



AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

**Lydia Home Association
Consolidated Audit Report
For the Year Ended June 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lydia Home Association
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of **Lydia Home Association** which comprise the consolidated statement of financial position as of June 30, 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 consolidated 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 consolidated 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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, the financial statements referred to above present fairly, in all material respects, the financial position of Lydia Home Association as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Lydia Home Association's consolidated financial statements as of and for the year ended June 30, 2017, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary statements and schedules on pages 15 through 20 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018, on our consideration of Lydia Home Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lydia Home Association's internal control over financial reporting and compliance.

Selden Fox, Ltd.

December 18, 2018

Lydia Home Association
Consolidated Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Assets | | |
| Cash | \$ 808,170 | \$ 543,524 |
| Investments | 656,790 | 781,750 |
| Accounts receivable: | | |
| Government fees and grants | 350,564 | 481,533 |
| Pledges | - | 128,561 |
| Other | 72,267 | 57,553 |
| Prepaid expenses | 138,012 | 109,074 |
| Property and equipment, net | 951,051 | 997,249 |
| Total assets | \$ 2,976,854 | \$ 3,099,244 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$ 228,953 | \$ 231,474 |
| Accrued wages and benefits | 691,269 | 599,633 |
| Line of credit | 3,742 | 153,224 |
| Total liabilities | 923,964 | 984,331 |
| Net assets: | | |
| Unrestricted | 466,818 | 282,536 |
| Temporarily restricted | 1,586,072 | 1,832,377 |
| Total net assets | 2,052,890 | 2,114,913 |
| Total liabilities and net assets | \$ 2,976,854 | \$ 3,099,244 |

See accompanying notes and independent auditor's report.

Lydia Home Association
Consolidated Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

| | 2018 | | Total | 2017 |
|--|-------------------|------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | | |
| Revenues: | | | | |
| Contributions: | | | | |
| Cash | \$ 2,157,745 | \$ 455,129 | \$ 2,612,874 | \$ 2,911,882 |
| Acquisition of Safe Families for Children Alliance | - | - | - | 120,896 |
| Property and in-kind | 58,858 | - | 58,858 | 74,243 |
| Government fees and grants | 5,637,214 | - | 5,637,214 | 5,074,099 |
| Tuition, licensing, and service fees | 525,935 | - | 525,935 | 589,457 |
| Special events, net | (107,768) | - | (107,768) | (89,884) |
| Other income | 571,941 | - | 571,941 | 191,979 |
| Investment income | 4,364 | - | 4,364 | 3,469 |
| Net assets released from restrictions | 701,434 | (701,434) | - | - |
| Total revenues | 9,549,723 | (246,305) | 9,303,418 | 8,876,141 |
| Expenses: | | | | |
| Program services: | | | | |
| Resident child care | 4,365,215 | - | 4,365,215 | 4,185,837 |
| Foster care | 954,168 | - | 954,168 | 952,261 |
| Day care | 235,519 | - | 235,519 | 237,009 |
| Counseling center | 20,841 | - | 20,841 | 33,810 |
| Lydia Urban Academy Chicago | - | - | - | 68,224 |
| Lydia Urban Academy Rockford | 40,423 | - | 40,423 | 200,853 |
| International | 98,090 | - | 98,090 | 102,612 |
| Alliance chapter operations | 2,760,428 | - | 2,760,428 | 2,787,091 |
| Total program services | 8,474,684 | - | 8,474,684 | 8,567,697 |
| Management and general | 493,646 | - | 493,646 | 405,195 |
| Development | 397,111 | - | 397,111 | 472,088 |
| Total expenses | 9,365,441 | - | 9,365,441 | 9,444,980 |
| Change in net assets | 184,282 | (246,305) | (62,023) | (568,839) |
| Net assets, beginning of the year | 282,536 | 1,832,377 | 2,114,913 | 2,683,752 |
| Net assets, end of the year | \$ 466,818 | \$ 1,586,072 | \$ 2,052,890 | \$ 2,114,913 |

See accompanying notes and independent auditor's report.

