

YOUTHBUILD LAKE COUNTY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
YouthBuild Lake County, Inc.
North Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of YOUTHBUILD LAKE COUNTY, INC. and its wholly-owned subsidiary, YOUTHBUILD LAKE COUNTY SERVICES, LLC (both Illinois nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of YOUTHBUILD LAKE COUNTY, INC. as of June 30, 2017 and 2016, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018 on our consideration of YOUTHBUILD LAKE COUNTY, INC.'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 YOUTHBUILD LAKE COUNTY, INC.'s internal control over financial reporting and compliance.

Warady & Davis LLP

January 19, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 342,002	\$ 488,783
Restricted Cash	71,939	71,884
Grants and Contracts Receivable	253,321	361,230
Contributions Receivable	500	14,758
Other Receivables	—	7,525
Property Held for Sale	2,500	2,500
Prepaid Expenses	20,662	35,076
Total Current Assets	<u>690,924</u>	<u>981,756</u>
PROPERTY AND EQUIPMENT		
Computers and Software	71,864	52,815
Leasehold Improvements	8,848	8,848
Furniture and Equipment	31,568	20,788
Vehicles	45,573	45,573
	<u>157,853</u>	<u>128,024</u>
Less Accumulated Depreciation and Amortization	<u>99,629</u>	<u>67,332</u>
	<u>58,224</u>	<u>60,692</u>
OTHER ASSETS		
Unallocated In-Kind Construction Materials	9,500	9,500
Construction Projects in Progress	119,935	199,844
Total Other Assets	<u>129,435</u>	<u>209,344</u>
	<u>\$ 878,583</u>	<u>\$ 1,251,792</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of Credit	\$ —	\$ 166,556
Accounts Payable	8,039	25,052
Accrued Salaries and Vacation	40,347	37,521
Accrued Expenses	3,743	5,236
Recoupment Payable	75,850	—
State Advance Payable	39,617	—
Deferred Revenue	53,266	121,884
Total Current Liabilities	<u>220,862</u>	<u>356,249</u>
NET ASSETS		
Unrestricted	604,537	798,808
Temporarily Restricted	53,184	96,735
Total Net Assets	<u>657,721</u>	<u>895,543</u>
	<u>\$ 878,583</u>	<u>\$ 1,251,792</u>

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES						
Public Support						
Contributions and Grants	\$ 143,443	\$ 174,500	\$ 317,943	\$ 136,759	\$ 237,037	\$ 373,796
In-Kind Contributions	117,889	—	117,889	156,555	—	156,555
Special Events						
Gross Event Revenues	222,731	36,600	259,331	210,951	47,975	258,926
Less: Direct Expenses	(85,135)	—	(85,135)	(94,110)	—	(94,110)
Net Special Events	137,596	36,600	174,196	116,841	47,975	164,816
Government Grants and Contracts	847,092	—	847,092	793,532	—	793,532
Total Public Support	1,246,020	211,100	1,457,120	1,203,687	285,012	1,488,699
Other Revenues and Gains	34,086	—	34,086	31,554	—	31,554
NET ASSETS RELEASED FROM RESTRICTIONS						
Satisfaction of Restrictions	254,651	(254,651)	—	234,702	(234,702)	—
Total	1,534,757	(43,551)	1,491,206	1,469,943	50,310	1,520,253
FUNCTIONAL EXPENSES AND LOSSES						
Functional Expenses						
Program Services						
Education and Training	1,135,362	—	1,135,362	1,100,743	—	1,100,743
Supporting Services						
Management and General	199,336	—	199,336	204,633	—	204,633
Fundraising	198,631	—	198,631	163,226	—	163,226
Total Supporting Services	397,967	—	397,967	367,859	—	367,859
Total Functional Expenses	1,533,329	—	1,533,329	1,468,602	—	1,468,602
Impairment Losses	—	—	—	12,000	—	12,000
Repayment of Prior Grant Award Related to Property Sales (Note 9)	181,545	—	181,545	—	—	—
Loss on Sale or Disposition of Property	14,154	—	14,154	16,751	—	16,751
Total	1,729,028	—	1,729,028	1,497,353	—	1,497,353
CHANGE IN NET ASSETS	(194,271)	(43,551)	(237,822)	(27,410)	50,310	22,900
Net Assets, Beginning	798,808	96,735	895,543	826,218	46,425	872,643
NET ASSETS, ENDING	\$ 604,537	\$ 53,184	\$ 657,721	\$ 798,808	\$ 96,735	\$ 895,543

