

**LA CASA NORTE and
LCN Title Holding Corporation NFP**

**Consolidated Financial Statements
and Supplementary Information
(Including Reports Required by
OMB's Uniform Guidance)**

**For the Year Ended
December 31, 2018**

**LA CASA NORTE and
LCN Title Holding Corporation NFP**

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors
La Casa Norte and LCN Title Holding Corporation NFP
Chicago, IL

We have audited the accompanying consolidated financial statements of La Casa Norte and LCN Title Holding Corporation NFP (nonprofit organizations), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of LCN Title Holding Corporation NFP, a local affiliate, which statements reflect total assets of \$22,445,457 as of December 31, 2018 and total support and revenues of \$271,829 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LCN Title Holding Corporation NFP, is based solely on the report of other auditors. 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 *Governmental 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 consolidated financial statements are free of 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 consolidated 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, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of La Casa Norte and LCN Title Holding Corporation NFP as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements as a whole. The accompanying consolidating supplementary information on Pages 24 through 26 and Schedule of Expenditures of Federal Awards on Page 27, as required by Title 2 *U.S Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and is not a required part of the basic combined 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 combined financial statements. This information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 2019 on our consideration of La Casa Norte's and LCN Title Holding Corporation NFP's internal control over financial reporting and 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 La Casa Norte's and LCN Title Holding Corporation NFP's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited La Casa Norte's and LCN Title Holding Corporation NFP's consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 1 to the financial statements, La Casa Norte and LCN Title Holding Corporation NFP adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the years ended December 31, 2018 and 2017. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Desmond & Ahern, Ltd

September 25, 2019
Chicago, IL

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018 (with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current Assets		
Cash	\$ 514,639	\$ 447,032
Investments	29,241	-
Government contract receivables	592,270	382,981
Contributions receivable	333,271	542,479
Capital campaign contribution receivables	1,100	15,800
Other receivables	3,164	19,308
Prepaid expenses and deposits	50,213	54,311
Total current assets	<u>1,523,898</u>	<u>1,461,911</u>
Cash - restricted	5,034,881	17,111,186
Notes receivable	12,511,000	12,511,000
Net property and equipment	930,325	987,208
Construction in progress	18,401,887	5,206,761
Total Assets	<u><u>\$ 38,401,991</u></u>	<u><u>\$ 37,278,066</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Line of credit	\$ 330,152	\$ -
Notes payable	1,772,000	3,500,000
Accounts payable - trade	143,039	65,757
Accrued payroll and related expenses	83,269	69,673
Client savings	659	659
Refundable advance	212,447	250,641
Construction contract payable	2,486,677	1,007,786
Other construction cost payable	86,669	36,661
Total current liabilities	<u>5,114,912</u>	<u>4,931,177</u>
Notes payable, net of current portion	5,278,000	5,300,000
Mortgage notes payable	18,750,000	18,750,000
Total liabilities	<u>29,142,912</u>	<u>28,981,177</u>
Net Assets		
Without donor restrictions	6,840,096	5,140,213
With donor restrictions	2,418,983	3,156,676
Total net assets	<u>9,259,079</u>	<u>8,296,889</u>
Total Liabilities and Net Assets	<u><u>\$ 38,401,991</u></u>	<u><u>\$ 37,278,066</u></u>

See independent auditor's report and notes to financial statements.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018 (with comparative totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<u>Public Support and Revenue</u>				
Government grants	\$ 4,796,399	\$ -	\$ 4,796,399	\$ 3,005,047
Foundation and corporate contributions	713,292	31,008	744,300	1,266,992
Individual contributions	259,602	1,385	260,987	179,225
Capital campaign contributions	-	73,576	73,576	3,518,703
Tax credit donation (net of exp \$104,646 in 2017)	-	-	-	688,354
Special Events				
Ticket revenue	73,050	13,232	86,282	75,436
Contributions	95,060	44,510	139,570	220,684
Donated goods	613	-	613	357
Less costs of direct benefits to donors	(105,489)	-	(105,489)	(99,351)
Net revenues from special events	63,234	57,742	120,976	197,126
Miscellaneous income	2,815	-	2,815	5,725
Loss on disposal of assets	-	-	-	(351,633)
Rental income	13,184	-	13,184	29,610
Investment income	133,704	-	133,704	70,266
Net assets released from restriction				
Satisfaction of program restrictions	901,404	(901,404)	-	-
Total public support and revenue	6,883,634	(737,693)	6,145,941	8,609,415
<u>Expenses</u>				
Program Services				
Community and Supportive Services	553,862	-	553,862	525,064
Solid Ground	494,841	-	494,841	455,103
Youth in College	193,938	-	193,938	251,758
Palante	1,420,120	-	1,420,120	1,171,398
Casa Corazon	1,178,126	-	1,178,126	1,250,022
The Foundation Project	255,710	-	255,710	105,046
Total program services	4,096,597	-	4,096,597	3,758,391
Management and general expenses	698,729	-	698,729	632,632
Fundraising	388,425	-	388,425	351,364
Total expenses	5,183,751	-	5,183,751	4,742,387
Change in net assets	1,699,883	(737,693)	962,190	3,867,028
Net assets, beginning of year	5,140,213	3,156,676	8,296,889	4,429,861
Net assets, end of year	\$ 6,840,096	\$ 2,418,983	\$ 9,259,079	\$ 8,296,889

See independent auditor's report and notes to financial statements.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018 (with comparative totals for 2017)

	Program Services							Management and General	Fundraising	2018 Total	2017 Total
	Community and Supportive Services	Solid Ground	Youth in College	Palante	Casa Corazon	The Foundation Project	Total				
Functional Expenses											
Salaries and benefits	\$ 491,503	\$ 391,471	\$ 147,317	\$ 417,931	\$ 888,551	\$ -	\$ 2,336,773	\$ 253,079	\$ 252,265	\$ 2,842,117	\$ 2,811,286
Total salaries, taxes and fringe benefits	491,503	391,471	147,317	417,931	888,551	-	2,336,773	253,079	252,265	2,842,117	2,811,286
Consultant and professional fees	21,766	22,611	12,775	60,297	61,445	54,669	233,563	239,593	68,854	542,010	206,332
Bank and credit card processing fees	-	-	-	-	-	67	67	11,901	-	11,968	12,235
Program expenses	2,225	13,239	11,564	32,177	28,788	-	87,993	2,095	32	90,120	125,675
Client rental assistance	-	6,113	-	854,665	-	-	860,778	-	-	860,778	749,292
Grants and scholarships	-	-	15,767	-	-	-	15,767	-	-	15,767	11,423
Supplies	248	571	47	752	1,022	-	2,640	2,747	222	5,609	7,656
Training and development	138	697	61	1,174	2,982	-	5,052	9,477	296	14,825	12,823
Meetings	400	59	240	68	551	100	1,418	13,347	1,030	15,795	13,532
Licenses, fees and permits	1,280	1,273	288	1,333	2,211	24	6,409	13,615	8,085	28,109	26,678
Occupancy	13,926	12,807	3,601	12,864	155,214	191	198,603	45,342	8,147	252,092	250,634
Insurance	839	967	108	674	1,891	-	4,479	22,488	241	27,208	21,177
Equipment and furniture, less than \$1,000	707	612	67	5,426	1,191	3,864	11,867	6,070	182	18,119	8,041
Maintenance and repairs	694	6,500	101	11,994	26,342	18,909	64,540	8,980	489	74,009	39,375
Postage and delivery	40	-	-	16	145	-	201	1,624	100	1,925	4,001
Printing and advertising	625	146	58	325	49	-	1,203	2,986	2,743	6,932	5,534
Fundraising and special events	-	-	-	-	-	1,316	1,316	-	41,484	42,800	45,661
Subscriptions and memberships	895	1,509	181	3,139	1,391	-	7,115	7,080	762	14,957	17,664
Travel	16,414	2,651	1,763	16,156	4,301	201	41,486	18,729	142	60,357	55,033
Miscellaneous	-	-	-	-	-	-	-	301	-	301	17,050
Interest	-	-	-	-	-	176,369	176,369	5,342	-	181,711	99,449
Volunteer expenses	300	-	-	-	-	-	300	100	346	746	359
Bad debt expense	-	-	-	-	-	-	-	13,500	-	13,500	117,155
	60,497	69,755	46,621	1,001,060	287,523	255,710	1,721,166	425,317	133,155	2,279,638	1,846,779
Total expenses before depreciation and donated goods and services	552,000	461,226	193,938	1,418,991	1,176,074	255,710	4,057,939	678,396	385,420	5,121,755	4,658,065
Depreciation	1,862	33,615	-	1,129	1,699	-	38,305	20,073	3,005	61,383	83,965
Donated goods	-	-	-	-	353	-	353	260	-	613	357
Total Expenses	\$ 553,862	\$ 494,841	\$ 193,938	\$ 1,420,120	\$ 1,178,126	\$ 255,710	\$ 4,096,597	\$ 698,729	\$ 388,425	\$ 5,183,751	\$ 4,742,387

