost entirely due from governmental agencies and are valued at management's estimate of the amount that will ultimately be collected. Management recorded an allowance for doubtful accounts of \$187,941 at June 30, 2016, based on specific identification of uncollectible accounts and historical collection experience.

Investments: Investments are recorded at fair value, based on quoted prices in active markets for identical assets. Changes in market value are recorded as unrealized gains (losses).

Commons' investment portfolio is exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such changes could affect the amounts reported in the statement of activities. Changes in fair value are included in net investment gains or losses on the statement of activities.

Chicago Commons Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are stated at cost, except for donated assets, which are recorded at fair value at the time of receipt. Additions and improvements to existing property and equipment in amounts over \$5,000 during the year are capitalized, while general maintenance and repairs are charged to expense. The cost and accumulated depreciation of items sold or returned are removed from the property and equipment account and any gain or loss upon disposition is recognized at that time. Depreciation is being provided using the straight-line method over the estimated useful lives of the assets. These lives range from 3 to 7 years for equipment and software, 5 years for vehicles, 20 years for land improvements and 31.5 to 50 years for buildings and building improvements.

Impairment: Commons reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized.

Beneficial interest in irrevocable perpetual trusts: Commons is an income beneficiary of certain irrevocable perpetual trusts established by donors and administered by certain third-party trusts. Income allocations from such trusts have no restriction on their use and are recognized as revenue when received from the third-party trusts. Commons' beneficial interest in the assets of irrevocable perpetual trusts is carried at fair value in its statement of financial position based on the fair value of the underlying trust assets.

Classification of net assets: Net assets and related activities of the various funds are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor imposed restrictions.

Unrestricted: Net assets available for support of Commons' operations and are not subject to donor-imposed restrictions. This also includes board designated funds.

Board Designated: Unrestricted net assets that have been identified by the board to be used for a specific purpose. These funds are still considered unrestricted because the net assets are not subject to donor-imposed restrictions. During fiscal year 2013, the board established the Valliere Sustainability Fund. This fund is a working capital fund that allows Commons to have the financial wherewithal to grow and respond to opportunities that arise that will result in better, more impactful services for clients. The Valliere Sustainability Fund has an initial corpus of \$240,000, which is comprised of bequests received.

Temporarily Restricted: Net assets subject to donor-imposed restrictions that may or will be met either by actions of Commons or the passage of time. Temporarily restricted net assets are released and reclassified to unrestricted net assets when the restrictions have been met. Restricted amounts received in the same period in which the restrictions are satisfied are recorded in the unrestricted class.

Permanently Restricted: Net assets subject to donor-imposed restrictions requiring that the contributed assets be invested and maintained permanently by Commons. Commons may use all or part of the income earned on the related investments for unrestricted purposes.

Contributions: Commons recognizes donors' unconditional promises to give cash and other assets as revenue in the period the promises are made. Contributions receivable have been recorded for amounts expected to be collected in the future. At June 30, 2016, amounts were primarily due within one year. Contributions to be received after one year are discounted to present value. Amortization of the discount is recorded as contribution revenue. No allowance for uncollectible contributions at June 30, 2016, has been provided based upon management's assessment, which includes analysis of various factors including prior collection history, type of contribution, and nature of fundraising activity.

Chicago Commons Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Donors' promises to give cash and other assets that are conditional are not recognized until the conditions on which they depend are substantially met.

Contributions received with donor-imposed temporary restrictions are recorded as temporarily restricted revenue, unless satisfaction of restrictions occurs in the same year as revenue recognition, in which case the contributions are recorded as unrestricted revenue.

Donated materials and other noncash donations are recorded as contributions at their estimated fair value on the date received.

Many individuals volunteer their time and perform a variety of tasks that assist Commons with its programs and administration, but these donated services are not reflected in the financial statements because they do not meet the requirements for inclusion. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Commons reports such contributions at their estimated fair value when received.

Fees and grants from governmental agencies: Revenue from government grants and contract agreements is recognized as it is earned. Revenue is considered earned when it is expended in accordance with the agreement. Unexpended amounts, including amounts received in advance, are recorded as advances from government agencies.