See accompanying notes.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services		Support Services		
	Education and Training	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 609,187	\$ 108,523	\$ 114,441	\$ 222,964	\$ 832,151
Payroll Taxes	51,253	9,130	9,628	18,758	70,011
Background Checks	3,293	—	—	—	3,293
Bank Charges and Credit Card Fees	—	1,758	7,204	8,962	8,962
Carrying Costs	11,174	—	—	—	11,174
Computer Expense	3,536	—	180	180	3,716
Conferences, Meetings, and Events	4,655	1,657	2,462	4,119	8,774
Counseling and Wellness Services	133,200	—	—	—	133,200
Depreciation and Amortization	22,229	6,308	3,760	10,068	32,297
Dues, Subscriptions and Licenses	1,510	1,556	587	2,143	3,653
Instructional Materials	7,531	—	—	—	7,531
Insurance	43,886	10,438	4,578	15,016	58,902
Interest	—	4,481	—	4,481	4,481
Miscellaneous	1,500	1,857	—	1,857	3,357
Occupancy	33,349	4,893	1,528	6,421	39,770
Office Expense, Supplies and Postage	2,752	6,776	1,599	8,375	11,127
Outreach and Recruitment	1,386	—	140	140	1,526
Printing	—	—	4,098	4,098	4,098
Professional Fees	26,368	33,357	46,692	80,049	106,417
Telephone	3,569	6,839	—	6,839	10,408
Trainee Service Gear	19,051	—	106	106	19,157
Trainee Stipends and Meals	99,029	—	—	—	99,029
Training	10,839	1,320	900	2,220	13,059
Transportation Assistance	1,740	—	—	—	1,740
Travel	16,137	443	728	1,171	17,308
Tuition and Books	22,890	—	—	—	22,890
Vehicles Expense	5,298	—	—	—	5,298
TOTALS	\$ 1,135,362	\$ 199,336	\$ 198,631	\$ 397,967	\$ 1,533,329

See accompanying notes.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

For the Year Ended June 30, 2016

	Program Services		Support Services		
	Education and Training	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 604,868	\$ 97,676	\$ 81,890	\$ 179,566	\$ 784,434
Payroll Taxes	49,147	7,936	6,654	14,590	63,737
Background Checks	3,703	—	—	—	3,703
Bank Charges and Credit Card Fees	—	1,219	7,827	9,046	9,046
Carrying Costs	7,628	—	—	—	7,628
Computer Expense	3,382	658	570	1,228	4,610
Conferences, Meetings, and Events	629	301	769	1,070	1,699
Counseling and Wellness Services	136,320	—	—	—	136,320
Depreciation and Amortization	22,057	2,667	1,763	4,430	26,487
Dues, Subscriptions and Licenses	3,538	755	—	755	4,293
Insurance	32,879	8,452	3,276	11,728	44,607
Interest	—	7,895	—	7,895	7,895
Miscellaneous	—	2,106	2,500	4,606	4,606
Occupancy	29,752	1,314	2,928	4,242	33,994
Office Expense, Supplies and Postage	1,920	10,920	295	11,215	13,135
Outreach and Recruitment	5,583	150	230	380	5,963
Printing	—	—	6,349	6,349	6,349
Professional Fees	35,944	54,658	42,006	96,664	132,608
Real Estate Taxes	—	3,069	—	3,069	3,069
Telephone	5,515	4,257	—	4,257	9,772
Tools and Equipment	6,425	—	—	—	6,425
Trainee Service Gear	10,311	—	—	—	10,311
Trainee Stipends and Meals	82,445	—	4,950	4,950	87,395
Training	3,263	600	—	600	3,863
Transportation Assistance	3,509	—	—	—	3,509
Travel	16,579	—	1,219	1,219	17,798
Tuition and Books	31,924	—	—	—	31,924
Vehicles Expense	3,422	—	—	—	3,422
TOTALS	\$ 1,100,743	\$ 204,633	\$ 163,226	\$ 367,859	\$ 1,468,602