See independent auditor's report and notes to financial statements.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018 (with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ 962,190	\$ 3,867,028
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property and equipment	61,383	83,965
Loss on disposal of assets	-	351,633
Unrealized loss on investments	86	-
Donated securities	(29,327)	-
Capital campaign contributions	(73,576)	(3,518,703)
(Increase) decrease in assets		
Government grants receivable	(209,289)	(2,583)
Contribution receivables	209,208	(368,479)
Other receivables	16,144	(17,566)
Prepaid expenses and deposits	4,098	(9,456)
Increase (decrease) in liabilities		
Accounts payable and payroll accrual	90,878	100,423
Construction contract payable	1,478,891	1,007,786
Other construction cost payable	50,008	36,661
Client savings	-	20
Refundable advances	(38,194)	(25,574)
Net cash provided by operating activities	<u>2,522,500</u>	<u>1,505,155</u>
<u>Cash Flows from Investing Activities</u>		
Additions of construction in progress	(13,195,126)	(3,884,991)
Purchase of property and equipment	(4,500)	(14,886)
Net cash (used in) investing activities	<u>(13,199,626)</u>	<u>(3,899,877)</u>
<u>Cash Flows from Financing Activities</u>		
Origination of notes receivable	-	(12,511,000)
Proceeds from issuance of notes payable	-	8,800,000
Payments of principal on notes payable	(1,750,000)	(263,750)
Proceeds from mortgage note	-	18,750,000
Proceeds from line of credit	330,152	-
Cash received - capital campaign	88,276	4,177,867
Net cash provided by (used in) financing activities	<u>\$ (1,331,572)</u>	<u>\$ 18,953,117</u>

See independent auditor's report and notes to financial statements.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018 (with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Net increase (decrease) in cash and cash equivalents	\$ (12,008,698)	\$ 16,558,395
Cash and cash equivalents, beginning of year	<u>17,558,218</u>	<u>999,823</u>
Cash and cash equivalents, end of year	<u>\$ 5,549,520</u>	<u>\$ 17,558,218</u>
Supplemental Cash Flow Information		
Interest paid	<u>\$ 338,461</u>	<u>\$ 163,440</u>
Cash and Cash Equivalents		
Cash	\$ 514,639	\$ 447,032
Cash - restricted		
Client savings	659	659
Construction - reserves	228,484	360,866
Construction	4,205,956	15,437,968
Capital campaign	149,023	1,311,693
Line of credit - reserves	<u>450,759</u>	<u>-</u>
	<u>\$ 5,549,520</u>	<u>\$ 17,558,218</u>

See independent auditor's report and notes to financial statements.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

The accompanying financial statements reflect the consolidated operations of La Casa Norte and LCN Title Holding Corporation NFP (collectively referred to as the Organizations).

La Casa Norte (LCN) is a not-for-profit organization whose mission is to serve youth and families confronting homelessness by providing access to stable housing and deliver comprehensive services that act as a catalyst to transform lives and communities.

LCN Title Holding Corporation NFP (LCNTHC), an Illinois not for corporation formed on January 29, 2016 and operates exclusively for the charitable purpose of holding title to or leasehold interest in property and collecting residential and commercial rental income from that property, remitting income, less expenses to La Casa Norte.

A majority of the board of directors of LCNTHC is comprised of board members and senior management of LCN. As such, it is considered to be controlled by LCN. It serves as the leverage lender for LCN's New Markets Tax Credit (NMTC) transaction (see Note 8).

The following programs are included in the accompanying consolidated financial statements:

The Community & Supportive Services Program (formerly the Crisis Center) provides free, accessible, bilingual and culturally appropriate case management and housing advocacy services to families, unaccompanied youth and single individuals who are homeless or at risk of becoming homeless. The Community & Supportive Services Program staff work in partnership with clients to obtain and maintain housing stability. Its primary subprograms included La Casa Norte's rapid re-housing program, its Illinois DCFS client housing stabilization program and LCN's homeless prevention program. The Organization also manages the Northwest Food Partners Network focused on eliminating hunger.

The Solid Ground Supportive Housing Program provides safe, stable housing for homeless male youth, age 16 to 21. Youth can live at Solid Ground for up to two years, during which time they benefit from comprehensive case management services focusing on a holistic, strength-based approach provided within a trauma informed care and transformative justice model.

Youth in College provides housing, support and academic services to full time college students who are experiencing homelessness. LCN also established the More Than Ever Education scholarship fund providing scholarships for program students.

La Casa Norte's Palante Supportive Housing Program is a scattered site permanent housing initiative which provides chronically homeless youth and families with long-term stable housing. Clients housed in the program are provided with both housing subsidies and supportive services. Support services include case management, therapy, nutrition education, and referrals to a range of additional services such as health care, substance abuse treatment, mental health, child care, legal assistance, work force development services, and educational programming.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Casa Corazon is LCN's unaccompanied homeless youth outreach and engagement project which focuses on connecting homeless youth to services. This program provides street outreach, drop in centers and comprehensive case management services to youth (including pregnant and parenting women) and emergency overnight shelter beds for homeless youth between 18 and 24 years of age.

The Foundation Project is LCN's newest capital facility that includes onsite supportive housing, a healthcare and nutrition center and a drop-in program all for youth and families experiencing homelessness. The organization conducted an extensive capital campaign over multiple years and the financial closing occurred in June 2017 with construction beginning immediately thereafter. The completion date was January 2019 at which time, LCN began to occupy the property and begin to provide program services from this additional location.

Consolidated Financial Statements

The accompanying financial statements reflect the consolidation of the financial statements of La Casa Norte and LCN Title Holding Corporation NFP. All material inter-organization accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, accounts payable and other liabilities in accordance with U.S. Generally Accepted Accounting Principles.