Lydia Home Association
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

| | Resident Child Care | Foster Care | Day Care | Counseling Center | Lydia Urban Academy Rockford |
|--|---------------------------|-------------------|-------------------|----------------------|---------------------------------------|
| Wages | \$ 2,563,051 | \$ 414,647 | \$ 141,826 | \$ 14,169 | \$ 13,631 |
| Payroll taxes and benefits | 608,016 | 75,105 | 27,167 | 1,350 | 2,391 |
| Contractors and consultants | 46,788 | 757 | 600 | - | - |
| Consumable supplies | 195,248 | 7,181 | 13,747 | 17 | 378 |
| Occupancy | 172,530 | 28,575 | 10,521 | 186 | 550 |
| Transportation | 126,396 | 23,105 | - | - | - |
| Specific assistance to individuals | 34,100 | 293,370 | - | - | - |
| Leases and rent | 6,202 | 606 | 51 | - | 372 |
| Communications and miscellaneous | 32,132 | 10,638 | 8,002 | 371 | 18,182 |
| Non-reimbursable expenses | 4,811 | 8,326 | - | 2,056 | - |
| Depreciation | 62,795 | 12,603 | 8,428 | 391 | 91 |
| Donated items | 49,287 | - | - | - | 2,200 |
| Total expenses before allocation of management and general expenses | 3,901,356 | 874,913 | 210,342 | 18,540 | 37,795 |
| Allocation of management and general expenses | 463,859 | 79,255 | 25,177 | 2,301 | 2,628 |
| Total expenses | \$ 4,365,215 | \$ 954,168 | \$ 235,519 | \$ 20,841 | \$ 40,423 |

See accompanying notes and independent auditor's report.

2018

| International | Alliance Chapter Operations | Total Program Services | Management and General | Development | Total | 2017 |
|------------------|-----------------------------------|------------------------------|------------------------------|-------------------|---------------------|---------------------|
| \$ 41,756 | \$ 1,787,206 | \$ 4,976,286 | \$ 615,963 | \$ 225,566 | \$ 5,817,815 | \$ 5,497,415 |
| 19,265 | 290,085 | 1,023,379 | 162,790 | 55,818 | 1,241,987 | 1,225,832 |
| 13,183 | 112,092 | 173,420 | 203,633 | 24,331 | 401,384 | 573,694 |
| 2,598 | 38,012 | 257,181 | 67,359 | 17,053 | 341,593 | 356,136 |
| - | 2,408 | 214,770 | 132,545 | 2,144 | 349,459 | 367,604 |
| 5,388 | 80,549 | 235,438 | 3,977 | 2,305 | 241,720 | 291,724 |
| 6,925 | 22,155 | 356,550 | - | 148 | 356,698 | 350,989 |
| - | 10,548 | 17,779 | 1,407 | 9 | 19,195 | 22,002 |
| 6,120 | 89,436 | 164,881 | 122,894 | 20,058 | 307,833 | 318,802 |
| - | 24,388 | 39,581 | 25,186 | 8,131 | 72,898 | 246,095 |
| - | 1,349 | 85,657 | 69,845 | 499 | 156,001 | 127,986 |
| - | 1,764 | 53,251 | 5,607 | - | 58,858 | 66,701 |
| 95,235 | 2,459,992 | 7,598,173 | 1,411,206 | 356,062 | 9,365,441 | 9,444,980 |
| 2,855 | 300,436 | 876,511 | (917,560) | 41,049 | - | - |
| \$ 98,090 | \$ 2,760,428 | \$ 8,474,684 | \$ 493,646 | \$ 397,111 | \$ 9,365,441 | \$ 9,444,980 |

Lydia Home Association
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (62,023) | \$ (568,839) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Acquisition of Safe Families for Children Alliance | - | (120,896) |
| Noncash contributions of investments | (4,047) | (49,814) |
| Dividends and interest reinvested, net of fees incurred | (28,238) | (27,365) |
| Loss on investments | 23,412 | 24,093 |
| Depreciation | 156,001 | 127,986 |
| Gain on disposal of property and equipment | (569,702) | 4,968 |
| Noncash contribution of equipment | - | (7,376) |
| Interest added to line of credit | 4,518 | 654 |
| Cash provided by (applied to) other operating activities: | | |
| Government fees and grants receivable | 130,969 | (235,370) |
| Pledges receivable | 128,561 | 134,917 |
| Other receivables | (14,714) | 416,976 |
| Prepaid expenses | (28,938) | 16,674 |
| Accounts payable | (2,521) | (359,614) |
| Accrued wages and benefits | 91,636 | (22,686) |
| Deferred revenue | - | (52,630) |
| Net cash from operating activities | (175,086) | (718,322) |
| Cash flows from investing activities: | | |
| Acquisition of Safe Families for Children Alliance | - | 331,910 |
| Proceeds from sale of investments | 133,833 | 29,967 |
| Purchase of property and equipment | (112,726) | (300,910) |
| Proceeds from sale of property and equipment | 572,625 | 5,800 |
| Net cash from investing activities | 593,732 | 66,767 |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 150,000 | 150,000 |
| Repayments on line of credit | (304,000) | - |
| Net cash from financing activities | (154,000) | 150,000 |
| Net change in cash | 264,646 | (501,555) |
| Cash, beginning of the year | 543,524 | 1,045,079 |
| Cash, end of the year | \$ 808,170 | \$ 543,524 |

See accompanying notes and independent auditor's report.

Lydia Home Association Notes to the Consolidated Financial Statements

1. Nature of Organization

The consolidated financial statements include the accounts of Lydia Home Association (Lydia Home) and the related Safe Families for Children Alliance (Alliance), hereinafter collectively referred to as the "Association". All significant interorganizational accounts and transactions have been eliminated in consolidation.

Lydia Home is a Christian, nonprofit organization, founded in 1916 and based in Chicago, Illinois. The mission of Lydia Home is to strengthen families to care for children and to care for children when families cannot. This mission is accomplished through a diverse range of programs designed to meet the physical, emotional and spiritual needs of at-risk children and families including:

- Residential treatment and foster care
- Day care for preschool and kindergarten children
- Community counseling center
- Alternative high schools (urban academies)

The Alliance is a non-profit organization, with headquarters in Chicago, Illinois, and local chapters nationwide, created to extend family-like support for desperate families through a community of devoted volunteers who are motivated by faith to keep children safe and families intact. The Alliance is dedicated to:

- Keeping children safe during a family crisis such as homelessness, hospitalization, or domestic violence in an effort to prevent child abuse and/or neglect.
- Supporting and stabilizing families in crisis by surrounding them with a caring, compassionate community.
- Reuniting families and reducing the number of children entering the child welfare system.

As described in Note 9, effective on July 1, 2016, Lydia Home became the sole member and assumed control of the Alliance.

2. Summary of Significant Accounting Policies

Basis of Presentation – The consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Association as a whole. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Lydia Home Association
Notes to the Consolidated Financial Statements (cont'd)

2. Summary of Significant Accounting Policies (cont'd)

Basis of Presentation (cont'd)

Permanently Restricted Net Assets – Net assets subject to donor imposed stipulations that must be permanently maintained by the Association. Generally, the donors of these assets would permit the Association to use all or part of the income earned on the related investments for general or specific purposes. The Association currently has no permanently restricted net assets.

Temporarily Restricted Net Assets – Net assets subject to donor imposed stipulations that may or will be met by the actions of the Association or the passage of time.

Unrestricted Net Assets – Net assets not subject to donor imposed stipulations.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as an increase or decrease in unrestricted net assets, unless its use is restricted by explicit donor stipulation or by law. The expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of property and equipment, or of cash used to acquire property and equipment received with donor stipulations, are reported as temporarily restricted support and released over the estimated useful life of the related assets as they are depreciated. Temporarily restricted contributions whose restrictions are met in the same year are reported as unrestricted support.

Use of Estimates – The preparation of financial statements in accordance 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 consolidated financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in the preparation of these consolidated financial statements include the following:

- The Association allocates general, administrative and other expenses to individual program activities.
- The Association has determined that an allowance for doubtful accounts is not necessary.

Lydia Home Association
Notes to the Consolidated Financial Statements (cont'd)

2. Summary of Significant Accounting Policies (cont'd)

Basis of Presentation (cont'd)

For the aforementioned estimates, it is reasonably possible that the recorded amounts or related disclosures could significantly change in the near future, as new information is available.

Investments – The Association’s investments are accounted for at fair value with unrealized gains and losses reported in the consolidated statement of activities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of a given measurement date. Investment valuations are separated into a three-level hierarchy based on the reliability of observable and unobservable inputs as follows:

Level 1 – Valuations are based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 – Valuations are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose significant inputs are observable.

Level 3 – Valuations are based on unobservable inputs for the asset or liability that reflect the Association’s own data and assumptions that market participants would use in pricing the asset or liability.

Concentration of Deposits – At June 30, 2018, the Association had \$433,848 of uninsured deposits with a financial institution.

Accounts Receivable – Fees and grants receivable from governmental agencies are stated at the amount billed. The Association does not charge interest or late fees on amounts past due. The Association considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided for.

Property and Equipment – Property and equipment are stated at cost, or in the case of gifts, at fair value as of the date of donation. Depreciation of property and equipment is recorded using the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 50 years. When property and equipment is sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of property and equipment are expensed as incurred.

Lydia Home Association
Notes to the Consolidated Financial Statements (cont'd)

2. Summary of Significant Accounting Policies (cont'd)

Revenue Recognition – Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Tuition, licensing and service fees, along with fees due under cost-reimbursable government grants, are recorded in the period the related services are performed or expenditures are incurred.

Donated Services and In-Kind Contributions – Volunteers contribute significant amounts of time to support the Association's program services and operations; however, the consolidated financial statements do not reflect the value of these contributed services as they do not meet the recognition criteria prescribed by generally accepted accounting principles. Contributed goods and professional services are recorded at fair value based on the date of donation or the service was provided.