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ (237,822)</u>	<u>\$ 22,900</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation and Amortization	32,297	26,487
Donated Property for Sale	—	(52,000)
Donated Property and Equipment	(10,780)	—
Donated Stock	(5,030)	—
Proceeds from Sales of Donated Stock	5,030	—
Impairment Losses	—	12,000
Loss on Disposal of Property	14,154	16,751
(Increase) Decrease in Assets		
Restricted Cash	(55)	18,605
Grants and Contracts Receivable	107,909	30,779
Contributions Receivable	14,258	(11,258)
Other Receivables	7,525	(7,525)
Prepaid Expenses	14,414	(21,987)
Increase (Decrease) in Liabilities		
Accounts Payable	(17,013)	(9,626)
Accrued Salaries and Vacation	2,826	7,995
Accrued Expenses	(1,493)	(40,946)
Recoupment Payable	75,850	—
State Advance Payable	39,617	—
Deferred Revenue	(68,618)	31,395
Total Adjustments	<u>210,891</u>	<u>670</u>
Net Cash Provided (Used) by Operating Activities	<u>(26,931)</u>	<u>23,570</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on Sales of Properties, net of Closing Costs	75,850	—
Proceeds on Sale of Donated Property, net of Closing Costs	—	35,249
Proceeds on Sale of In-Kind Construction Materials	—	500
Purchases of Property and Equipment	(19,049)	(11,153)
Capital Expenditures for Properties Held for Sale	(10,095)	(14,342)
Net Cash Provided by Investing Activities	<u>46,706</u>	<u>10,254</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	81,749	92,913
Repayments of Line of Credit	(248,305)	(65,000)
Net Cash Provided (Used) by Financing Activities	<u>(166,556)</u>	<u>27,913</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(146,781)</u>	<u>61,737</u>
Cash and Cash Equivalents, Beginning	488,783	427,046
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 342,002</u>	<u>\$ 488,783</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid for Interest	<u>\$ 4,481</u>	<u>7,895</u>
Noncash Activities		
Donated Goods	<u>\$ 15,409</u>	<u>\$ 3,766</u>
Donated Services	<u>\$ 85,665</u>	<u>\$ 99,258</u>
Donated Facilities	<u>\$ 6,035</u>	<u>\$ 1,531</u>
Donated Property for Sale	<u>\$ —</u>	<u>\$ 52,000</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF ORGANIZATION

YBLC, Inc. d/b/a YouthBuild Lake County, Inc. (YBLC) provides education and career training services to help at-risk and underserved young adults complete their education, learn the necessary skills to become gainfully employed or enter post-secondary training. YBLC provides career training in the areas of construction, healthcare and transportation. The Organization also builds and rehabilitates affordable homes in Lake County, Illinois, to help youth build a hopeful future for themselves and their families. YBLC Services, LLC d/b/a YouthBuild Lake County Services, LLC, a wholly-owned subsidiary of YBLC, provides internships for students. Collectively, these entities are referred to as “the Organization”. YBLC’s primary sources of revenues are government grants, private grants, and contributions.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Organization’s consolidated financial statements. The consolidated financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the consolidated financial statements.

BASIS OF PRESENTATION

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Codification topic related to “Financial Statements of Not-for-Profit Organizations.” This guidance requires the Organization to report information regarding its financial position and activities, based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations plus those resources for which temporarily donor-imposed stipulations have been satisfied. Unrestricted net assets may otherwise be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets – Net assets whose use by the Organization is subject to donor-imposed stipulations that may or will be met either by actions of the Organization, pursuant to those stipulations and/or that expire by the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions have been met.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the resources be maintained permanently by the Organization. Investment income, including realized and unrealized gains and losses are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). At June 30, 2017 and 2016, the Organization had no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONSOLIDATION

The consolidated financial statements of the Organization include the accounts of YBLC, Inc. d/b/a YouthBuild Lake County, Inc. and its wholly-owned subsidiary, YBLC Services, LLC d/b/a YouthBuild Lake County Services, LLC. YBLC Services, LLC provides student internships and projects. All material intercompany transactions and balances have been eliminated.

A majority of the assets and revenues are related to YouthBuild Lake County, Inc.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

CONCENTRATIONS

The Organization received 57% and 52% of its total revenues for the year ended June 30, 2017 and 2016, respectively, from government grants and contracts.

CASH AND CASH EQUIVALENTS

The Organization considers all highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.

GRANTS AND CONTRACTS RECEIVABLE, CONTRIBUTIONS AND OTHER RECEIVABLES

The Organization reports grants receivable from government agencies, contributions and other receivables at net realizable value. Management determines an allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against earnings. No allowance was considered necessary as of June 30, 2017 and June 30, 2016, as the Organization believed the amounts to be fully collectible.

PROPERTY HELD FOR SALE

The Organization holds various properties available for sale due to the completion of construction projects. Fair values for these properties are determined by the fair value of similar properties in the same neighborhood area based on market appraisals.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**PROPERTY AND EQUIPMENT**

Property and equipment purchases of \$1,000 or more are stated at cost when purchased or fair value if donated. Maintenance and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is reflected in the statements of activities.