Basis of Presentation

The Organizations reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions, as required by Generally Accepted Accounting Principles. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Items that affect this net asset category principally consist of gifts without restrictions, including those designated by the Board, fees for service and related expenses associated with the core activities of the Organization.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, endowment gifts, pledges, and investment returns on endowment funds.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Expirations of net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations.

LCNTHC was formed on January 29, 2016. The accompanying consolidated financial statements reflect the activities for the period from January 1, 2018 (date of formation) through December 31, 2018. The Company's program services are all related to program which is to make Qualified Low-Income Community Investments ("QLICLs") throughout its service area or other activities which qualify for NMTCS; therefore, all expenses reported in the financial statements are related to that program. The Company has no general and administrative expenses as of December 31, 2018.

Income Tax Status

La Casa Norte was granted exemptions from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Organizations qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and have been classified as an Organizations that are not private foundations under Section 509(a)(1). LCNTHC was granted

exemptions from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(2). The tax-exempt purpose of the Organizations and the nature in which they operate are described above.

Management's assertion is that there are no uncertain tax positions and the Organizations continue to operate in compliance with their tax-exempt purpose. The Organizations' annual informational and income tax returns filed with the federal and state governments are subject to examination generally three years after they are filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts. The accounts may at times, exceed the federally insured limit of \$250,000

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

For purposes of the Statement of Cash Flows, the Organizations considers all liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Realized and unrealized gains and losses are netted and reflected in the Consolidated Statements of Activities.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized at cost. The Organizations provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

Buildings and building improvements	15 - 40 years
Furniture and computer equipment	3 - 7 years
Transportation equipment	5 years

Impairment of Long-Lived Assets

The Organizations review their rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended December 31, 2018.

Support and Revenue

The Organizations report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organizations reports the support as unrestricted.

The Organizations report gifts of land, buildings, and equipment as without restriction support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

As of December 31, 2018, contribution receivables represent unconditional promises to give by donors, some of which are due in installments. Management has determined that any discount would not be material and as such, no discount for contributions receivable in more than one year has been recorded. Management has assessed contributions receivable and government grants receivable and determined that no allowance is necessary.

Government Contributions

Support funded by government contracts, which qualify as conditional promises to give, are recognized when the condition of performing the contracted services is met. Revenue is therefore recognized as earned as the condition of eligible expenses is incurred. These expenditures are subject to audit and acceptance by the granting Organization and, as a result of such audit, adjustments could be required.

Donated Services

Contributed services are recognized at fair market value if the services received (a) create or enhance non-financial 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. During the current year, the Organizations did not receive any donated services meeting these criteria.

In-Kind Contributions

In addition to receiving cash contributions, the Organizations may, at times, receive in-kind contributions from various donors. It is the policy of the Organizations to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount. During the current year, the Organizations received \$613 meeting this criterion.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements also 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 expenses that are allocated include depreciation, interest, office & occupancy, and salaries & benefits, which are allocated on the basis of estimates of time & effort.

Concentration of Risk

During the year ended December 31, 2018, the Organizations received approximately 50% of its funding from four donors. Following is a breakdown by funding agency of the portion of the Organization's revenue for the year ending December 31, 2018 and the percentage of government receivables at December 31, 2018:

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

	<u>% of Total Revenue</u>	<u>% of Government Receivables</u>
U.S. Department of Housing and Urban Development	23%	6%
Illinois Department of Human Services	5%	20%
City of Chicago		
Department of Children and Family Services	5%	28%
Department of Family and Supportive Services	17%	38%
	<u>50%</u>	<u>92%</u>

Comparative Information

The consolidated financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ending December 31, 2017, from which the summarized information was derived.

Reclassifications

Certain amounts previously reported in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

Restricted Cash

Construction Disbursement Account

In accordance with the construction loan agreement, the LCNTHC is to establish a controlled disbursement account with the lender for the purpose of disbursing the loan proceeds. As of December 31, 2018, the balance in the construction disbursement account was \$3,777,961.

IFF Fee and Expense Reserve Account

In accordance with the loan agreement, LCNTHC is to establish and maintain a separate account in the initial amount of \$316,200 for the purpose of paying the IFF Asset Management Fee and reimbursement of audit and tax preparation expenses. As of December 31, 2018, the balance in the IFF fee and expense reserve account was \$254,850.

Construction Interest Reserve Account

In accordance with the loan agreement, LCNTHC is to establish and maintain a separate account in the initial amount of \$126,642 for the purpose of paying the interest incurred during construction. As of December 31, 2018, the balance in the construction interest reserve account was \$34.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

CDF Interest Reserve Account

In accordance with the loan agreement, LCNTHC is to establish and maintain a separate account in the amount of \$220,500 with the lender for the purpose of paying a portion of the interest related to the CDF loan, pay the CDF asset management fee, and to pay the CDF managing member \$12,500 for tax and audit expenses. As of December 31, 2018, the balance in the CDF interest reserve account was \$173,111.

Leverage Lender Operating Account

As of December 31, 2018, the balance in the LCN Leverage Lender Operating account was \$136,321. The purpose of the account is to be used for the financing/sourcing of the Project.

LCN TIF Bridge Loan Interest Reserve

In accordance with the PNC TIF Bridge loan agreement, LCN is to establish and maintain a separate account in the initial amount of \$201,515 for the purpose of paying interest related to the Bridge loan. As of December 31, 2018, the balance in the LCN TIF Bridge Loan Interest Reserve account was \$2,238.

LCN Replacement Reserve

In accordance with the loan agreement with the City of Chicago, LCN is to establish and maintain a separate account in the initial amount of \$37,500 for the purpose of long- term capital investment projects or other large and anticipated expenses that will be incurred in the future. As of December 31, 2018, the balance in the LCN Replacement Reserve account was \$37,515.

LCN Operating Reserve

In accordance with the City of Chicago Loan Agreement, LCN is to establish and maintain a separate account in the initial amount of \$52,410 for the purpose of setting aside funds to stabilize the Organizations for unexpected cash flow shortages, expenses, or losses. As of December 31, 2018, the balance in the LCN Operating Reserve account was \$52,410.

LCN Line of Credit Bank Deposit Reserve

In accordance with the loan agreement, to secure the line of credit, LCN had to establish and maintain a depository account to secure payment of all loans and any interest. As of December 31, 2018 the balance in this account was \$450,759.

Client Savings Account

As of December 31, 2018, \$659 was maintained on behalf of clients.

Capital Campaign Cash

As of December 31, 2018, \$149,023 is restricted for the redevelopment capital project.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Construction in Progress

As of December 31, 2018, the Organizations had \$18,037,972 in construction in progress. Construction has not been substantially completed and assets have not been depreciated.

Subsequent Events

For the fiscal year ended December 31, 2018, the Organization’s management has evaluated subsequent events through September 25, 2019, which is the date the financial statements were available to be issued. No subsequent events have been identified that are required to be disclosed through that date.

Not-for-Profit Financial Statement Presentation

During fiscal 2018, the Organization adopted Accounting Standards Update (“ASU”) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction of a net asset without donor restrictions where the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

No reclassification of 2017 net assets were necessary by the adoption of ASU No. 2016-14 by the Organization as of December 31, 2018.

Note 2 – Financial Assets and Liquidity Resources

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets and liquidity resources at December 31, 2018	
Cash and cash equivalents, net of restricted cash	\$ 514,639
Investments	29,241
Accounts and contributions receivable	929,805
Liquidity resources - line of credit	119,848
Total financial assets and liquidity resources	<u>1,593,533</u>
Less net assets with donor restrictions	(2,418,983)
Add back net assets restricted for long term purposes	1,588,267
Add back time restricted net assets	225,000
Total financial assets available within one year	<u><u>\$ 987,817</u></u>

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 2 – Financial Assets and Liquidity Resources (cont.)