Fee for service revenue: Revenue is recognized in the fiscal year that the services are rendered.

Functional expenses: Operating expenses directly identified with a functional core program are charged to that program and, where these expenses affect more than one program, they are allocated on the basis of ratios estimated by management.

Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative data: The financial statements include certain prior year summarized comparative information in total but not in the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commons' financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Income taxes: The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, Commons may recognize the tax benefit from an uncertain tax position only if it is more than likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of Commons and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the reporting period presented in the financial statements.

Chicago Commons Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Commons files Form 990 in the U.S. federal jurisdiction and the State of Illinois. Commons is generally no longer subject to examination by the Internal Revenue Service for tax years before 2013.

Recent accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard will be effective for Common's June 30, 2019 financial statements. Early adoption is permitted.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Early adoption is not permitted. The updated standard will be effective for Common's June 30, 2020 financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard will be effective for Common's June 30, 2021 financial statements.

Commons is currently evaluating the impact of the adoption of the above standards on its financial statements.

Subsequent events: Commons has evaluated subsequent events for potential recognition and/or disclosure through November 14, 2016, the date the financial statements were available to be issued.

Note 2. Investments

Investments at June 30, 2016, consist of \$85,359 held at the Vanguard Group in a bond market index fund.

Investment returns for fiscal year 2016 were as follows:

	Unrestricted	Permanently Restricted	Total
Interest and dividends	\$ 2,041	\$ -	\$ 2,041
Unrealized loss on investments	2,883	-	2,883
Realized gain on sale of investments	18,325	-	18,325
Decrease in beneficial interest in trusts	-	(167,464)	(167,464)
	<u>\$ 23,249</u>	<u>\$ (167,464)</u>	<u>\$ (144,215)</u>

Chicago Commons held a 2.5 percent ownership interest in Together4Health LLC which was dissolved in 2016. Commons' initial investment of \$25,000 was returned and a gain of \$18,325 was realized upon final distribution in 2016.

Chicago Commons Association

Notes to Financial Statements

Note 3. Fair Value

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this guidance as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the highest level of input that is significant to the fair value measurement. Commons' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

For fiscal year 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent, and there are no unfunded commitments at June 30, 2016, requiring fair value measurement. Commons assesses levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. For the year ended June 30, 2016, there were no such instances. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of publicly traded bond mutual fund securities is based upon market quotations of national security exchanges. These financial instruments are classified as Level 1 in the fair value hierarchy.

Beneficial Interest in Perpetual Trusts

The fair value of Commons' beneficial interest in perpetual trusts was provided by the trustee. The trustee determines fair value based on readily available pricing sources for market transactions involving identical assets for securities. Such trust assets are held and invested in perpetuity by third-party trustees, which are financial institutions. The valuations include certain unobservable inputs and are, therefore, classified as Level 3.

Chicago Commons Association

Notes to Financial Statements

Note 3. Fair Value (Continued)

	Fair Value Measurements Using			Total
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Bond mutual fund	\$ 85,359	\$ -	\$ -	\$ 85,359
Beneficial interest in perpetual trusts	-	-	3,021,356	3,021,356
	<u>\$ 85,359</u>	<u>\$ -</u>	<u>\$ 3,021,356</u>	<u>\$ 3,106,715</u>

A reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) during the year ended June 30, 2016, is as follows:

	Level 3 Assets
Balance, beginning of year	\$ 3,188,820
Change in value of beneficial interest in trusts	(167,464)
Balance, end of year	<u>\$ 3,021,356</u>

Note 4. Property and Equipment

Property and equipment at June 30, 2016, consists of:

Land and land improvements	\$ 272,675
Buildings and building improvements	4,694,711
Machinery and equipment	1,104,798
Vehicles	342,986
Construction in Process	14,746
	<u>6,429,916</u>
Accumulated depreciation	(1,968,982)
	<u>\$ 4,460,934</u>

Commons' land and buildings consist of various properties located throughout Chicago, Illinois. Depreciation expense totaled \$386,511 for fiscal year 2016.