Property and equipment are depreciated or amortized over the following useful lives:

Computers and Software.....	3 years
Furniture and Equipment.....	3 years
Leasehold Improvements	5 years
Vehicles	3–5 years

Depreciation and amortization expense was \$32,297 for the year ended June 30, 2017 and \$26,487 for the year ended June 30, 2016 and is included in program and supporting services in the statements of activities.

Software amortization expense for the next three years is as follows:

Year Ending June 30	
2018	\$ 9,976
2019	7,240
2020	<u>2,774</u>
	<u>\$ 19,990</u>

Amortization expense was \$8,356 for the year ended June 30, 2017 and \$3,891 for the year ended June 30, 2016, and is included in the total depreciation and amortization amount on the statements of functional expenses.

UNALLOCATED IN-KIND CONSTRUCTION MATERIAL

The Organization received donated materials several years ago which it has not used or been unable to fully sell. No write down of the materials was deemed necessary for the years ended June 30, 2017 and 2016.

CONSTRUCTION PROJECTS IN PROGRESS

Construction projects in progress include both direct costs incurred and in-kind contributions of materials related to the properties under construction in North Chicago and Zion, Illinois.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**CONTRIBUTIONS**

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. When a 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 statements of activities as net assets released from restrictions.

GRANTS AND DEFERRED REVENUE

Federal, state and other grant awards are recognized in the period in which they are expended for cost reimbursement agreements. Amounts received under these grants that have not yet been expended are recorded as deferred revenue. Certain grantors involved in exchange transactions may specify monies be used in a specific future period and, as such, they are initially recorded as deferred revenue by the Organization, and are then recognized in the period for which they were designated.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses are charged directly to program or support service categories based upon specific identification where possible. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on direct charges or appropriate methods determined by management.

INCOME TAX STATUS

The Organization has received a favorable determination letter stating its exemption from federal income tax on all income related to its tax-exempt purpose under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code and is similarly classified by the State of Illinois.

The Organization adopted the guidance in the FASB Codification topic related to uncertainty in income taxes which prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that the Organization has taken or expects to take in its tax returns. Under the guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is "more likely than not" that it is sustainable, based on its technical merits. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. The Organization believes that it has appropriate support for the positions taken on its returns.

The Organization files its forms 990 in the U.S. federal jurisdiction and the office of the State's Attorney General for the State of Illinois.

NOTE 2—RESTRICTED CASH

Restricted cash of \$71,939 at June 30, 2017 and \$71,884 at June 30, 2016 is comprised of amounts contributed by the Illinois Department of Commerce and Economic Opportunity. The grantor stipulated that the funds and any interest thereon be segregated from the Organization's unrestricted bank accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3—FAIR VALUE MEASUREMENTS

The FASB Codification topic related to fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Level 1 Fair Value Measurements

The Organization did not value any assets using level 1 inputs as of June 30, 2017 and 2016.

Level 2 Fair Value Measurements

The Organization did not value any assets using level 2 inputs as of June 30, 2017 and 2016.

Level 3 Fair Value Measurements

The fair value of property held for sale is based on fair value of similar properties in the same neighborhood area as of June 30, 2017 and 2016.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3—FAIR VALUE MEASUREMENTS (Continued)

Fair value of assets measured on a nonrecurring basis at June 30, 2017 and 2016 is as follows:

	<u>Fair Value</u>	<u>Significant Inputs (Level 3)</u>
1700 16 th Street, North Chicago, Illinois	\$ 2,500	\$ 2,500

There was no impairment loss for the year ended June 30, 2017.

Total impairment loss for the year ended June 30, 2016 was \$12,000 comprised of \$10,000 related to the write-down of the land at 2015 Elim, and \$2,000 related to the write-down of 1700 16th Street.

NOTE 4—CONDITIONAL GRANTS

During the year ended June 30, 2016, the Organization was awarded a \$40,000 match grant, receivable over two years. The grant is conditional on the Organization raising funds from new private donors, or receiving additional incremental donations from current private donors, up to \$5,000 per donor. No conditional grants were awarded during the year ended June 30, 2017. The Organization met the conditions as of June 30, 2016, and recognized the full \$40,000.