LCN provides various contractual program services from which it receives city, state and federal reimbursement as well as significant unrestricted and restricted gift pledges and contributions from individual, corporation and foundation donors; and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general operating purposes. The organization manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the future. During the year ended December 31, 2018 the level of liquidity and reserves was managed within the policy requirements.

Note 3 – Refundable Advances

At December 31, 2018, refundable advances of \$212,447 is composed of U.S. Department of Housing and Urban Development. These advances are conditional upon future program expenditures as prescribed by the funders or approved for carryover.

Note 4 – Investments and Fair Value Measurements

Generally Accepted Accounting Principles defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Associations' principal or most advantageous market in an orderly transaction between market participants on the measurement date.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates or matrix pricing. This a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities' relationship to other benchmark quoted securities (Level 2 inputs).

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 4 – Investments and Fair Value Measurements (cont.)

The following summarizes that classifications of investments at December 31, 2018, by classification and method of valuation in accordance with the above definitions:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 29,241	\$ -	\$ -	\$ 29,241

The Organizations' property and equipment at December 31, 2018 are as follows:

Land	\$ 56,676
Buildings and improvements	1,249,817
Furniture and computer equipment	430,194
	<u>1,736,687</u>
Accumulated depreciation	<u>(806,362)</u>
Net property and equipment	<u>\$ 930,325</u>

Depreciation expense amounted to \$61,383 for the year ended December 31, 2018.

Note 5 – Construction Contract

During 2017, LCNTHC entered into a construction contract agreement with Power and Sons Construction Company to perform structure and site improvement on the property. The original amount of the contract was \$14,678,000. Change orders amount to \$344,103 resulting in a total contract of \$15,022,103. Construction costs incurred for the period ended December 31, 2018 amounted to \$14,120,130 and are included in construction in progress on the accompanying consolidated statement of financial position. As of December 31, 2018, \$2,486,677 remains payable.

Note 6 – Mortgage Notes Payable

In June 2017, LCNTHC obtained financing in an arrangement structured under the NMTC program. This program was enacted by Congress as part of the Community Renewal Tax Relief Act of 2000. Essentially, this program permits individual and corporate taxpayers to receive a credit for making Quality Equity Investments (QEIs) in qualified Community Development Entities (CDEs). LCNTHC has obtained financing from three separate CDEs to fund the construction of its new facility.

Under IRS guidelines for the NMTC program, the Organizations were required to provide investment funding through a separate legal entity (leveraged lender) into the QEI funds. For this reason, Pierce House Investment Fund, LLC was created to provide partial funding into the QEI (see Note 9).

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 6 – Mortgage Notes Payable (cont.)

The taxpayers who invested in the QEIs funds may claim a tax credit related to their investment over a seven-year credit period (also referred to as a the “Compliance Period”). During the Compliance Period, only interest is paid. Once the Compliance Period ends, there is a put and call agreement between the NMTC investors at both the state and federal level and the leverage lender Pierce House Investment Fund, LLC. The NMTC investors may put their ownership interests in the QEI funds to Pierce House Investment Fund, LLC for \$1,000. If the NMTC investors do not exercise their put option, Pierce House Investment Fund, LLC has the ability to call the ownership in the interest in the

QEI funds for fair market value. It is anticipated that the NMTC investors will put their options and Pierce House Investment Fund, LLC would then own the QEI funds. Pierce House Investment Fund, LLC would then forgive LCNTHC notes payable, resulting in no outstanding debt at that point in time and a benefit of equity from the NMTC program may be recognized.

The loan agreement, dated June 27, 2017, is among LCNTHC, PNC CED 71, LP; IFF Capital 24 LLC; and CDF Suballocatee XXXI, LLC in the form of 6 different promissory notes (as noted below), for a combined amount of \$18,750,000. The notes bear a fixed rate of interest equal to .836% per annum, commencing on September 1, 2017, quarterly payments of interest in the amount of \$39,188 shall be payable until March 1, 2025, unless the principal balance is paid before the loan maturity date. Beginning March 1, 2025 through the maturity date of December 13, 2056, quarterly principal and interest payments are due in accordance with the amortization schedule. The loan is collateralized by real estate held for lease and an assignment of rents and leases.

The amount outstanding at December 31, 2018 was \$18,750,000 and consist of the following notes:

PNC CDE 71, LP		IFF Capital 24 LLC		CDF Suballocatee XXXI, LLC	
Note	Balance	Note	Balance	Note	Balance
A	\$ 2,271,500	A	\$ 4,074,000	A	\$ 6,165,500
B	1,228,500	B	1,866,000	B	3,144,500
Total	<u>\$ 3,500,000</u>	Total	<u>\$ 5,940,000</u>	Total	<u>\$ 9,310,000</u>

Note 7 – Asset Management Fees

IFF Sub-CDE Asset Management Fee

In accordance with this loan agreement, LCNTHC is to pay an asset management fee to CDF Management LLC in the amount of \$39,000 per year until June 27, 2024. As of December 31, 2018, asset management fees of \$39,000 were incurred and are included on the accompanying Statement of Financial Position as property and equipment, net. As of December 31, 2018, no asset management fees remain payable.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 8 – Note Payable

As of December 31, 2018, notes payable consist of the following items:

PNC Bank

On June 27, 2017, LCN obtained a \$3,500,000 TIF Bridge Loan from PNC Bank with an interest rate of 4.25% maturing on December 27, 2024. Quarterly interest only payments are due starting September 15, 2017. During 2018, the City of Chicago paid the first installment of \$1,750,000 against this loan as a TIF payment. \$ 1,750,000

On June 27, 2017, LCN obtained a \$1,100,000 Term Loan from PNC Bank with an interest rate of 4.25%. Interest only payments are due from September 15, 2017 through June 15, 2019. Beginning September 15, 2019, the loan terms require quarterly principal payments of \$11,000 plus interest payments of 4.25% of outstanding balance. Final payment of \$858,000 is due on December 15, 2024. 1,100,000

City of Chicago

On June 27, 2017, LCN obtained a \$4,200,000 non-interest bearing loan from the City of Chicago. The entire principal balance outstanding, unless forgiven pursuant to Section 3.04 or Section 3.06(b) of the Loan Agreement, together with any other sums due under and of the Loan Documents, due and payable in full on June 1, 2064. 4,200,000

Less short term - notes payable (1,772,000)

Long term - notes payable \$ 5,278,000

Future maturities of long-term debt at December 31, 2018 are estimated as follows:

<u>Year Ending</u>	
2019	\$ 1,772,000
2020	44,000
2021	44,000
2022	44,000
2023	44,000
Thereafter	5,102,000
	<u>\$ 7,050,000</u>

Interest expense at December 31, 2018 amounted to \$181,711.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 9 – Notes Receivable

In June 2017, LCN loaned money in connection with the financing obtained through the NMTC program. The note receivable is from the Qualified Equity Investments (QEI) fund linked to the Organization’s financing obtained using the NMTC program (see Note 6 for further information related to the NMTC program). The note receivable of \$12,511,000 is with Pierce House Investment Fund, LLC. Interest rate of 1% payable quarterly effective September 10, 2017. First amortization payment of principal and interest will begin on March 10, 2025. As of December 31, 2018, \$125,110 of interest income was received and recorded in the Consolidated Statement of Activities.