Concentration of Revenue – Government fees and grants reflect funding received from the State of Illinois (substantially all of which was received from the Illinois Department of Children and Family Services) and accounted for approximately 61% of the Association's consolidated revenue for the year ended June 30, 2018 (58% in 2017). The receipt of such funds generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the granting agencies. Any disallowed claims resulting from such audits could become a liability of the Association.

Functional Allocation of Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated statement of functional expenses presents the natural classification of expenses by function.

Income Taxes – Lydia Home and the Alliance are not-for-profit entities, as described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from income taxes, except to the extent of any unrelated business income in excess of \$1,000. Neither Lydia Home nor the Alliance reported any such unrelated business income in 2018 or 2017 and both have determined they not are required to report a liability for any uncertain tax positions. While neither Lydia Home nor the Alliance has received a notice of exam, their federal and state tax returns for the years ended June 30, 2015 through 2017, remain subject to examination.

Subsequent Events – Subsequent events have been evaluated through December 18, 2018, which is the date the consolidated financial statements were available to be issued.

Lydia Home Association
Notes to the Consolidated Financial Statements (cont'd)

3. Investments

The Association's investments at June 30, consist of the following:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|------------------|-------------------|-------------|-------------------|
| June 30, 2018: | | | | |
| Money market funds | \$ 14,987 | \$ - | \$ - | \$ 14,987 |
| Corporate bonds | - | 508,348 | - | 508,348 |
| Municipal bonds | - | 133,455 | - | 133,455 |
| | <u>\$ 14,987</u> | <u>\$ 641,803</u> | <u>\$ -</u> | <u>\$ 656,790</u> |
| June 30, 2017: | | | | |
| Money market funds | \$ 3,074 | \$ - | \$ - | \$ 3,074 |
| Common stock | 19,978 | - | - | 19,978 |
| Corporate bonds | - | 611,039 | - | 611,039 |
| Municipal bonds | - | 147,659 | - | 147,659 |
| | <u>\$ 23,052</u> | <u>\$ 758,698</u> | <u>\$ -</u> | <u>\$ 781,750</u> |

The Association's investments in money market funds and common stocks are valued based on quoted market prices and are categorized in Level 1 of the hierarchy. The Association's investments in municipal and corporate bonds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are categorized in Level 2 of the hierarchy.

Investment income for the years ended June 30, consists of the following:

| | 2018 | 2017 |
|--------------------------------|-----------------|-----------------|
| Dividends and interest | \$ 31,435 | \$ 31,393 |
| Net gain (loss) on investments | (23,412) | (24,093) |
| Investment expenses | (3,659) | (3,831) |
| | <u>\$ 4,364</u> | <u>\$ 3,469</u> |

4. Property and Equipment

Property and equipment at June 30, consists of the following:

| | 2018 | 2017 |
|------------------------------------|-------------------|-------------------|
| Land | \$ 116,223 | \$ 116,223 |
| Building and improvements | 2,672,797 | 3,211,753 |
| Furniture, fixtures, and equipment | 831,605 | 1,261,685 |
| | <u>3,620,625</u> | 4,589,661 |
| Less accumulated depreciation | (2,669,574) | (3,592,412) |
| | <u>\$ 951,051</u> | <u>\$ 997,249</u> |

Lydia Home Association
Notes to the Consolidated Financial Statements (cont'd)

5. Line of Credit

The Association has an open-ended line of credit facility with its investment custodian which provides for borrowings up to the lesser of \$350,000 or the pledged value of collateral. Interest on the line of credit is payable monthly at the prime rate plus 0.5% (5.5% and 4.5% at June 30, 2018 and 2017, respectively). The line of credit with a balance of \$3,742 is due on demand and secured by the Association's investment account with a balance of \$656,790 at June 30, 2018 (\$153,224 and \$781,750, respectively in 2017). Interest expensed and added to the line of credit for the year ended June 30, 2018, totaled \$4,518 (\$654 in 2017).

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, consist of the following:

| | 2018 | 2017 |
|--------------------------------------|--------------|--------------|
| International | \$ 53,556 | \$ 41,666 |
| Lawndale Community PCIT | 8,644 | 8,644 |
| Project music | 7,897 | 7,897 |
| Residential capital improvements | 244,356 | 189,138 |
| Residential operations | 31,775 | 11,903 |
| Lydia Urban Academy Chicago | 33,050 | 33,050 |
| Lydia Urban Academy Rockford | 4,221 | 21,532 |
| Alliance | 840,634 | 1,144,004 |
| Technology | 23,564 | 23,564 |
| Undepreciated property and equipment | 318,347 | 340,979 |
| Other | 20,028 | 10,000 |
| | \$ 1,586,072 | \$ 1,832,377 |

The sources of net assets released from temporary donor restrictions by satisfying the restricted purposes or by the occurrence of events specified by the donor, for the years ended June 30, are as follows:

| | 2018 | 2017 |
|--------------------------------------|------------|--------------|
| International | \$ 38,888 | \$ 51,800 |
| Project music | - | 46,323 |
| Residential operations | 11,903 | - |
| Lydia Urban Academy Chicago | - | 17,944 |
| Lydia Urban Academy Rockford | 17,311 | 34,793 |
| Alliance | 573,358 | 1,025,788 |
| Undepreciated property and equipment | 59,974 | 42,238 |
| | \$ 701,434 | \$ 1,218,886 |

Lydia Home Association
Notes to the Consolidated Financial Statements (cont'd)

7. Special Events

Gross receipts and related costs for special events held consist of the following:

| | 2018 | 2017 |
|----------------|--------------|-------------|
| Gross receipts | \$ 43,146 | \$ 49,714 |
| Related costs | 150,914 | 139,598 |
| Net loss | \$ (107,768) | \$ (89,884) |

8. Benefit Plan

The Association has established a 401(k) Plan in which substantially all employees having attained age 21 may participate. Employees may contribute a portion of their compensation up to the limits established by the Internal Revenue Service. Employees are immediately vested in their own deferrals. The plan also provides for discretionary employer matching and profit sharing contributions; however, no such contributions have been made to date.

9. Acquisition of Safe Families for Children Alliance

Effective on July 1, 2016, Lydia Home became the sole member and assumed control of the Alliance and transferred the Safe Families programming it previously operated to the Alliance.

At the time of the acquisition, the net assets acquired from the Alliance consisted of the following:

| | |
|-----------------------|------------|
| Cash | \$ 331,910 |
| Accounts receivable | 34,759 |
| Prepaid expenses | 3,547 |
| Accounts payable | (249,320) |
| Inherent contribution | \$ 120,896 |

Due to the short-term nature of the assets assumed and liabilities acquired, there were no changes in the values of the assets and liabilities.

As the acquisition was performed without consideration, the Association recognized an inherent contribution of \$120,896 for the fair value of net assets acquired in its consolidated statement of activities for the year ended June 30, 2017.

10. Comparative Prior Year 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2017.

Lydia Home Association
Consolidating Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

| | 2018 | | | Consolidated | 2017 |
|--|------------------------|-------------------------------------|-------------------|---------------------|---------------------|
| | Lydia Home Association | Safe Families for Children Alliance | Eliminations | | |
| Assets | | | | | |
| Cash | \$ 606,423 | \$ 201,747 | \$ - | \$ 808,170 | \$ 543,524 |
| Investments | 656,790 | - | - | 656,790 | 781,750 |
| Accounts receivable: | | | | | |
| Government fees and grants | 186,170 | 164,394 | - | 350,564 | 481,533 |
| Pledges | - | - | - | - | 128,561 |
| Other | 31,803 | 40,464 | - | 72,267 | 57,553 |
| Due from Safe Families for Children Alliance | 317,243 | - | 317,243 | - | - |
| Prepaid expenses | 122,874 | 15,138 | - | 138,012 | 109,074 |
| Property and equipment, net | 823,621 | 127,430 | - | 951,051 | 997,249 |
| | <u>\$ 2,744,924</u> | <u>\$ 549,173</u> | <u>\$ 317,243</u> | <u>\$ 2,976,854</u> | <u>\$ 3,099,244</u> |
| Liabilities and Net Assets | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 88,934 | \$ 140,019 | \$ - | \$ 228,953 | \$ 231,474 |
| Accrued wages and benefits | 478,129 | 213,140 | - | 691,269 | 599,633 |
| Due to Lydia Home Association | - | 317,243 | 317,243 | - | - |
| Line of credit | 3,742 | - | - | 3,742 | 153,224 |
| | <u>570,805</u> | <u>670,402</u> | <u>317,243</u> | <u>923,964</u> | <u>984,331</u> |
| Net assets: | | | | | |
| Unrestricted | 1,485,746 | (947,232) | - | 538,514 | 282,536 |
| Temporarily restricted | 688,373 | 826,003 | - | 1,514,376 | 1,832,377 |
| | <u>2,174,119</u> | <u>(121,229)</u> | <u>-</u> | <u>2,052,890</u> | <u>2,114,913</u> |
| Total net assets | <u>2,174,119</u> | <u>(121,229)</u> | <u>-</u> | <u>2,052,890</u> | <u>2,114,913</u> |
| Total liabilities and net assets | <u>\$ 2,744,924</u> | <u>\$ 549,173</u> | <u>\$ 317,243</u> | <u>\$ 2,976,854</u> | <u>\$ 3,099,244</u> |

See independent auditor's report.