NOTE 5—PROPERTY HELD FOR SALE

Property held for sale as of June 30, consisted of the following:

	<u>2017</u>	<u>2016</u>
1700 16 th Street, North Chicago, Illinois (land only).....	\$ 2,500	\$ 2,500

NOTE 6—CONSTRUCTION PROJECTS IN PROGRESS

A summary of construction projects in process and in-kind contributions by property as of June 30, 2017 were as follows:

	<u>In Kind</u>	<u>Total</u>
2015 Elim	\$ 22,000	\$ 12,232
2121 Honore	14,625	9,000
2127 Honore	14,625	9,000
2201 Horeb	—	89,703
	<u>\$ 51,250</u>	<u>\$ 119,935</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6—CONSTRUCTION PROJECTS IN PROGRESS (Continued)

A summary of construction costs and in kind contributions by property as of June 30, 2016 were as follows:

	In Kind	Total
1821 Joanna	\$ 18,000	\$ 82,844
2015 Elim	22,000	12,000
2121 Honore	14,625	9,000
2127 Honore	14,625	9,000
2201 Horeb	—	87,000
	<u>\$ 69,250</u>	<u>\$ 199,844</u>

During the year ended June 30, 2017, the property located at 1821 Joanna had \$7,160 of additional construction and was sold for \$75,850, which represents the recoupment payable on the statements of financial position (see Note 9). The properties located at 2015 Elim and 2201 Horeb had \$232 and \$2,703, respectively, of additions made during the year.

During the year ended June 30, 2016, the property located at 2015 Elim was written down to \$12,000, the revised net value of the land.

In prior years, 2121 and 2127 Honore were written down to their estimated fair values of \$9,000.

NOTE 7—LINE OF CREDIT

The Organization has a \$250,000 revolving line of credit with a current maturity date of March 1, 2018. The line bears interest at the prime rate (4.25% at June 30, 2017), with a 4% minimum and is collateralized by a commercial security agreement on the assets of the Organization. The outstanding balance at June 30, 2017 was \$-0- and \$166,556 at June 30, 2016. The outstanding principal balance of the line must be at a zero balance for a period of 30 consecutive days during the borrowing period. Interest expense was \$4,481 for the year ended June 30, 2017 and \$7,895 for the year ended June 30, 2016.

NOTE 8—TEMPORARILY RESTRICTED NET ASSETS

	2017	2016
Mission Moment for Spring Benefit – Programs	\$ 36,600	\$ 47,975
YouthBuild USA – Mental Toughness	1,156	2,000
Time Restricted.....	—	20,000
Healthcare Foundation of Northern Lake County –		
Student Data Tracking	—	4,260
PGIM Programs	13,143	—
Healthcare Foundation of Northern Lake County – Wellness Program.....	—	22,500
Lake County Community Foundation – Salesforce Database	2,285	—
	<u>\$ 53,184</u>	<u>\$ 96,735</u>

Net assets released from donor restrictions by fulfillment of restricted purposes were \$234,651 and \$234,702 for the years ended June 30, 2017 and 2016, respectively. Net assets released from time restrictions were \$20,000 and \$-0- for the years ended June 30, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9—GOVERNMENT GRANTS AND CONTRACTS

	<u>2017</u>	<u>2016</u>
AmeriCorps	\$ 134,031	\$ 124,416
Department of Commerce and Economic Opportunity	4,494	-
Department of Housing and Urban Development –		
Community Development Block Grants/Entitlement Grants.....	18,299	32,750
Home Investment Partnerships Program	8,117	14,342
Department of Labor – YouthBuild.....	574,987	515,312
Workforce Investment Agency – Bridge to College	107,164	106,712
	<u>\$ 847,092</u>	<u>\$ 793,532</u>

In the year ended June 30, 2017, the Organization was notified by the Lake County Consortium Housing Fund that the U.S. Department of Housing and Urban Development was recouping \$181,545 from the Home Investment Partnerships Program grants from fiscal years 2006, 2007, 2009 and 2011. This amount was calculated as a percentage of the proceeds from the home sales based on the Organization's and grantor's investment as a percent of the total. This amount has been reflected on the statements of activities as an additional loss on sales of property as it relates to reimbursed expenditures incurred in prior years that were used in calculating the original loss on sales of properties. Additionally, \$75,850 of this amount is still outstanding at June 30, 2017 and is reported as recoupment payable on the statements of financial position.