The first seven years of the notes are defined as the “compliance period.” During the compliance period, only interest is paid. After the compliance period, there are put and call agreements between LCNTHC and the other investors in the QEI funds. If the other investors do not exercise their put options, LCNTHC has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investors will put their option and LCNTHC will own the QEI funds at the end of the compliance period. However, if the other investors do not put in their interest, management plans to exercise its option to call. Collection is fully expected and accordingly, no allowance has been provided for on these notes (see Note 6 for additional information related to the NMTC transaction).

Note 10 – Line of Credit

LCN maintains a \$450,000 line of credit with PNC Bank expiring on August 24, 2019. As of December 31, 2018, \$330,152 was borrowed and is outstanding on the line. The line is secured by the general assets of LCN as well as a deposit account explained in Note 1. Interest is computed at prime rate minus fifty basis points, adjusted daily.

Note 11 – Related Party Transactions

Due to Affiliate

LCNTHC was advanced funds from LCN in the amount of \$3,901. The funds are noninterest bearing and due on demand. As of December 31, 2018, \$3,901 remains payable and was eliminated as an inter-organization transaction on the Consolidated Statement of Financial Position.

Property Lease Commitment

LCNTHC and LCN have entered into a net lease agreement dated June 17, 2017. The term of the lease commenced on July 1, 2018 and expires on December 1, 2047. LCN began to occupy the property in January 2019 when the construction was completed.

LCN is to pay LCNTHC basic rent for the property in quarterly installment amounts beginning September 1, 2018. The initial quarterly installment amount is \$35,500 and is payable through December 1, 2023. Beginning March 1, 2024, and on each quarterly due date thereafter through December 1, 2024, the amount is \$46,250. Beginning March 1, 2025, and on each quarterly due

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 11 – Related Party Transactions (cont.)

date thereafter through December 1, 2025, the amount is \$112,500. Beginning March 1, 2026, and on each quarterly due date thereafter through December 1, 2026, the amount is \$116,000. Afterwards, the basic rent escalates by 3% each year until the end of the term.

The lease is a triple net lease and in addition to the basic rent, LCN shall pay all costs and expenses of the property, including real estate taxes, insurance, maintenance and utilities.

During the year ended December 31, 2018, LCN owed rent of \$71,000 to LCNTHC with \$8,375 still payable at December 31, 2018 which was eliminated as an inter-organization transaction on the Consolidated Statement of Activities and the Consolidated Statement of Functional Expenses.

Note 12 – Commitments and Contingencies

LCN entered into a contract with Howard Brown Health Center effective April 1, 2019 to rent exclusive space as well as certain shared space until March 31, 2029. LCN will receive monthly payments commencing April 1, 2019 of \$3,484 increasing yearly to \$4,161 in the final year.

Future minimum rent to be received is as follows:

<u>Year Ending</u>	
2019	\$ 31,353
2020	31,980
2021	43,280
2022	44,145
2023	45,015
Thereafter	251,412
	<u>\$ 447,185</u>

Note 13 – Capitalized Interest

As of December 31, 2018, the Organizations incurred interest of \$156,750 and paid out of reserves, all of which was capitalized into property and equipment.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 14 – Net Assets with Donor Restrictions

Net assets with donor purpose restrictions are comprised of the following at December 31, 2018:

Redevelopment Capital Project	\$ 1,588,267
Federal Home Loan Bank Grant	128,000
U.S. Department of Housing and Urban Development	160,000
City of Chicago - Department of Housing	123,024
Solid Ground	1,162
Tiny Homes	55,503
Community and Supportive Services	73,208
MTE Education Fund	64,819
Time restricted contributions	225,000
	<u>\$ 2,418,983</u>

The Federal Home Loan Bank granted the Organization a \$128,000 grant during 2006 to be used in the rehabilitation of the Solid Ground Supportive Housing building. The Organization must comply with the Affordable Housing Program (AHP) regulations to maintain the AFP Subsidy for the 15-year term ending October 31, 2021. If the Organization is in non-compliance with the AHP subsidy, they may have to repay the Federal Home Loan Bank, including interest. The Organization was in compliance with applicable regulations at December 31, 2018.

On December 1, 2004, the U.S. Department of Housing and Urban Development granted the Organization \$200,000 for the rehabilitation of the Solid Ground Supportive Housing building. The grant need not be repaid as long as the Organization continues to operate as supportive housing for at least 20 years after the supportive housing project is placed in service. If the property is used as supportive housing for more than ten years, but less than 20 full years, HUD shall reduce the percentage of the amount required to be repaid by 10% for each full year in excess of ten years that the property is used as supportive housing. During 2018, the grant repayment obligation was reduced by the allowed 10% (\$20,000), leaving the restricted balance of \$160,000 at December 31, 2018. The Organization is in compliance with the award as of December 31, 2018.

The City of Chicago – Department of Housing originally granted the Organization \$307,560. The funds were used in conjunction with the rehabilitation of the Solid Ground Supportive Housing building. The building consists of 16 single room occupancy units required to be occupied by previously homeless individuals whose adjusted annual incomes at initial occupancy do not exceed 30 percent of the median family income for the Chicago area as determine by HUD. The Organization’s obligation to repay the grant shall be reduced annually by 5 percent of the amount of the grant for 20 consecutive years commencing on the first anniversary of the closing date of the rehabilitation project and on each anniversary thereafter. The first anniversary of the closing date of the rehabilitation project was October 2007. During 2018, the grant repayment obligation was again reduced by the allowed 5% (\$15,378), leaving the temporarily restricted balance of \$123,024 at December 31, 2018.

SUPPLEMENTARY INFORMATION

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2018

	La Casa Norte	LCN Title Holding Corporation, NFP	Eliminations	Consolidated Totals
<u>Assets</u>				
Current Assets				
Cash	\$ 514,639	\$ -	\$ -	\$ 514,639
Investments	29,241	-	-	29,241
Government contract receivables	592,270	-	-	592,270
Contribution receivables, current	333,271	-	-	333,271
Capital campaign contribution receivables	1,100	-	-	1,100
Other receivables	3,164	-	-	3,164
Due from affiliates	3,901	-	(3,901)	-
Prepaid expenses and deposits	50,213	-	-	50,213
Deferred rent asset and rent receivable	-	201,529	(201,529)	-
Total current assets	1,527,799	201,529	(205,430)	1,523,898
Cash - restricted	828,925	4,205,956	-	5,034,881
Notes receivable	12,511,000	-	-	12,511,000
Net property and equipment	930,325	-	-	930,325
Construction in progress	363,915	18,037,972	-	18,401,887
Total Assets	\$ 16,161,964	\$ 22,445,457	\$ (205,430)	\$ 38,401,991
<u>Liabilities and Net Assets</u>				
Current Liabilities				
Line of credit	\$ 330,152	\$ -	\$ -	\$ 330,152
Notes payable	1,772,000	-	-	1,772,000
Accounts payable - trade	143,039	-	-	143,039
Accrued payroll and related expenses	83,269	-	-	83,269
Client savings	659	-	-	659
Refundable advance	212,447	-	-	212,447
Construction contract payable	-	2,486,677	-	2,486,677
Other construction cost payable	-	86,669	-	86,669
Due to affiliates	-	3,901	(3,901)	-
Deferred rent liability and rent payable	201,529	-	(201,529)	-
Total current liabilities	2,743,095	2,577,247	(205,430)	5,114,912
Note payable, net of current portion	5,278,000	-	-	5,278,000
Mortgage notes payable, long-term	-	18,750,000	-	18,750,000
Total Liabilities	8,021,095	21,327,247	(205,430)	29,142,912
Net Assets				
Without donor restrictions	5,721,886	1,118,210	-	6,840,096
With donor restrictions	2,418,983	-	-	2,418,983
Total net assets	8,140,869	1,118,210	-	9,259,079
Total Liabilities and Net Assets	\$ 16,161,964	\$ 22,445,457	\$ (205,430)	\$ 38,401,991

