

LA CASA NORTE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
(Including Reports Required by
OMB's Uniform Guidance)**

**For the Year Ended
December 31, 2016**

LA CASA NORTE

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
Chicago, IL

We have audited the accompanying financial statements of La Casa Norte (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of La Casa Norte as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2017 on our consideration of La Casa Norte'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 internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of La Casa Norte as of December 31, 2015, were audited by other auditors whose report dated September 12, 2016, expressed an unmodified opinion on those statements.

Desmond & Ahern, Ltd

June 30, 2017
Chicago, IL

LA CASA NORTE
STATEMENT OF FINANCIAL POSITION
December 31, 2016 (with comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current Assets		
Cash	\$ 336,204	\$ 195,645
Cash - restricted (client savings)	639	2,219
	<u>336,843</u>	<u>197,864</u>
Government contract receivables	380,398	614,054
Contribution receivables, current	174,000	16,821
Capital campaign contribution receivables, current	191,964	566,397
Other receivables	1,742	-
Prepaid expenses and deposits	44,855	74,262
Total current assets	<u>1,129,802</u>	<u>1,469,398</u>
Capital campaign contribution receivables, net of current portion (Note 8)	483,000	-
Cash - restricted (capital campaign)	662,980	803,059
Net property and equipment	1,424,285	1,333,040
Land held for development	1,305,405	960,078
Total Assets	<u>\$ 5,005,472</u>	<u>\$ 4,565,575</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable - trade	\$ 9,753	\$ 179,523
Accrued payroll and related expenses	25,254	41,053
Client savings	639	2,219
Refundable advance	276,215	82,338
Line of credit	35,000	110,000
Note payable	228,750	329,255
Total liabilities	<u>575,611</u>	<u>744,388</u>
Net Assets		
Unrestricted	2,192,628	2,233,222
Temporarily restricted	2,237,233	1,587,965
Total net assets	<u>4,429,861</u>	<u>3,821,187</u>
Total Liabilities and Net Assets	<u>\$ 5,005,472</u>	<u>\$ 4,565,575</u>

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

LA CASA NORTE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016 (with comparative totals for 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
<u>Public Support and Revenue</u>				
Government grants	\$ 2,824,396	\$ -	\$ 2,824,396	\$ 2,788,137
Foundation and corporate contributions	559,132	105,957	665,089	968,744
Individual contributions	88,444	-	88,444	108,421
Capital campaign contributions	-	771,547	771,547	693,913
Special Events				
Ticket revenue	30,903	-	30,903	114,088
Contributions	356,689	-	356,689	89,881
Donated services	17,890	-	17,890	3,502
Less costs of direct benefits to donors	(95,500)	-	(95,500)	(63,705)
Net revenues from special events	309,982	-	309,982	143,766
Miscellaneous income	11,764	-	11,764	17,844
Net assets released from restriction				
Satisfaction of program restrictions	228,236	(228,236)	-	-
Total public support and revenue	4,021,954	649,268	4,671,222	4,720,825
<u>Expenses</u>				
Program Services				
Community and Supportive Services	770,196	-	770,196	703,501
Solid Ground	454,107	-	454,107	442,889
Scattered Site Housing	1,070,253	-	1,070,253	1,126,661
Casa Corazon	1,088,944	-	1,088,944	1,093,126
Phase 3	23,641	-	23,641	36,734
Total program services	3,407,141	-	3,407,141	3,402,911
Management and general expenses	295,224	-	295,224	367,562
Fundraising	360,183	-	360,183	366,030
Total expenses	4,062,548	-	4,062,548	4,136,503
Change in net assets	(40,594)	649,268	608,674	584,322
Net assets, beginning of year	2,233,222	1,587,965	3,821,187	3,236,865
Net assets, end of year	<u>\$ 2,192,628</u>	<u>\$ 2,237,233</u>	<u>\$ 4,429,861</u>	<u>\$ 3,821,187</u>

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

LA CASA NORTE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016 (with comparative totals for 2015)