Lydia Home Association
Consolidating Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

| | 2018 | | | Consolidated | 2017 |
|---------------------------------------|------------------------|-------------------------------------|--------------|---------------------|---------------------|
| | Lydia Home Association | Safe Families for Children Alliance | Eliminations | | |
| Revenues: | | | | | |
| Contributions: | | | | | |
| Cash | \$ 706,436 | \$ 1,906,438 | \$ - | \$ 2,612,874 | \$ 2,911,882 |
| Acquisition by Lydia Home Association | - | - | - | - | 120,896 |
| Property and in-kind | 52,878 | 5,980 | - | 58,858 | 74,243 |
| Government fees and grants | 4,937,390 | 699,824 | - | 5,637,214 | 5,074,099 |
| Tuition, licensing, and service fees | 248,779 | 277,156 | - | 525,935 | 589,457 |
| Special events, net | (67,552) | (40,216) | - | (107,768) | (89,884) |
| Other income | 557,454 | 14,487 | - | 571,941 | 191,979 |
| Investment income | 4,356 | 8 | - | 4,364 | 3,469 |
| Total revenues | 6,439,741 | 2,863,677 | - | 9,303,418 | 8,876,141 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Resident child care | 4,365,215 | - | - | 4,365,215 | 4,185,837 |
| Foster care | 954,168 | - | - | 954,168 | 952,261 |
| Day care | 235,519 | - | - | 235,519 | 237,009 |
| Counseling center | 20,841 | - | - | 20,841 | 33,810 |
| Lydia Urban Academy Chicago | - | - | - | - | 68,224 |
| Lydia Urban Academy Rockford | 40,423 | - | - | 40,423 | 200,853 |
| International | 98,090 | - | - | 98,090 | 102,612 |
| Alliance chapter operations | - | 2,760,428 | - | 2,760,428 | 2,787,091 |
| Total program services | 5,714,256 | 2,760,428 | - | 8,474,684 | 8,567,697 |
| Management and general | 35,162 | 458,484 | - | 493,646 | 405,195 |
| Development | 232,081 | 165,030 | - | 397,111 | 472,088 |
| Total expenses | 5,981,499 | 3,383,942 | - | 9,365,441 | 9,444,980 |
| Change in net assets | 458,242 | (520,265) | - | (62,023) | (568,839) |
| Net assets, beginning of the year | 1,715,877 | 399,036 | - | 2,114,913 | 2,683,752 |
| Net assets, end of the year | \$ 2,174,119 | \$ (121,229) | \$ - | \$ 2,052,890 | \$ 2,114,913 |

See independent auditor's report.

Lydia Home Association
Consolidating Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

| | 2018 | | | | 2017 |
|--|---------------------------|---|--------------|-------------------|-------------------|
| | Lydia Home Association | Safe Families for Children Alliance | Eliminations | Consolidated | |
| Cash flows from operating activities: | | | | | |
| Change in net assets | \$ 458,242 | \$ (520,265) | \$ - | \$ (62,023) | \$ (568,839) |
| Adjustments to reconcile change in to net cash from operating activities: | | | | | |
| Acquisition of Safe Families for Children Alliance | - | - | - | - | (120,896) |
| Noncash contribution of investments | (4,047) | - | - | (4,047) | (49,814) |
| Dividends and interest reinvested, net of fees incurred | (28,238) | - | - | (28,238) | (27,365) |
| Loss on investments | 23,412 | - | - | 23,412 | 24,093 |
| Depreciation | 94,295 | 61,706 | - | 156,001 | 127,986 |
| (Gain) loss on disposal of property and equipment | (570,104) | 402 | - | (569,702) | 4,968 |
| Noncash contribution of equipment | - | - | - | - | (7,376) |
| Interest added to line of credit | 4,518 | - | - | 4,518 | 654 |
| Changes in operating assets and liabilities: | | | | | |
| Government fees and grants | 68,128 | 62,841 | - | 130,969 | (235,370) |
| Pledges receivable | 117,311 | 11,250 | - | 128,561 | 134,917 |
| Other receivables | (7,216) | (7,498) | - | (14,714) | 416,976 |
| Due to/from Safe Families for Children Alliance | (328,585) | - | (328,585) | - | - |
| Prepaid expenses | (17,706) | (11,232) | - | (28,938) | 16,674 |
| Accounts payable | (72,136) | 69,615 | - | (2,521) | (359,614) |
| Accrued wages and benefits | 59,391 | 32,245 | - | 91,636 | (22,686) |
| Deferred revenue | - | - | - | - | (52,630) |
| Due to/from Lydia Home Association | - | 328,585 | 328,585 | - | - |
| Net cash from operating activities | (202,735) | 27,649 | - | (175,086) | (718,322) |
| Cash flows from investing activities: | | | | | |
| Acquisition of Safe Families for Children Alliance | - | - | - | - | 331,910 |
| Proceeds from sale of investments | 133,833 | - | - | 133,833 | 29,967 |
| Purchase of property and equipment | (40,331) | (72,395) | - | (112,726) | (300,910) |
| Proceeds from sale of equipment | 572,625 | - | - | 572,625 | 5,800 |
| Net cash from investing activities | 666,127 | (72,395) | - | 593,732 | 66,767 |
| Cash flows from financing activities: | | | | | |
| Proceeds from line of credit | 150,000 | - | - | 150,000 | 150,000 |
| Repayments on line of credit | (304,000) | - | - | (304,000) | - |
| Net cash from financing activities | (154,000) | - | - | (154,000) | 150,000 |
| Net change in cash | 309,392 | (44,746) | - | 264,646 | (501,555) |
| Cash, beginning of the year | 297,031 | 246,493 | - | 543,524 | 1,045,079 |
| Cash, end of the year | \$ 606,423 | \$ 201,747 | \$ - | \$ 808,170 | \$ 543,524 |