During fiscal years 2012 and 2013, Commons purchased and made improvements to a building located in the Grand Boulevard community. This facility houses senior care services and administrative offices. As part of the acquisition, Commons assumed a ground lease with the County of Cook, Illinois for the land, valued at \$56,000. The original term of the ground lease is 20 years, ending December 2022. There is an option for a one-time extension of an additional 10 years. Upon termination, Commons has an option to purchase the land. Commons has capitalized the land lease and is amortizing the lease annually over the remaining term.

Chicago Commons Association

Notes to Financial Statements

Note 5. Beneficial Interest in Perpetual Trusts

Commons is a designated income beneficiary of certain irrevocable perpetual trusts. The terms of the trust agreements provide that Commons, as an income beneficiary, is to receive its beneficial interest in the income of the trust assets as earned in perpetuity. Such trust assets are held and invested in perpetuity by the third-party trustees, which are financial institutions. Although the beneficial interest in these trusts (and any appreciation in the value of the trusts) is permanently restricted, the income from the trusts is unrestricted. The perpetual trusts' names, Commons' percentage interests and balances at June 30, 2016, are as follows:

	Percentage Interest	
Hobart Williams Charitable Trust	10.00%	\$ 2,127,738
Frank W. Thurston Chicago Community Trust	25.00%	823,376
Emaroy June Benevolent Fund	3.28%	70,242
		<u>\$ 3,021,356</u>

Note 6. Line of Credit

Commons has a line of credit agreement with a commercial bank which expires on June 30, 2017, and provides for maximum borrowings of \$5,000,000 with an interest rate equal to 3.0 percent. Any borrowings are collateralized by bank deposits and a security interest in Commons' accounts receivable. The agreement requires Commons' compliance with various covenants, including a minimum debt service coverage ratio. Outstanding borrowings at June 30, 2016, totaled \$650,000.

Note 7. Notes Payable

Chicago Commons is obligated under notes payable to Citizens Bank. The loans carry a fixed interest rate of 3.25 percent with a term of 5 years, amortized over 15 years. Payments of principal and interest are due monthly through July 2019, at which time the remaining balance is due.

Chicago Commons Association

Notes to Financial Statements

Note 7. Notes Payable (Continued)

Commons' notes payable consisted of the following at June 30, 2016:

Note payable to Citizens Bank, dated June 2014, for \$792,000 to refinance IFF Loans for Nia Family Center and New City Family Center. The note is payable in monthly installments of \$5,565 including a fixed interest rate of 3.25 percent through July 2019, with a balloon payment due at the end of the term. The note is secured by a mortgage security agreement in connection with the Nia Family Center. \$ 709,075

Note payable to Citizens Bank, dated June 2014, for \$1,280,000 to refinance IFF Loan for its Grand Boulevard facility. The note is payable in monthly installments of \$8,994 including a fixed interest rate of 3.25 percent through July 2019, with a balloon payment due at the end of the term. The note is secured by a mortgage security agreement in connection with the Grand Boulevard facility. 1,145,979
\$ 1,855,054

Future payments due on the notes at June 30, 2016 are as follows:

2017	\$ 115,829
2018	119,650
2019	123,597
2020	127,673
2021	131,895
Thereafter	1,236,410
	<u>\$ 1,855,054</u>

In July 2016, Commons refinanced one of its notes payable with Citizens Bank. IFF provided loan proceeds of \$1,980,000, of which \$718,134 were used to pay off the balance of the note payable. The IFF loan carries a fixed interest rate of 3.55 percent for seven years; interest is paid quarterly with a balloon payment due at July 28, 2023. The note is secured by a mortgage security agreement in connection with the Nia Family Center.

Note 8. Retirement Plan Benefits

Commons has a savings and retirement plan for employees who are 21 years of age and are United States citizens. An employee (other than an excluded employee) becomes a participant in the elective deferral portion of the plan on the first day of employment with Commons. To become a participant in the non-elective contribution portion (matching contributions) an employee must have attained 21 years of age. Commons may contribute a discretionary matching contribution of 50 percent of a participant's elective deferral limited to 4 percent of a participant's compensation per payroll period (previously 3 percent). Participants are immediately vested in their payroll deferral contributions. Vesting in Commons' contribution portion is based on years of continuous service. A participant is 100 percent vested after three years of eligible service. Employer contributions to the plan were \$92,400 for 2016.