	Program Services					Total	Management and General	Fundraising	2016 Total	2015 Total
	Community and Supportive Services	Solid Ground	Scattered Site Housing	Casa Corazon	Phase 3					
Functional Expenses										
Salaries and benefits	\$ 631,595	\$ 335,110	\$ 340,031	\$ 813,535	\$ -	\$ 2,120,271	\$ 156,093	\$ 237,284	\$ 2,513,648	\$ 2,486,754
Total salaries, taxes and fringe benefits	631,595	335,110	340,031	813,535	-	2,120,271	156,093	237,284	2,513,648	2,486,754
Consultant and professional fees	5,044	2,710	3,474	8,696	18,911	38,835	38,358	40,837	118,030	290,903
Equipment rental	1,206	1,572	1,190	1,397	-	5,365	934	731	7,030	2,239
Program expenses	30,426	17,837	21,882	45,116	-	115,261	-	-	115,261	285,294
Client rental assistance	-	-	554,970	-	-	554,970	-	-	554,970	422,267
Supplies	3,663	8,717	2,501	10,983	-	25,864	3,647	1,359	30,870	34,056
Training and development	2,556	1,053	2,994	4,310	-	10,913	2,363	1,246	14,522	22,820
Meetings	633	592	675	748	204	2,852	7,273	5,484	15,609	12,984
Licenses, fees and permits	2,471	1,795	2,126	3,097	850	10,339	2,668	7,604	20,611	35,577
Occupancy	36,955	21,326	17,124	145,225	1,339	221,969	17,885	3,892	243,746	214,716
Insurance	3,497	1,905	2,555	3,695	-	11,652	3,459	1,710	16,821	27,653
Equipment and furniture, less than \$1,000	4,115	10,826	96,703	6,973	50	118,667	1,599	1,430	121,696	71,046
Maintenance and repairs	9,080	4,283	4,955	12,569	-	30,887	2,725	2,696	36,308	27,733
Postage and delivery	220	134	193	262	645	1,454	336	944	2,734	4,579
Marketing	-	-	-	-	1,642	1,642	600	176	2,418	776
Printing and advertising	233	77	107	151	-	568	429	618	1,615	4,370
Fundraising and special events	-	-	-	-	-	-	-	39,964	39,964	24,071
Subscriptions and memberships	1,340	3,067	2,304	1,631	-	8,342	1,839	2,124	12,305	12,724
Travel	28,370	3,896	11,672	4,476	-	48,414	1,802	1,984	52,200	52,685
Miscellaneous	122	1	2	2	-	127	17,436	3,645	21,208	5,748
Interest	758	-	-	-	-	758	5,332	-	6,090	1,822
Volunteer expenses	-	-	-	-	-	-	32	1,021	1,053	1,459
Real estate taxes	-	-	-	-	-	-	-	-	-	149
Advocacy	-	-	-	-	-	-	-	-	-	7,096
Bad debt expense	-	-	-	-	-	-	6,293	-	6,293	-
	130,689	79,791	725,427	249,331	23,641	1,208,879	115,010	117,465	1,441,354	1,562,767
Total expenses before depreciation and donated goods and services	762,284	414,901	1,065,458	1,062,866	23,641	3,329,150	271,103	354,749	3,955,002	4,049,521
Depreciation	7,912	39,206	4,795	26,078	-	77,991	6,231	5,434	89,656	83,480
Donated services	-	-	-	-	-	-	17,890	-	17,890	3,502
Total Expenses	\$ 770,196	\$ 454,107	\$ 1,070,253	\$ 1,088,944	\$ 23,641	\$ 3,407,141	\$ 295,224	\$ 360,183	\$ 4,062,548	\$ 4,136,503

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

LA CASA NORTE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016 (with comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ 608,674	\$ 584,322
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property and equipment	89,656	83,480
Capital campaign contributions	(771,547)	(693,913)
Decrease (increase) in assets		
Government grants receivable	233,656	179,029
Contribution receivables	(157,179)	92,325
Other receivables	(1,742)	-
Prepaid expenses and deposits	29,407	(49,114)
Increase (decrease) in liabilities		
Accounts payable and payroll accrual	(185,569)	(35,317)
Client savings	(1,580)	695
Property tax accrual	-	(7,407)
Refundable advances	193,877	(90,422)
Net cash provided by operating activities	<u>37,653</u>	<u>63,678</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment	(180,901)	(24,213)
Purchase of assets held for development	(345,327)	(90,394)
Net cash used by investing activities	<u>(526,228)</u>	<u>(114,607)</u>
<u>Cash Flows from Financing Activities</u>		
Net change in short term borrowing	(75,000)	110,000
Principal payments on long term debt	(100,505)	-
Cash received - capital campaign	662,980	693,913
Proceeds from long term debt	-	17,594
Net cash provided by financing activities	<u>487,475</u>	<u>821,507</u>
Net increase (decrease) in cash and cash equivalents	(1,100)	770,578
Cash and cash equivalents, beginning of year	<u>1,000,923</u>	<u>230,345</u>
Cash and cash equivalents, end of year	<u><u>\$ 999,823</u></u>	<u><u>\$ 1,000,923</u></u>

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

LA CASA NORTE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016 (with comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
Supplemental Cash Flow Information		
Interest paid	<u>\$ 6,090</u>	<u>\$ 1,822</u>
Cash and Cash Equivalents		
Cash	\$ 336,204	\$ 195,645
Cash - restricted (client savings)	639	2,219
Cash - restricted (capital campaign)	<u>662,980</u>	<u>803,059</u>
	<u>\$ 999,823</u>	<u>\$ 1,000,923</u>

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

LA CASA NORTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

Organization

La Casa Norte (the “Organization” or “LCN”) is a not-for-profit organization. La Casa Norte’s mission is to serve youth and families confronting homelessness. We provide access to stable housing and deliver comprehensive services that act as a catalyst to transform lives and communities. La Casa Norte achieves its mission through its programs:

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.

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.

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, which are all required to successfully house these households. Support services provided 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
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

The Foundation Project is a capital development project for a new facility in the Humboldt Park community. In 2016, LCN continued to conduct a capital campaign to secure funds necessary to begin construction of the capital project. We expect a financial closing in early 2017 and for construction to begin. Occupancy is expected in later 2018.

Basis of Accounting

The accompanying 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 Organization follows generally accepted accounting principles for not-for-profits. These principles require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets in 2016.

Income Tax Status

La Casa Norte was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of the Organization and the nature in which it operates is described above.

Management's assertion is that there are no uncertain tax positions and the Organization continues to operate in compliance with its tax-exempt purpose. The Organization's 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
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

For purposes of the statement of cash flows, the Organization considers all liquid investments with an original maturity of three months or less to be cash equivalents.

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 Organization 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

Support and Revenue

The Organization reports 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 Organization reports the support as unrestricted.

The Organization reports gifts of land, buildings, and equipment as unrestricted 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.

As of December 31, 2016, contribution receivables represent amounts promised by donors (unconditional promises to give), 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.

LA CASA NORTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

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 Organization received donated accounting services of \$17,890.

In-Kind Contributions

In addition to receiving cash contributions, the Organization may, at times, receive in-kind contributions from various donors. It is the policy of the Organization 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 Organization did not receive any in-kind donations meeting this criteria.

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.

Concentration of Risk

During the year ended December 31, 2016, the Organization received approximately 53% 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, 2016 and the contributions receivable at December 31, 2016:

	<u>% of Total Revenue</u>	<u>% of Government Receivables</u>
U.S. Department of Housing and Urban Development	20%	23%
Illinois Department of Human Services	7%	0%
Children and Family Services	7%	23%
City of Chicago Department of Family and Supportive Services	23%	17%
	<u>57%</u>	<u>63%</u>

Comparative Information

The 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, 2015, from which the summarized information was derived.

LA CASA NORTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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

Reclassifications

Certain amounts previously reported in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Note 2 – Refundable Advances

At December 31, 2016, refundable advances of \$276,215 are composed of \$34,000 from the Health Center Grant, \$5,075 U.S. Department of Homeland Security, \$5,000 Pierce Foundation, \$25,000 North Shore Exchanges, \$16,725 LaSalle Network, \$35,741 U.S. Department of Housing and Urban Development, and \$154,674 from the Illinois Department of Human Services. These advances are conditional upon future program expenditures as prescribed by the funders or approved for carryover.

Note 3 – Property and Equipment

The Organization's property and equipment at December 31, 2016 are as follows:

Buildings and improvements	\$ 1,628,340
Furniture and computer equipment	415,308
Construction in progress	126,793
Land	56,676
	<u>2,227,117</u>
Accumulated depreciation	<u>(802,832)</u>
Net property and equipment	<u>\$ 1,424,285</u>

Depreciation expense amounted to \$89,656 for the year ended December 31, 2016.

Note 4 – Land Held for Development

In April 2010, the Organization purchased the building at 3531 W. North Avenue utilizing funds received from a donor. The Organization demolished the existing structure and plan on replacing it with a new building that will contain administrative offices, new supportive housing, and expanded program services.

During the year ended December 31, 2016, the Organization has capitalized additional funds related to the architectural design and zoning and permits. Approximately \$11,443 in interest has been capitalized related to the project during 2016.

At December 31, 2016, construction had not yet started. The amount capitalized is related to the land value and related permits and has not been depreciated and is carried at its net costs of \$1,293,962. Management does not believe any impairment has occurred on this investment.

LA CASA NORTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 4 – Land Held for Development (cont.)

The Organization currently has \$1,690,228 included as temporarily restricted net assets for the development of this project, including pledge receivables of \$674,964 as of December 31, 2016. The Organization continues its capital campaign to raise funds to complete the project. The Organization intends on starting construction during 2017 with occupation occurring in 2018.

Note 5 – Lines of Credit

The Organization maintains a \$450,000 revolving line of credit expiring April 26, 2017. At December 31, 2016, there was \$35,000 borrowed against this line. The line is collateralized by a mortgage on the commercial property and is payable on demand. Interest varies with the bank’s prime rate plus .5% but not less than 4% and is payable monthly.

Note 6 – Note Payable

The Organization has a \$332,000 pre-development loan with Local Initiatives Support Corporation (LISC). Proceeds can only be used for the pre-development costs listed in the approved budget by LISC and incurred in connection with the development and construction of the real property and improvements at the Organization’s location under construction. Interest is payable monthly at a rate of 6%. The loan is secured by the property under construction and pledged contributions. The loan was repaid on June 2, 2017.

At December 31, 2016, \$228,750 is owed on this loan and included in long term debt with the anticipated due date being April 1, 2017. The draws on this loan during 2016 included capitalized costs for the project of \$11,443 of interest owed on the loan and added to principal for 2016.

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following at December 31, 2016:

Federal Home Loan Bank Grant	\$ 128,000
U.S. Department of Housing and Urban Development	200,000
City of Chicago - Department of Housing	153,780
Redevelopment Capital Project of Land Held for Development	1,690,228
Crisis center	65,225
	<u>\$ 2,237,233</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, 2016.

LA CASA NORTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 7 – Temporarily Restricted Net Assets (cont.)

On December 1, 2004, The U.S. Department of Housing and Urban Development granted the Organization \$200,000 for 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. The Organization is in compliance with the award as of December 31, 2016.

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 2016, the grant repayment obligation was again reduced by the allowed 5%, \$15,378, leaving the temporarily restricted balance of \$153,780 at December 31, 2016.

Note 8 – Capital Campaign Receivable

The Organization established a capital campaign to generate funds for the redevelopment capital project. At December 31, 2016, pledged receivables was \$674,964 and anticipated to be received by the following fiscal periods.

<u>December 31,</u>	
2017	\$ 191,964
2018	468,000
2019	15,000
	<u>\$ 674,964</u>

The Organization also received a conditional pledge of \$1,000,000 from one funder to be paid at the project close. This funding was not recognized as an asset in the Statement of Financial Position as of December 31, 2016.

The Organization considers its pledge receivables to be fully collectible. Accordingly, an allowance for doubtful accounts was not established as of December 31, 2016. There were no significant accounts written off as uncollectible during the year ended December 31, 2016.

LA CASA NORTE
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 9 – Subsequent Events

For the fiscal year ended December 31, 2016, the Organization's management has evaluated subsequent events through June 30, 2017, 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.

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

LA CASA NORTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Contract Number	Disbursements or Expenditures
U.S. Department of Housing and Urban Development			
Continuum of Care (COC) Program	14.267	IL0205L5T101	\$ 90,015
	14.267	IL0573L5T101	174,172
	14.267	IL0499L5T101	309,254
	14.267	IL0463L5T101	147,356
	14.267	IL0594L5T101	173,892
			(1) 894,689
Passed through			
City of Chicago Department of Planning and Development Community Development Block Grants/Entitlement Grant	14.218	30834	23,693
City of Chicago Department of Family and Support Services Community Development Block Grants/Entitlement Grant	14.218	31152	47,864
			71,557
Emergency Fund Emergency Shelter Grants Program	14.231	31544	196,652
Total U.S. Department of Housing and Urban Development			1,162,898
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	253,194
Chafee Foster Care Independence Program	93.674	405693	62,850
Total U.S. Department of Health and Human Services			316,044
U.S. Department of Homeland Security			
Passed through			
United Way Metro Chicago Emergency Food and Shelter National Board Program	97.024	LRO #237800-200	3,425
Total U.S. Department of Homeland Security			3,425
Total Expenditures of Federal Awards			\$ 1,482,367

(1) Major Program

LA CASA NORTE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2016

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the Federal grant activity of La Casa Norte under programs of the federal government for the year ended December 31, 2016. 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 did not provide any Federal awards to sub-recipients during the year ended December 31, 2016.