See independent auditor's report.

Lydia Home Association
Schedule of Activities - Lydia Home Association (Parent Only)
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

| | Resident Child Care | Foster Care | Day Care | Counseling Center |
|--|------------------------|---------------------|-------------------|----------------------|
| Revenues: | | | | |
| Contributions: | | | | |
| Cash | \$ 48,527 | \$ 740 | \$ 89 | \$ - |
| Property and in-kind | 49,287 | - | - | - |
| Government fees and grants | 4,072,686 | 858,478 | - | 6,226 |
| Tuition and service fees | 905 | - | 226,169 | 20,408 |
| Special events, net | (1,351) | - | - | - |
| Other income | (16,864) | (5,918) | - | - |
| Investment income | - | - | - | - |
| Total revenues | 4,153,190 | 853,300 | 226,258 | 26,634 |
| Expenses: | | | | |
| Wages | 2,563,051 | 414,647 | 141,826 | 14,169 |
| Payroll taxes and benefits | 608,016 | 75,105 | 27,167 | 1,350 |
| Contractors and consultants | 46,788 | 757 | 600 | - |
| Consumable supplies | 195,248 | 7,181 | 13,747 | 17 |
| Occupancy | 172,530 | 28,575 | 10,521 | 186 |
| Transportation | 126,396 | 23,105 | - | - |
| Specific assistance to individuals | 34,100 | 293,370 | - | - |
| Leases and rent | 6,202 | 606 | 51 | - |
| Communications and miscellaneous | 32,132 | 10,638 | 8,002 | 371 |
| Non-reimbursable expenses | 4,811 | 8,326 | - | 2,056 |
| Depreciation | 62,795 | 12,603 | 8,428 | 391 |
| Donated items | 49,287 | - | - | - |
| Total expenses before allocation of management and general expenses | 3,901,356 | 874,913 | 210,342 | 18,540 |
| Allocation of management and general expenses | 463,859 | 79,255 | 25,177 | 2,301 |
| Total expenses | 4,365,215 | 954,168 | 235,519 | 20,841 |
| Revenues over (under) expenses | \$ (212,025) | \$ (100,868) | \$ (9,261) | \$ 5,793 |

See independent auditor's report.

| 2018 | | | | | | |
|------------------------------------|----------------|---------------------------------------|------------------------------|----------------|-------------------|------------------|
| Lydia Urban Academy Rockford | International | Total Program Services | Management and General | Development | Total | 2017 |
| \$ 1,650 | \$ 109,980 | \$ 160,986 | \$ - | \$ 545,450 | \$ 706,436 | \$ 815,733 |
| 2,200 | - | 51,487 | 1,391 | - | 52,878 | 67,497 |
| - | - | 4,937,390 | - | - | 4,937,390 | 4,649,364 |
| - | - | 247,482 | 2 | 1,295 | 248,779 | 292,964 |
| - | - | (1,351) | - | (66,201) | (67,552) | (22,766) |
| 21 | - | (22,761) | 570,104 | 10,111 | 557,454 | 121,398 |
| - | - | - | - | 4,356 | 4,356 | 3,272 |
| 3,871 | 109,980 | 5,373,233 | 571,497 | 495,011 | 6,439,741 | 5,927,462 |
| 13,631 | 41,756 | 3,189,080 | 299,493 | 133,769 | 3,622,342 | 3,494,619 |
| 2,391 | 19,265 | 733,294 | 93,228 | 34,795 | 861,317 | 834,926 |
| - | 13,183 | 61,328 | 21,694 | 1,983 | 85,005 | 206,722 |
| 378 | 2,598 | 219,169 | 30,624 | 14,367 | 264,160 | 292,891 |
| 550 | - | 212,362 | 111,381 | 2,144 | 325,887 | 357,050 |
| - | 5,388 | 154,889 | 300 | 1,078 | 156,267 | 186,884 |
| - | 6,925 | 334,395 | - | 148 | 334,543 | 328,414 |
| 372 | - | 7,231 | 38 | 9 | 7,278 | 8,209 |
| 18,182 | 6,120 | 75,445 | 66,449 | 14,558 | 156,452 | 154,051 |
| - | - | 15,193 | 1,651 | 4,231 | 21,075 | 98,094 |
| 91 | - | 84,308 | 9,488 | 499 | 94,295 | 83,356 |
| 2,200 | - | 51,487 | 1,391 | - | 52,878 | 60,121 |
| 37,795 | 95,235 | 5,138,181 | 635,737 | 207,581 | 5,981,499 | 6,105,337 |
| 2,628 | 2,855 | 576,075 | (600,575) | 24,500 | - | - |
| 40,423 | 98,090 | 5,714,256 | 35,162 | 232,081 | 5,981,499 | 6,105,337 |
| \$ (36,552) | \$ 11,890 | \$ (341,023) | \$ 536,335 | \$ 262,930 | \$ 458,242 | \$ (177,875) |

Lydia Home Association
Schedule of Activities - Safe Families for Children Alliance
For the Year Ended June 30, 2018
(With Comparative Totals for June 30, 2017)

| | 2018 | | | Total | 2017 |
|--|--|------------------------------|-------------------|---------------------|---------------------|
| | Program Services - Chapter Operations | Management and General | Development | | |
| Revenues: | | | | | |
| Contributions: | | | | | |
| Cash | \$ 1,554,395 | \$ - | \$ 352,043 | \$ 1,906,438 | \$ 2,096,149 |
| Property and in-kind | 1,764 | 4,216 | - | 5,980 | 6,746 |
| Government fees and grants | 679,844 | 19,980 | - | 699,824 | 424,735 |
| Licensing and service fees | 134,530 | 142,626 | - | 277,156 | 296,493 |
| Special events, net | (60,216) | - | 20,000 | (40,216) | (67,118) |
| Other income (loss) | 14,831 | (344) | - | 14,487 | 70,581 |
| Investment income | 8 | - | - | 8 | 197 |
| Total revenues | 2,325,156 | 166,478 | 372,043 | 2,863,677 | 2,827,783 |
| Expenses: | | | | | |
| Wages | 1,787,206 | 316,470 | 91,797 | 2,195,473 | 2,002,796 |
| Payroll taxes and benefits | 290,085 | 69,562 | 21,023 | 380,670 | 390,906 |
| Contractors and consultants | 112,092 | 181,939 | 22,348 | 316,379 | 366,972 |
| Consumable supplies | 38,012 | 36,735 | 2,686 | 77,433 | 63,245 |
| Occupancy | 2,408 | 21,164 | - | 23,572 | 10,554 |
| Transportation | 80,549 | 3,677 | 1,227 | 85,453 | 104,840 |
| Specific assistance to individuals | 22,155 | - | - | 22,155 | 22,575 |
| Leases and rent | 10,548 | 1,369 | - | 11,917 | 13,793 |
| Communications and miscellaneous | 89,436 | 56,445 | 5,500 | 151,381 | 164,751 |
| Non-reimbursable expenses | 24,388 | 23,535 | 3,900 | 51,823 | 148,001 |
| Depreciation | 1,349 | 60,357 | - | 61,706 | 44,630 |
| Donated items | 1,764 | 4,216 | - | 5,980 | 6,580 |
| Total expenses before allocation of management and general expenses | 2,459,992 | 775,469 | 148,481 | 3,383,942 | 3,339,643 |
| Allocation of management and general expenses | 300,436 | (316,985) | 16,549 | - | - |
| Total expenses | 2,760,428 | 458,484 | 165,030 | 3,383,942 | 3,339,643 |
| Revenues over (under) expenses | \$ (435,272) | \$ (292,006) | \$ 207,013 | \$ (520,265) | \$ (511,860) |

See independent auditor's report.

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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

Board of Directors
Lydia Home Association
Chicago, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of **Lydia Home Association**, which comprise the consolidated statement of financial position as of June 30, 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, and have issued our report thereon dated December 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Lydia Home Association'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 Lydia Home Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Lydia Home Association'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lydia Home Association'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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Selden Fox, Ltd.

December 18, 2018