NOTE 10—OTHER REVENUES AND GAINS

	<u>2017</u>	<u>2016</u>
Lake County Housing Authority Stipends.....	\$ 33,845	\$ 30,389
Interest Income	173	240
Miscellaneous.....	68	925
	<u>\$ 34,086</u>	<u>\$ 31,554</u>

NOTE 11—CONTRIBUTIONS IN-KIND

Donations of property and equipment are recorded as financial support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Conditional transfers of assets are recognized when the conditions on which they depend are substantially met. The Organization received donated property and equipment valued at \$10,780 for the year ended June 30, 2017. No such donation was made during the year ended June 30, 2016. The Organization received donated goods valued at \$15,409 and \$3,766 for the years ended June 30, 2017, and 2016, respectively. The \$15,409 received for the year ended June 30, 2017 consisted of \$1,976 of office maintenance supplies, and \$13,433 of tools and equipment included in the statements of functional expenses. The \$3,766 received for the year ended June 30, 2016 consisted of \$1,809 of office maintenance supplies, and \$1,957 of tools and equipment included in the statements of functional expenses.

The Organization received the rent-free use of facilities recorded at an estimated fair value of \$6,035, for the year ended June 30, 2017, which is included in in-kind contributions revenue in the statements of activities and as occupancy expense in the statements of functional expenses. During the year ended June 30, 2016, the Organization received an estimated \$1,531 for donated facilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11—CONTRIBUTIONS IN-KIND (Continued)

Donations of services are recorded if they create or enhance a non-financial asset or they require specialized skills which would be purchased if they were not donated. During the years ended June 30, 2017 and 2016, the Organization received various donated services valued at \$85,665 and \$99,258, respectively. The amounts are included in in-kind contributions revenue in the statements of activities, and professional fees in the statements of functional expenses.

The Organization received a donated piece of property during the year ended June 30, 2016 valued at \$52,000, which was subsequently sold for \$40,000, less closing costs of \$4,751 and real estate taxes of \$3,069. No such donation was received during the year ended June 30, 2017.

For the years ended June 30, 2017 and 2016, the Organization also received a significant amount of donated services from volunteers and board members who assisted with the operations. The value of these services has not been recognized in the statements of activities since they do not meet the criteria for recognition under the Not-for-Profit Entities topic of the FASB Codification related to contributions made and received.

NOTE 12—OPERATING LEASES

The Organization has a lease agreement with the Board of Education of North Chicago Community Unit School District No. 187, Lake County, Illinois (the landlord) for office and classroom space that expires on May 31, 2025. The Organization moved to their current school location in April 2015 at the request of the School District when it was requested to relocate again after eight months when the School District decided they needed the facility back. Although the Organization was not contractually obligated to relocate at that time, management and the Board decided to do so for the best interest of the community and renegotiated the new lease with no terms for involuntary early exit that existed in the prior lease. For both leases, in lieu of rent, the Organization pays operating expenses for the property. Expenses on the various leases were \$39,770 for the year ended June 30, 2017 and \$35,494 for the year ended June 30, 2016.

NOTE 13—RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to current year presentation.

NOTE 14—SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 19, 2018, the date which the financial statements were available for issue. There were no other subsequent events which require disclosure.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITORS' 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
YouthBuild Lake County, Inc.
North 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 YOUTHBUILD LAKE COUNTY, INC., (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated 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 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered YOUTHBUILD LAKE COUNTY, INC.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of YOUTHBUILD LAKE COUNTY, INC.'s internal control. Accordingly, we do not express an opinion on the effectiveness of YOUTHBUILD LAKE COUNTY, INC.'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 the 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 have not been identified. 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 YOUTHBUILD LAKE COUNTY, INC.'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*.

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.

Warady + Davis LLP

January 19, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

Board of Directors
YouthBuild Lake County, Inc.
North Chicago, Illinois

Report on Compliance for Each Major Federal Program

We have audited YOUTHBUILD LAKE COUNTY, INC.'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 YOUTHBUILD LAKE COUNTY, INC.'s major federal programs for the year ended June 30, 2017. YOUTHBUILD LAKE COUNTY, INC.'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of YOUTHBUILD LAKE COUNTY, INC.'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 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 YOUTHBUILD LAKE COUNTY, INC.'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 YOUTHBUILD LAKE COUNTY, INC.'s compliance.

Opinion on Each Major Federal Program

In our opinion, YOUTHBUILD LAKE COUNTY, INC. 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 June 30, 2017.

Report on Internal Control Over Compliance

Management of YOUTHBUILD LAKE COUNTY, INC. 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 YOUTHBUILD LAKE COUNTY, INC.'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 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 YOUTHBUILD LAKE COUNTY, INC.'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.

Warady + Davis LLP

January 19, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH/ CONTRACT NUMBER	FEDERAL EXPENDITURES
CDBG - