



**AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2022**

**Lydia Home Association
Audit Report
For the Year Ended June 30, 2022**

Table of Contents

Independent Auditor's Report	1 - 3
Financial Statements:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6 - 7
Statement of Cash Flows	8
Notes to the Financial Statements	9 - 15
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 - 17

Selden Fox

Accounting for your future

619 Enterprise Drive | Oak Brook, Illinois 60523 | www.seldenfox.com
p 630.954.1400 | f 630.954.1327 | email@seldenfox.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lydia Home Association
Chicago, Illinois

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Lydia Home Association**, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Lydia Home Association as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lydia Home Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Consolidated Financial Statements of Safe Families for Children Alliance / Lydia Home Association

We also have audited 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, the consolidated financial statements of Safe Families for Children Alliance / Lydia Home Association, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended (none of which is presented herein), and we expressed an unmodified opinion on those financial statements. Such consolidated statements are the general-purpose financial statements of Safe Families for Children Alliance / Lydia Home Association, and the financial statements presented herein are not a valid substitute for those consolidated financial statements.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lydia Home Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lydia Home Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lydia Home Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lydia Home Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lydia Home Association's internal control over financial reporting and compliance.

Selden Fox, Ltd.

January 23, 2023

**Lydia Home Association
Statement of Financial Position
June 30, 2022**

Assets	
Cash	\$ 2,058,250
Investments	696,899
Accounts receivable:	
Program service fees	1,098,376
Other	8,882
Due from Safe Families for Children Alliance	69,383
Prepaid expenses	377,909
Property and equipment, net	<u>1,175,233</u>
Total assets	\$ 5,484,932
 Liabilities and Net Assets 	
Liabilities:	
Accounts payable	\$ 307,012
Accrued wages and benefits	1,020,842
Deferred revenue	<u>755,190</u>
Total liabilities	<u>2,083,044</u>
Net assets:	
Without donor restrictions	3,118,839
With donor restrictions	<u>283,049</u>
Total net assets	<u>3,401,888</u>
Total liabilities and net assets	\$ 5,484,932

See accompanying notes and independent auditor's report.

Lydia Home Association
Statement of Activities
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Grants and contributions	\$ 527,834	\$ 257,366	\$ 785,200
Program service fees:			
State and local governments	7,847,040	-	7,847,040
Other	80,493	-	80,493
Gain on extinguishment of Paycheck Protection Program loan	850,945	-	850,945
Net return on investments	(28,781)	-	(28,781)
Other income	24,537	-	24,537
Net assets released from restrictions	119,743	(119,743)	-
Total revenue and other support	9,421,811	137,623	9,559,434
Expenses:			
Program services:			
Resident child care	4,602,032	-	4,602,032
Foster care	1,277,733	-	1,277,733
Intact family services	1,493,281	-	1,493,281
Other	202,979	-	202,979
Total program services expenses	7,576,025	-	7,576,025
Supporting services:			
Management and general	1,022,087	-	1,022,087
Development	227,857	-	227,857
Total supporting services expenses	1,249,944	-	1,249,944
Total expenses	8,825,969	-	8,825,969
Change in net assets	595,842	137,623	733,465
Net assets, beginning of the year	2,522,997	145,426	2,668,423
Net assets, end of the year	\$ 3,118,839	\$ 283,049	\$ 3,401,888

See accompanying notes and independent auditor's report.

**Lydia Home Association
Statement of Functional Expenses
For the Year Ended June 30, 2022**

	Program Services				Total
	Resident	Foster	Intact	Other	
	Child Care		Family Services		
Wages	\$ 3,161,758	\$ 559,325	\$ 989,741	\$ 99,930	\$ 4,810,754
Payroll taxes and benefits	633,780	84,054	170,869	19,913	908,616
Contractors and consultants	95,148	14,400	-	28,071	137,619
Consumable supplies	193,566	9,468	82,588	4,938	290,560
Occupancy	216,380	24,076	1,344	3,506	245,306
Transportation	81,317	16,776	138,228	5,441	241,762
Specific assistance to individuals	22,640	513,129	75,325	7,853	618,947
Leases and rent	9,292	1,791	15,687	-	26,770
Communications and miscellaneous	36,684	22,923	17,857	3,812	81,276
Non-reimbursable expenses	42,013	16,284	404	28,299	87,000
Depreciation	109,454	15,507	1,238	1,216	127,415
Total expenses	\$ 4,602,032	\$ 1,277,733	\$ 1,493,281	\$ 202,979	\$ 7,576,025

See accompanying notes and independent auditor's report.

Supporting Services

Management and General		Development	Total	Total
\$	545,201	\$ 99,264	\$ 644,465	\$ 5,455,219
	107,240	10,058	117,298	1,025,914
	37,201	73,896	111,097	248,716
	76,498	15,400	91,898	382,458
	64,910	1,414	66,324	311,630
	1,147	774	1,921	243,683
	575	215	790	619,737
	95	9	104	26,874
	169,982	20,637	190,619	271,895
	2,903	6,190	9,093	96,093
	16,335	-	16,335	143,750
\$	1,022,087	\$ 227,857	\$ 1,249,944	\$ 8,825,969

**Lydia Home Association
Statement of Cash Flows
For the Year Ended June 30, 2022**

Cash flows from operating activities:	
Change in net assets	\$ 733,465
Adjustments to reconcile change in net assets to net cash from operating activities:	
Gain on extinguishment of Paycheck Protection Program loan	(850,945)
Noncash contributions of investments	(2,661)
Dividends and interest reinvested, net of fees incurred	(24,705)
Loss on investments	53,486
Depreciation	143,750
Gain on disposal of property and equipment	(300)
Cash provided by (applied to) other operating activities:	
Accounts receivable:	
Program service fees	(535,367)
Other	(1,536)
Due from Safe Families for Children Alliance	249,731
Prepaid expenses	(250,511)
Accounts payable	42,899
Accrued wages and benefits	306,849
Deferred revenue	516,000
Net cash from operating activities	380,155
Cash flows from investing activities:	
Proceeds from sale of investments	2,840
Purchase of property and equipment	(321,485)
Proceeds from sale of property and equipment	300
Net cash from investing activities	(318,345)
Cash flows from financing activities - repayments of line of credit	(120)
Net change in cash	61,690
Cash, beginning of the year	1,996,560
Cash, end of the year	\$ 2,058,250

See accompanying notes and independent auditor's report.

Lydia Home Association Notes to the Financial Statements

1. Nature of Organization

Lydia Home Association (Lydia Home) is a Christian, nonprofit organization, founded in 1916 and based in Chicago, Illinois. The mission of the 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, foster care, and intact family services.

For the year ended June 30, 2022, Lydia Home was controlled by the Safe Families for Children Alliance (Safe Families), who became its sole member as of July 1, 2021. While the relationship was previously inverted, the Board of Directors by unanimous consent determined that the current structure would be in the organizations' best interest going forward.

2. Summary of Significant Accounting Policies

Basis of Presentation – The financial statements present only the accounts and operations of Lydia Home and do not include the net assets and operations of its sole member Safe Families for Children Alliance (Safe Families). The Organizations have also prepared and issued consolidated financial statements for Safe Families / Lydia Home. While the Organizations operate independently, certain management personnel and costs are shared and allocated between the Organizations, resulting in a due to/from balance presented on the statement of financial position of each entity, which is eliminated on the consolidated financial statements.

Basis of Accounting – The financial statements have been prepared on the accrual basis of accounting and are designed to focus on Lydia Home as a whole, with balances and transactions presented according to the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets which are available for fulfillment of the Lydia Home's mission and which may be expended at the discretion of management and the Board of Directors.

Net Assets With Donor Restrictions – Net assets which are subject to donor-imposed restrictions. Some restrictions could be temporary in nature, such as those that will be met by the actions of Lydia Home or the passage of time, while some restrictions could be perpetual in nature, in that a donor has stipulated the funds be maintained in perpetuity.

Contributions received with donor restrictions that are met in the same year as received, including those that were initially considered conditional in nature, are reported as increases in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions and released if and when the related restriction expires, that is, when the stipulated purpose has been fulfilled, the stipulated time has elapsed, or both. The net return on investments is reported as a change in net assets without donor restrictions unless restricted by explicit donor stipulation or law.

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 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 financial statements include Lydia Home's determination that an allowance for doubtful accounts is not necessary. For the aforementioned estimate, it is reasonably possible that the recorded amounts or related disclosures could significantly change in the near future, as new information is available.

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

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

Investments – Lydia Home’s investments are accounted for at fair value with unrealized gains and losses reported in the 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 Lydia Home 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 Lydia Home’s own data and assumptions that market participants would use in pricing the asset or liability.

Investments are subject to various risks, including interest rate, market, and credit risks. Due to these risks, it is at least reasonably possible that subsequent changes to the value of individual investments may occur and materially affect the fair value of investments and net assets reported on the statement of financial position.

Accounts Receivable – Accounts receivable are stated at their net collectible amount. Lydia Home does not charge interest or late fees on amounts past due. Based on its analysis, Lydia Home considers all accounts receivable to be reasonably collectible in the following fiscal year. Accordingly, no allowance for doubtful accounts has been provided for at June 30, 2022. Management’s periodic evaluation of the collectability of an account is based on Lydia Home’s past experience, known and inherent risks in the accounts, adverse situations that may affect a borrower’s ability to repay, and current economic conditions. The delinquency of accounts is based on past due status in accordance with payment terms.

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.

Paycheck Protection Program Loan Payable – In May 2020, Lydia Home obtained a \$850,945 unsecured promissory note through the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under the terms of the agreement, the note was eligible for forgiveness upon the incurrence of qualifying expenses and satisfaction of other criteria, and any principal and interest payments would be deferred until a forgiveness determination could be made. At that time, any amounts not forgiven could be repaid over a two-year period at an annual interest rate of 1%.

Lydia Home elected to account for the related loan proceeds under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 470, *Debt*. Under this guidance, the extinguishment of all or a portion of the loan would be recognized when Lydia Home has been legally released as the primary obligor of the loan. This would occur if and when the United States Small Business Administration (SBA) approves Lydia Home’s forgiveness application or when the loan is paid in full.

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

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

Paycheck Protection Program Loan Payable (cont'd)

Based on Lydia Home's application for forgiveness, Lydia Home was informed in September 2021, that the SBA had granted forgiveness such that the related proceeds have been recognized as a gain on extinguishment of indebtedness in the accompanying statement of activities. However, Lydia Home remains subject to a potential audit of its forgiveness application and any disallowed claims from such an audit could become a liability to Lydia Home.

Revenue Recognition – The recognition of revenue is determined based on whether an activity is classified as a contribution or exchange transaction.

Grants and contributions, representing unconditional promises to give, are recognized at their present value 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. In the case of cost-reimbursable grants, this means revenues are recognized in the period the related expenditures are incurred.

In addition, volunteers contribute significant amounts of time to support Lydia Home's program services and operations; however, the 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.

On the other hand, revenue from exchange transactions, representing contracts with customers, is recognized when promised goods and services are transferred in an amount that reflects the consideration Lydia Home expects to be entitled for those goods or services. In Lydia Home's case, such amounts include program service fees which are recognized over time on the output method as the related services are provided thus fulfilling Lydia Home's performance obligations. Accordingly, any fees received in advance of performing a service or in excess of the services provided represent contract liabilities that are classified as deferred revenue in the statement of financial position. However, in instances where payment is not received until after the fact, Lydia Home has elected the practical expedient that allows it to not recognize a significant financing component as it anticipates payment will be received within one year of transferring the related goods for services. In addition, Lydia Home has applied the practical expedients to account for revenues with similar characteristics as a collective group, rather than individually, and not to disclose the transaction price allocated to unsatisfied performance obligations as of the end of the reporting period, as the performance obligations generally relate to contracts with an original term of one year or less.

The related contract balances at June 30, affecting the cash flow of program service fee revenue consisted of the following:

	2022	2021
Accounts receivable	\$ 1,098,376	\$ 563,009
Deferred revenue	\$ 755,190	\$ 239,190

Based on the nature of Lydia Home, management does not believe there are any significant factors which should be considered regarding the nature, amount, or uncertainty of the related revenues or cash flows.

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

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

Functional Allocation of Expenses – The costs of program and supporting services have been summarized on a functional basis in the statement of activities but are detailed by their natural classification in the statement of functional expenses. In determining the functional allocation of expenses, direct expenses are charged to the program or supporting service benefited. This includes the recognition of wages, payroll taxes, and benefits based on employees' assigned functions. All other expenses, including any indirect program or supporting service expenses, are considered to be management and general expenses.

Income Taxes – Lydia Home is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent of any net unrelated business income in excess of a \$1,000 specific deduction. Lydia Home reported no such income for the year ended June 30, 2022. Although Lydia Home has determined it is not required to record a liability for any uncertain tax positions as of June 30, 2022, and has received no notice of exam, Lydia Home's tax returns for the years ended June 30, 2019 through 2021, remain subject to examination.

Adoption of New Accounting Pronouncement – In September 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This pronouncement enhances the presentation and disclosure requirements related to contributions of nonfinancial assets for annual periods beginning after June 15, 2021. The statement did not have a material effect on Lydia Home's financial statements for the year ended June 30, 2022.

Subsequent Events – Subsequent events have been evaluated through January 23, 2023, which is the date the financial statements were available to be issued.

3. Investments

Investments at June 30, 2022, consist of the following:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 63,699	\$ -	\$ -	\$ 63,699
Certificates of deposit	-	56,188	-	56,188
Corporate bonds	-	459,458	-	459,458
Municipal bonds	-	117,554	-	117,554
	\$ 63,699	\$ 633,200	\$ -	\$ 696,899

Lydia Home's investments in money market funds are valued based on quoted market prices and are categorized in Level 1 of the hierarchy. Lydia Home's investments in certificates of deposit, as well corporate and municipal 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.

The net return on investments for the year ended June 30, 2022, including any interest earned on bank deposits, consisted of the following:

Dividends and interest	\$ 28,337
Net loss on investments	(53,486)
Investment expenses	(3,632)
	\$ (28,781)

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

4. Property and Equipment

Property and equipment at June 30, 2022, consists of the following:

Land	\$	116,223
Building and improvements		3,319,763
Furniture, fixtures, and equipment		<u>626,854</u>
		4,062,840
Less accumulated depreciation		<u>(2,887,607)</u>
	\$	<u>1,175,233</u>

5. Line of Credit

Lydia Home 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% (5.25% at June 30, 2022). Repayments on the line of credit totaled \$120 for the year ended June 30, 2022. There were no new borrowings during the year ended June 30, 2022.

6. Net Assets

Net assets with donor restrictions subject to expenditure for specified purposes and the changes therein for the year ended June 30, 2022, consist of the following:

	Balance, Beginning of the Year	Grants and Contributions	Net Assets Released From Restrictions	Balance, End of the Year
Residential improvements and operations	\$ 14,150	\$ 101,600	\$ (25,182)	\$ 90,568
Foster care	23,376	75,349	(48,869)	49,856
Other	<u>107,900</u>	<u>80,417</u>	<u>(45,692)</u>	<u>142,625</u>
	<u>\$ 145,426</u>	<u>\$ 257,366</u>	<u>\$ (119,743)</u>	<u>\$ 283,049</u>

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

7. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date at June 30, 2022, are comprised of the following:

Cash	\$	2,058,250
Investments		696,899
Accounts receivable:		
Program service fees		1,098,376
Other		<u>8,882</u>
Total financial assets		3,862,407
Net assets with donor restrictions		<u>(283,049)</u>
Financial assets available for general expenditures over the next twelve months	\$	<u>3,579,358</u>

For the year ended June 30, 2022, Lydia Home maintained additional liquidity through its access to a line of credit as described in Note 5.

8. Benefit Plan

Lydia Home has established the Lydia Home Association 401(k) Retirement Plan and Trust for 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. Lease

In June 2022, Lydia Home entered into an operating lease agreement for a facility to expand its residential operations. The lease commences on July 1, 2022, and extends to December 31, 2023. The lease includes an escalation clause, under which monthly payments will range from \$72,000 to \$74,160. Under the agreement, Lydia Home has an exclusive right to purchase the property, subject to the landlord's discretion. However, Lydia Home may also terminate the lease without penalty for any reason, pending 60 days written notice. Future minimum payments under the lease at June 30, 2022, are as follows:

Year ending June 30:		
2023	\$	864,000
2024		<u>444,960</u>
	\$	<u>1,308,960</u>

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

10. Concentrations, Risks, and Uncertainties

Deposits – From time to time, Lydia Home maintains cash on deposit with financial institutions in excess of FDIC insurance limits. At June 30, 2022, such uninsured deposits totaled \$2,202,931.

Revenue – Program service fees include funding received from the State of Illinois (substantially all of which was received from the Illinois Department of Children and Family Services) which accounted for approximately 82.1% of Lydia Home's revenue for the year ended June 30, 2022. 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 Lydia Home. In addition, changes in the related revenue received could have a significant impact on Lydia Home's operations.

Accounts Receivable – Accounts receivable from the States of Illinois accounted for approximately 98.8% of accounts receivable at June 30, 2022.

11. Future Changes in Accounting Principles

In February 2016, FASB released ASU 2016-02 *Leases (Topic 842)*. This standard is intended to increase transparency by recognizing lease assets and liabilities on the statement of financial position and enhancing the related disclosures. Under current standards, a lease is only recognized on the balance sheet if it meets the definition of a capital lease. However, under the new standard, a lessee will be required to:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.
- Classify all cash payments within operating activities in the statement of cash flows.

In doing so, an entity must separate lease components from nonlease components (such as maintenance services) and include only the lease components in the measurement of the right-to-use asset and lease liability. This standard will be applicable to Lydia Home for the year ending June 30, 2023. Lydia Home is in the process of evaluating the potential impacts of its adoption but has yet to determine its effect.

Selden Fox

Accounting for your future

619 Enterprise Drive | Oak Brook, Illinois 60523 | www.seldenfox.com
p 630.954.1400 | f 630.954.1327 | email@seldenfox.com

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*

Independent Auditor's Report

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 financial statements of **Lydia Home Association** which comprise the statement of financial position as of June 30, 2022, 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 January 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lydia Home Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lydia Home Association'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 financial statements. 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.

January 23, 2023