Chicago Commons Association

Notes to Financial Statements

Note 9. Pension Plans

Commons participated in the revised retirement plan for employees of United Way/Crusade of Mercy, Inc. and participating agencies. The plan provided benefits for employees upon retirement, death, and severance from employment. Benefits were based on years of service and compensation. In 2006, Commons filed an application with the Pension Benefit Guaranty Corporation (PBGC) requesting that the plan be terminated under Section 4041(c) of the Employee Retirement Income Security Act of 1974, as amended. In 2009, Commons received notification from the PBGC that the termination application was accepted effective May 2, 2006. Subsequently, Commons released to the PBGC its related pension assets and liabilities, and responsibility for benefit payments to plan participants and entered into a settlement agreement to satisfy the unfunded liabilities in the plan. As part of the settlement agreement, Commons agreed to pay the PBGC \$120,000 in 12 annual payments of \$10,000 each. The value of the remaining payments totaled \$50,000 at June 30, 2016, and is included in accrued settlement and retirement liabilities in the statement of financial position.

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for current and long-term purposes as follows at June 30, 2016:

Child development	\$ 107,500
Adult Education	60,000
Youth Services	209,319
Family Hub	197,120
Other	84,811
	<u>\$ 658,750</u>

Note 11. Leases and Commitments

Commons is obligated under various occupancy and equipment leases expiring through fiscal year 2021. Annual future minimum lease payments related to these leases at June 30, 2016, are approximately as follows:

2017	\$ 696,395
2018	382,106
2019	331,571
2020	263,151
2021	174,855
	<u>\$ 1,848,078</u>

Total lease payments under operating leases in fiscal year 2016 were \$1,017,116.

Commons is a party to a master services agreement for financial and accounting services with an initial term through 2016. Commons will be responsible for monthly fees for services rendered and reimbursement of expenses. Certain fees may also be payable if Commons terminates the arrangement.

Chicago Commons Association

Notes to Financial Statements

Note 12. Supporting Agencies

Commons received approximately 95 percent of revenue in the form of fees and grants from governmental agencies. This support is subject to review and final determination by the granting agencies. Commons does not anticipate any significant adjustment upon final review and determination.

The State of Illinois budget impasse has resulted in non-payment of several Agency contracts with the State during fiscal year 2016, and a large balance of accounts receivable at June 30, 2016. Commons has recorded accrued interest in the amount of \$158,000 on these overdue amounts, which is included in other income on the statement of activities for fiscal year 2016. Subsequent to June 30, 2016, Commons received payment on substantially all of these state receivables.

As of the date of this report, the State of Illinois had not passed a budget for its fiscal year 2017. As such, Commons is uncertain the amount of funding that will be available for services funded by the state for the year beginning July 1, 2016. Commons is using fiscal year 2016 contracts as a proxy for funding levels in fiscal year 2017. When a budget is passed and contracts are finalized, Commons will adjust expense levels accordingly.

Note 13. Subsequent Events

In July 2016, Commons closed its West Side Adult Day Care Center facility. This decision was made to minimize operating losses incurred for the program due to declining revenues. Clients impacted by this decision were either relocated to Commons' south side adult day care facility or provided with resources for transitioning to other service providers.

Supplementary Information

Chicago Commons Association

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grantor's Contract Number	Total Expenditures of Federal Awards
U.S. Department of Agriculture			
Passed through the Illinois State Board of Education Child and Adult Care Food Program - Child Care and At-Risk Food Program	10.558	15-016-403P-00	\$ 475,409
Passed through the Illinois Department of Aging Child and Adult Care Food Program	10.558	SDA0012010	<u>97,389</u>
			<u>572,798</u>
U.S. Department of Health and Human Services			
Passed through the City of Chicago - Department of Family and Support Services Child Care and Development Block Grant	93.596	28486-3	1,225,227
Passed through the Illinois Department of Human Services Child Care and Development Block Grant	93.575	01001490B	<u>5,254</u>
			<u>1,230,481</u>
Passed through the Illinois Department of Children and Family Services and City of Chicago - Department of Family and Support Services Head Start - Early Head Start	93.600	05CH010200-01	1,009,509
Head Start - Early Head Start	93.600	05CH8288-08	198,154
Passed through the City of Chicago - Department of Family and Support Services Head Start - CCP	93.600	31999-1	773,964
Head Start - CCP	93.600	31999-2	801,023
Head Start	93.600	33371-1	2,858,151
Head Start	93.600	28848-2	2,484,219
Light and Shadow	93.600	32160-1	59,665
Light and Shadow	93.600	33580-1	<u>3,168</u>
			<u>8,187,854</u>
			<u>9,418,335</u>
U.S. Corporation for National and Community Service			
Passed through Local Initiatives Support Corporation (LISC) Social Innovation Fund	94.019	40127-0020	<u>27,753</u>
			<u>\$ 10,018,886</u>

See notes to schedule of expenditures of federal awards.

Chicago Commons Association

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Chicago Commons Association (Commons) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Commons, it is not intended to and does not present the financial position, changes in net assets or cash flows of Commons.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Commons has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

There were no federal awards expended for non-cash assistance, insurance or any loans or loan guarantees outstanding at year-end.

Federal awards totaling \$571,476 were received in the form of USDA commodities from the Illinois State Board of Education under the Food Distribution Program (CFDA Number 10.558) in lieu of cash.

Of the federal expenditures presented in the Schedule, Commons did not provide any amounts to subrecipients.

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
Chicago Commons Association
Chicago, Illinois

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 Chicago Commons Association (Commons), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Commons' internal control over financial reporting (internal control) to determine 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 Commons' internal control. Accordingly, we do not express an opinion on the effectiveness of Commons' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Commons' 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Chicago, Illinois
November 14, 2016



RSM US LLP

Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Chicago Commons Association
Chicago, Illinois

Report on Compliance for the Major Federal Program

We have audited the Chicago Commons Association's (Commons) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Commons' major federal program for the year ended June 30, 2016. Commons' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Commons' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Commons' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Commons' compliance.

Opinion on the Major Federal Program

In our opinion, Commons complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Commons is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Commons' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Commons' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Chicago, Illinois
November 14, 2016

Chicago Commons Association

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

Section I

Summary of auditor's results:

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? Yes No

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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93.600	Head Start / Early Head Start
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Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee? Yes No

Chicago Commons Association

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

II. Financial Statement Findings

There were no findings relating to the financial statement audit required to be reported in accordance with *Government Auditing Standards*.

III. Findings and Questioned Costs for Federal Awards

There were no findings or questioned costs relating to federal awards.

Chicago Commons Association

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016**

I. Financial Statement Findings

There were no findings relating to the financial statement audit required to be reported in accordance with *Government Auditing Standards*.

II. Findings and Questioned Costs for Federal Awards

Material Weakness in Internal Controls Over Federal Awards

Finding FA 2015-001: Preparation of Schedule of Expenditure of Federal Awards

Federal Agency: United States Department of Health and Human Services

Federal Program Title; Pass-Through Entity; CFDA Number; Award Number; Award Year: Child Care and Development Block Grant; City of Chicago – Department of Family and Support Services and Illinois Department of Human Services; CFDA Number 93.575/93.596; Contracts 28486-1 and 01001490B; Award year June 1, 2014 – June 30, 2015

Audit Finding:

Subsequent to the issuance of Chicago Commons Association's (Commons) single audit reporting package for the year ended June 30, 2015, a grantor discovered that one amount included in the schedule of expenditures of federal awards did not agree to their corresponding accounting records. The difference between the amount that was recorded in the schedule and the amount that should have been recorded was material, resulting in a restatement of the schedule of expenditures of federal awards, determination and testing of the program as a major program, and resubmissions of the reporting package and data collection form.

Corrective Action Taken:

Commons prepared and sent confirmation letters to all funders annually to verify that contract awards are federally funded, the amount of federal funding received and the applicable CFDA number(s). This process was implemented immediately.