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
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 financial statements of La Casa Norte which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies described in the accompanying schedule of findings and question costs as item's 2016-001 and 2016-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Casa Norte's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

LaCasa Norte's Response to Findings

La Casa Norte's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. La Casa Norte's response was not subjected to the auditing procedures applied in the audit of the 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

June 30, 2017
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
Chicago, IL

Report on Compliance for Each Major Federal Program

We have audited La Casa Norte'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's major federal programs for the year ended December 31, 2016. La Casa Norte's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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'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'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's compliance.

Opinion on Each Major Federal Program

In our opinion, La Casa Norte 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, 2016.

Report on Internal Control over Compliance

Management of La Casa Norte 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'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'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

June 30, 2017
Chicago, Illinois

**LA CASA NORTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016**

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)? yes X no

Certification of Major Programs

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
14.267	Continuum of Care (COC) 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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016**

Section II – Financial Statement Findings

2016-001 Preparation of Generally Accepted Accounting Principles (GAAP) Financial Statements

Condition: We noted an absence of monitoring and knowledge in the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles (GAAP).

Criteria: This absence of fiscal monitoring controls and knowledge 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 needing additional training 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, 2016.

Auditor's 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.

Grantee Response: We understand that timely and accurate fiscal information is vital to make sound decisions for management and program staff. However, in 2016 LCN experienced deep changes in its Finance Department, including the fact that all finance team members were new to the Organization. The Director of the department was hired in December 2015 and there were no other accounting staff members that had the knowledge of the Organization's financials. At the beginning of the 2016 fiscal year, the Organization was six months behind on many of the recordings and reconciling.

By the end of the first quarter in 2016, the department was re-organized with 2.5 FTE including the Director. The priority then was to complete the recording and reconciling of the FY'15 records. At the same time, the new team had to receive training and get acclimated to the Organization's way of conducting business and complete the Organization's day to day required work. As the new team learned LCN's programs and structure and after providing its feedback, the Organization's leadership decided that it was time to change the current accounting software to a new one. A new chart of accounts was created to make the financial operations of the Organization more

LA CASA NORTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

efficient. Additionally, during FY'16, the department developed a new budgeting process which now includes the training and participation of program staff. As a result of this new organizational procedure, we are projecting a more effective check and balance and fiscal monitoring.

Limited resources in the Finance Department and additional work to upgrade our systems put us behind on our FY'16 reconciliations. However, the department is currently working with the newly upgraded accounting software and will shortly add a new payroll system that will further our effectiveness. Furthermore, the Director of Finance has implemented quarterly fiscal meetings to ensure that fiscal information is reviewed and monitored and that we are following GAAP rules and LCN's fiscal policies. Running a fiscal operation of such complexity as LCN is a challenging task and your observation that additional time and personnel support is needed to be effective, is well taken as that has been my observation as well. Therefore, consultation with a third party who is knowledgeable of GAAP, specifically to the not-for-profit field, will be considered.

2016-002 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 and accurately 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 needing additional training 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 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.

LA CASA NORTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Grantee Response: In 2017 the Finance Department is starting with new fiscal software and a chart of accounts. In order to ensure that our accounting records are reconciled, we have developed a month end calendar to ensure that all financial items are addressed on a monthly basis, then on a quarterly basis we reconcile to the trial balance. The Development Department is also reconciling to the fiscal system on a quarterly basis.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Federal Award Findings and Questioned Costs - Prior Year

2015-001 Cash Management - CFDA 14.267

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: The predecessor auditors recommended that all funds that are drawn down are directly supported with expenses that were paid or are to be paid within days of drawing funds down. Draws should be reviewed and approved by the CFO.

Current Status: Finding was not repeated during the current year.

2015-002 Reporting - CFDA 14.267

Condition: The Organization is required to comply with the reporting requirements for each grant. Grant IL0463L5T101201 was submitted 30 days after the required due date. For the remaining grants, additional information was required to be submitted due to the lump sum end of year draws.

Recommendation: The predecessor auditor recommended that all funds and all reporting requirements be identified and assigned to a staff person for completion. Reporting should be reviewed by management prior to submission.

Current Status: Finding was not repeated during the current year.