See independent auditor's report and notes to financial statements.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	La Casa Norte		LCN Title Holding Corporation, NFP		Eliminations	Consolidated Totals		
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		Without Donor Restrictions	With Donor Restrictions	Consolidated Total
Public Support and Revenue								
Government grants	\$ 4,796,399	\$ -	\$ -	\$ -	\$ -	\$ 4,796,399	\$ -	\$ 4,796,399
Foundation and corporate contributions	713,292	31,008	-	-	-	713,292	31,008	744,300
Individual contributions	259,602	1,385	-	-	-	259,602	1,385	260,987
Capital campaign contributions	-	73,576	-	-	-	-	73,576	73,576
Special Events								
Ticket revenue	73,050	13,232	-	-	-	73,050	13,232	86,282
Contributions	95,060	44,510	-	-	-	95,060	44,510	139,570
Donated services	613	-	-	-	-	613	-	613
Less costs of direct benefits to donors	(105,489)	-	-	-	-	(105,489)	-	(105,489)
Net revenues from special events	63,234	57,742	-	-	-	63,234	57,742	120,976
Miscellaneous income	2,815	-	-	-	-	2,815	-	2,815
Loss on disposal of assets	-	-	-	-	-	-	-	-
Rental income	13,184	-	264,154	-	(264,154)	13,184	-	13,184
Investment income	126,029	-	7,675	-	-	133,704	-	133,704
Net assets released from restriction								
Satisfaction of program restrictions	901,404	(901,404)	-	-	-	901,404	(901,404)	-
Total public support and revenue	6,875,959	(737,693)	271,829	-	(264,154)	6,883,634	(737,693)	6,145,941
Expenses								
Program Services								
Community and Supportive Services	553,862	-	-	-	-	553,862	-	553,862
Solid Ground	494,841	-	-	-	-	494,841	-	494,841
Youth in College	193,938	-	-	-	-	193,938	-	193,938
Palante	1,420,120	-	-	-	-	1,420,120	-	1,420,120
Casa Corazon	1,178,126	-	-	-	-	1,178,126	-	1,178,126
The Foundation Project	255,710	-	-	-	-	255,710	-	255,710
Total program services	4,096,597	-	-	-	-	4,096,597	-	4,096,597
Management and general expenses	962,883	-	-	-	(264,154)	698,729	-	698,729
Fundraising	388,425	-	-	-	-	388,425	-	388,425
Total expenses	5,447,905	-	-	-	(264,154)	5,183,751	-	5,183,751
Change in net assets	1,428,054	(737,693)	271,829	-	-	1,699,883	(737,693)	962,190
Net assets, beginning of year	4,293,832	3,156,676	846,381	-	-	5,140,213	3,156,676	8,296,889
Net assets, end of year	\$ 5,721,886	\$ 2,418,983	\$ 1,118,210	\$ -	\$ -	\$ 6,840,096	\$ 2,418,983	\$ 9,259,079

See independent auditor's report and notes to financial statements.

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services							Total	Management and General	Eliminations	Total Management and General	Fundraising	Consolidated Totals
	Community and Supportive Services	Solid Ground	Youth in College	Palante	Casa Corazon	The Foundation Project	Eliminations						
Functional Expenses													
Salaries and benefits	\$ 491,503	\$ 391,471	\$ 147,317	\$ 417,931	\$ 888,551	\$ -	\$ -	\$ 2,336,773	\$ 253,079	\$ -	\$ 253,079	\$ 252,265	\$ 2,842,117
Total salaries, taxes and fringe benefits	491,503	391,471	147,317	417,931	888,551	-	-	2,336,773	253,079	-	253,079	252,265	2,842,117
Consultant and professional fees	21,766	22,611	12,775	60,297	61,445	54,669	-	233,563	239,593	-	239,593	68,854	542,010
Bank and credit card processing fees	-	-	-	-	-	67	-	67	11,901	-	11,901	-	11,968
Program expenses	2,225	13,239	11,564	32,177	28,788	-	-	87,993	2,095	-	2,095	32	90,120
Client rental assistance	-	6,113	-	854,665	-	-	-	860,778	-	-	-	-	860,778
Grants and scholarships	-	-	15,767	-	-	-	-	15,767	-	-	-	-	15,767
Supplies	248	571	47	752	1,022	-	-	2,640	2,747	-	2,747	222	5,609
Training and development	138	697	61	1,174	2,982	-	-	5,052	9,477	-	9,477	296	14,825
Meetings	400	59	240	68	551	100	-	1,418	13,347	-	13,347	1,030	15,795
Licenses, fees and permits	1,280	1,273	288	1,333	2,211	24	-	6,409	13,615	-	13,615	8,085	28,109
Occupancy	13,926	12,807	3,601	12,864	155,214	191	-	198,603	309,496	(264,154)	45,342	8,147	252,092
Insurance	839	967	108	674	1,891	-	-	4,479	22,488	-	22,488	241	27,208
Equipment and furniture, less than \$1,000	707	612	67	5,426	1,191	3,864	-	11,867	6,070	-	6,070	182	18,119
Maintenance and repairs	694	6,500	101	11,994	26,342	18,909	-	64,540	8,980	-	8,980	489	74,009
Postage and delivery	40	-	-	16	145	-	-	201	1,624	-	1,624	100	1,925
Printing and advertising	625	146	58	325	49	-	-	1,203	2,986	-	2,986	2,743	6,932
Fundraising and special events	-	-	-	-	-	1,316	-	1,316	-	-	-	41,484	42,800
Subscriptions and memberships	895	1,509	181	3,139	1,391	-	-	7,115	7,080	-	7,080	762	14,957
Travel	16,414	2,651	1,763	16,156	4,301	201	-	41,486	18,729	-	18,729	142	60,357
Miscellaneous	-	-	-	-	-	-	-	-	301	-	301	-	301
Interest	-	-	-	-	-	176,369	-	176,369	5,342	-	5,342	-	181,711
Volunteer expenses	300	-	-	-	-	-	-	300	100	-	100	346	746
Bad debt expense	-	-	-	-	-	-	-	-	13,500	-	13,500	-	13,500
	60,497	69,755	46,621	1,001,060	287,523	255,710	-	1,721,166	689,471	(264,154)	425,317	133,155	2,279,638
Total expenses before depreciation and donated goods and services	552,000	461,226	193,938	1,418,991	1,176,074	255,710	-	4,057,939	942,550	(264,154)	678,396	385,420	5,121,755
Depreciation	1,862	33,615	-	1,129	1,699	-	-	38,305	20,073	-	20,073	3,005	61,383
Donated goods	-	-	-	-	353	-	-	353	260	-	260	-	613
Total Expenses	\$ 553,862	\$ 494,841	\$ 193,938	\$ 1,420,120	\$ 1,178,126	\$ 255,710	\$ -	\$ 4,096,597	\$ 962,883	\$ (264,154)	\$ 698,729	\$ 388,425	\$ 5,183,751

See independent auditor's report and notes to financial statements.

**REPORTS REQUIRED BY
OMB'S UNIFORM GUIDANCE**

LA CASA NORTE AND LCN TITLE HOLDING CORPORATION, NFP
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Contract Number	Passed Through to Subrecipients	Disbursements or Expenditures
U.S. Department of Housing and Urban Development				
Continuum of Care Program	14.267	IL0205L5T101	-	\$ 91,087
	14.267	IL0573L5T101	-	179,139
	14.267	IL0499L5T101	-	320,622
	14.267	IL0463L5T101	-	171,123
	14.267	IL0594L5T101	-	253,926
	14.267	IL0666L5T101	-	262,299
			-	1,278,196
Passed through				
City of Chicago Department of Planning and Development Community Development Block Grants/Entitlement Grants	14.218	50217	-	24,226
City of Chicago Department of Family and Support Services Community Development Block Grants/Entitlement Grants	14.218	31152	-	33,541
			-	57,767
City of Chicago Department of Family and Support Services Section 8 Housing Choice Vouchers	14.871	67688	-	38,385
Emergency Fund Emergency Solutions Grants Program	14.231	67628	-	96,545
Total U.S. Department of Housing and Urban Development			-	1,470,893
U.S. Department of Health and Human Services				
Passed through				
Illinois Department of Children and Family Services Promoting Safe and Stable Families	93.556	405693	-	196,953
Chafee Foster Care Independence Program	93.674	405693	-	123,885
Total U.S. Department of Health and Human Services			-	320,838
U.S. Department of Homeland Security				
Passed through				
United Way Metro Chicago Emergency Food and Shelter National Board Program	97.024	LRO #237800-200	-	9,719
Total U.S. Department of Homeland Security			-	9,719
Total Expenditures of Federal Awards			-	\$ 1,801,450

(1) Major Program

**LA CASA NORTE and LCN TITLE HOLDING CORPORATION NFP
CONSOLIDATED NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
December 31, 2018**

Note 1 – Basis of Presentation

The accompanying Consolidated Schedule of Expenditures of Federal Awards (the “Schedule”) includes the Federal grant activity of La Casa Norte and LCN Title Holding Corporation NFP under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of *Title 2 US. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of La Casa Norte, it is not intended to and does not present the financial position, changes in net assets or cash flows of La Casa Norte.

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 the cost principles contained in *2 CFR Part 230 – Cost Principles for Non-Profit Organizations (OMB Circular A-122)*, wherein certain types or expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Sub-Recipients

La Casa Norte and LCN Title Holding Corporation NFP did not provide any Federal awards to sub-recipients during the year ended December 31, 2018.

Note 4 – Other Matters

Amount of non-cash assistance	None
Amount of insurance	None
Amount of loans	None
Amount of loan guarantees	None



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**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
La Casa Norte and LCN Title Holding Corporation NFP
Chicago, IL

We have audited in accordance with auditing standards 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 consolidated financial statements of La Casa Norte and LCN Title Holding Corporation NFP which comprise the statement of financial position as of December 31, 2018, 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 September 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered La Casa Norte and LCN Title Holding Corporation NFP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of La Casa Norte and LCN Title Holding Corporation NFP's internal control. Accordingly, we do not express an opinion on the effectiveness of the La Casa Norte and LCN Title Holding Corporation NFP's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies described in the accompanying schedule of findings and question costs as items 2018-001 and 2018-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Casa Norte and LCN Title Holding Corporation NPF's consolidated 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 consolidated 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-003.

LaCasa Norte and LCN Title Holding Corporation NFP's Response to Findings

La Casa Norte and LCN Title Holding Corporation NFP's response to the findings identified in our audit are described in the accompanying consolidated schedule of findings and questioned costs. La Casa Norte and LCN Title Holding Corporation NFP's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and accordingly, we express no opinion on it.

Purpose of the 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.

Desmond & Ahern, Ltd

September 25, 2019
Chicago, IL



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

To the Board of Directors
La Casa Norte and LCN Title Holding Corporation NFP
Chicago, IL

Report on Compliance for Each Major Federal Program

We have audited La Casa Norte and LCN Title Holding Corporation NFP's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of La Casa Norte and LCN Title Holding Corporation NFP's major federal programs for the year ended December 31, 2018. La Casa Norte and LCN Title Holding Corporation NFP's major federal programs are identified in the summary of auditor's results section of the accompanying consolidated schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of La Casa Norte and LCN Title Holding Corporation NFP's major federal programs 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 La Casa Norte and LCN Title Holding Corporation NFP's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of La Casa Norte and LCN Title Holding Corporation NFP's compliance.

Opinion on Each Major Federal Program

In our opinion, La Casa Norte and LCN Title Holding Corporation NFP complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

La Casa Norte and LCN Title Holding Corporation's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. La Casa Norte and LCN Title Holding Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of La Casa Norte and LCN Title Holding Corporation NFP 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 La Casa Norte and LCN Title Holding Corporation NFP's 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 each 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 La Casa Norte and LCN Title Holding Corporation NFP's 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.

Desmond & Ahern, Ltd

September 25, 2019
Chicago, IL

**LA CASA NORTE and LCN TITLE HOLDING CORPORATION NFP
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X no
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified that are not considered to be weakness(es)? yes X no

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

Any audit findings disclosed that are required to be reported in accordance under 2 CFR section 200.516 (a)? X yes no

Certification of Major Programs

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
14.267	Continuum of Care Program

Dollar threshold used to distinguish between type A and type B Programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**LA CASA NORTE and LCN TITLE HOLDING CORPORATION NFP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018**

Section II – Financial Statement Findings

2018-001 Preparation of Generally Accepted Accounting Principles (GAAP) Financial Statements

Condition: The financial statements that are fairly presented are not in conformity with generally accepted accounting principles (GAAP).

Criteria: This absence of fiscal monitoring controls does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

Cause: This material weakness is due to a combination of the accounting department had significant staff turnover and a lack of monitoring which may have identified the additional journal entries required to present GAAP financial statements.

Effect: Material adjusting entries were necessary to present the financial statement and related footnotes in accordance with GAAP for the year ending December 31, 2018.

Auditor's Recommendation: We recommend that someone independent of the report's preparation review the statements to ensure all transactions have been properly recorded.

Grantee Response: La Casa Norte did not have a fully staffed finance department during 2018. Hiring and retaining accounting staff had been a challenge. La casa Norte also used multiple accounting temps and out sourced its accounting function to an accounting firm in 2018. The use of multiple accountants and not having a Director of Finance caused misstatements in the financial statements. La casa Norte hired a Director of Finance in December of 2018. The Director of Finance hired and trained a senior account and finance associate. The finance department is operating more effectively with the addition of the Finance Director and two staff. Internal control procedures over accounting were evaluated, revised, implemented and is being monitored more effectively. The finance team has seen improvement with reconciling accounts in a timely manner, closing out the accounting period sooner and improving accuracy of the financial statements. The Director of Finance is in the process of completing a time study for individuals who work on more than one program objective. The time study will commence in November of 2019. The director of Finance will continue to identify training for the finance staff and follow all recommendations from fiscal reviews completed by funders and auditors.

**LA CASA NORTE and LCN TITLE HOLDING CORPORATION NFP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018**

Section II – Financial Statement Findings

2018-002 Closing Records on a Timely Basis

Criteria: In a properly functioning internal control environment, accounting records are reconciled and closed within a reasonable time after the end of each accounting period. If records are not timely closed, management and board of directors may be making decisions based on incomplete information.

Condition: After the start of audit fieldwork, the Organization made material adjusting entries to accurately close out their accounting records. These entries were made over six months after the end of the fiscal year and after presentation of books and records to the auditors.

Effect: Over six months after the end of the fiscal year the Organization's accounting staff was still making journal entries to correct account balances on general ledger accounts including cash, receivables, prepaid expenses, accumulated depreciation, accounts payable, accrued expenses, net assets, revenue and expenses.

Cause: Due to a combination of the accounting department had significant staff turnover and lack of management oversight, the Organization's accounting staff did not close their accounting records within a timely basis.

Recommendation: We recommend the Organization implement procedures to ensure accounting records are reconciled and financial statements completed within 90 days after the end of each period to allow management and the Board to make informed decisions. We also recommend that staff obtain additional not-for-profit accounting training.

Grantee Response: La Casa Norte did not have a fully staffed finance department during 2018. Hiring and retaining accounting staff had been a challenge. La casa Norte also used multiple accounting temps and out sourced its accounting function to an accounting firm in 2018. The use of multiple accountants and not having a Director of Finance caused misstatements in the financial statements. La casa Norte hired a Director of Finance in December of 2018. The Director of Finance hired and trained a senior account and finance associate. The finance department is operating more effectively with the addition of the Finance Director and two staff. Internal control procedures over accounting were evaluated, revised, implemented and is being monitored more effectively. The finance team has seen improvement with reconciling accounts in a timely manner, closing out the accounting period sooner and improving accuracy of the financial statements. The Director of Finance is in the process of completing a time study for individuals who work on more than one program objective. The time study will commence in November of 2019. The director of Finance will continue to identify training for the finance staff and follow all recommendations from fiscal reviews completed by funders and auditors.

**LA CASA NORTE and LCN TITLE HOLDING CORPORATION NFP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018**

Section III – Federal Award Findings and Questioned Costs

2018-003 Allowable Costs/Cost Principles

Criteria: Reports reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards, in accordance with *Cost Principles for Non-Profit Organizations (2 CFR Part 230.8)*. The reports must reflect an after-the-fact determination of the actual activity of each employee.

Condition: The Organization provided time records that account for the number of hours worked by the selected employees and the departments employees are charged to, however, details for the time worked in each individual program was not provided.

Cause: The Organization asserts that time records are consistently maintained to support the allocation of staff time to different functions. However, the Organization experienced significant turnover within the accounting department during the fiscal year and as a result was unable to locate these time records. The Organization subsequently prepared a time study to ascertain that compensation costs charged to awards were reasonable and allocable.

Effect: Inadequate documentation could result in unallowable costs being charged to awards.

Questioned Costs: None

Recommendation: We recommend that quarterly recaps of the time sheets be done and that the time analysis be compared to the actual percent being allocated. If necessary, the projected allocation percentages, including full time equivalents, should be changed to reflect the actual time spent as required under 2 CFR 230. Also, the previous quarter should also be adjusted if the revised percentages would cause the financials to be materially misstated. We further recommend that all employees receive additional training on filling out time sheets and that supervisors receive written procedures on reviewing the time sheets before approving to ensure that they are properly completed.

Grantee Response: The Director of finance is in the process of completing a time study for individuals who work on more than one program objective. The time study will commence in November of 2019. The time study will provide a basis for allocating salaries more accurately for those individuals who work on more than one program objective. The personnel allocation basis will meet federal, state and local requirements for cost principles. The personnel allocation plan will be reviewed at least quarterly to ensure if it is still relevant and make revisions if needed. The director of Finance will continue to identify training for the finance staff and follow all recommendations from fiscal reviews completed by funders and auditors.

**LA CASA NORTE and LCN TITLE HOLDING CORPORATION NFP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018**

Section IV – Prior Year Audit Findings

2017-001 Preparation of Generally Accepted Accounting Principles Financial Statements

Condition: The Organization is required to comply with the Cash Management Compliance requirements under the Uniform Guidance. During the course of the audit, it was discovered that the final grant draws were not drawn down based on actual cash requirements. As a result, excess cash was held at the end of the year and may require repayment. The provisions of the grant state that funds should be drawn down as needed, or on a reimbursement basis.

Recommendation: We recommend that someone independent of the report's preparation (who is knowledgeable of GAAP, including specific not for profit pronouncements) review the statements to ensure all transactions have been properly recorded.

Current Status: See Finding 2018-001.

2017-002 Closing Records on a Timely Basis

Condition: After the start of audit fieldwork, the Organization made material adjusting entries to accurately close out their accounting records. These entries were made over six months after the end of the fiscal year and after presentation of books and records to the auditors.

Recommendation: We recommend the Organization implement procedures to ensure accounting records are reconciled and financial statements completed within a reasonable time after the end of each period to allow management and the Board to make informed decisions. We also recommend that staff obtain additional not-for-profit accounting training.

Current Status: See Finding 2018-002.



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CORRECTIVE ACTION PLAN

September 25, 2019

Federal Audit Clearinghouse

1201 E. 10th Street

Jeffersonville, IN 47132

La Casa Norte (FEIN 36-4041525) respectfully submits the following corrective action plan for the year ended December 31, 2018.

Our independent public accounting firm is:

Desmond & Ahern, Ltd

10827 S. Western Avenue

Chicago, IL 60643

Phone: 773-779-4720

Audit Period: January 1, 2018 through December 31, 2018

The findings from the September 25, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.



2018-003 Allowable Costs/Cost Principles – CFDA’s 01.267, 14.218, 14.871, 14.231, 93.556, 93.674, and 97.024

Criteria: Reports reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards, in accordance with *Cost Principles for Non-Profit Organizations (2 CFR Part 230.8)*. The reports must reflect an after-the-fact determination of the actual activity of each employee.

Condition: The Organization provided time records that account for the number of hours worked by the selected employees and the departments employees are charged to, however, details for the time worked in each individual program was not provided.

Cause: The Organization asserts that time records are consistently maintained to support the allocation of staff time to different functions. However, the Organization experienced significant turnover within the accounting department during the fiscal year and as a result was unable to locate these time records. The Organization subsequently prepared a time study to ascertain that compensation costs charged to awards were reasonable and allocable.

Effect: Inadequate documentation could result in unallowable costs being charged to awards.

Questioned Costs: None

Recommendation: We recommend that quarterly recaps of the time sheets be done and that the time analysis be compared to the actual percent being allocated. If necessary, the projected allocation percentages, including full time equivalents, should be changed to reflect the actual time spent as required under 2 CFR 230. Also, the previous quarter should also be adjusted if the revised percentages would cause the financials to be materially misstated. We further recommend that all employees receive additional training on filling out time sheets and that supervisors receive written procedures on reviewing the time sheets before approving to ensure that they are properly completed.

Grantee Response: The Director of Finance is in the process of completing a time study for individuals who work on more than one program objective. The time study will commence in November of 2019. The time study will provide a basis for allocating salaries more accurately for those individuals who work on more than one program objective. The personnel allocation basis will meet federal, state and local requirements for cost principles. The personnel allocation plan will be reviewed at least quarterly to ensure if it is still relevant and make revisions if needed. The director of Finance will continue to identify training for the finance staff and follow all recommendations from fiscal reviews completed by funders and auditors.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry McKay", with a stylized flourish extending to the right.

Larry McKay

Director of Finance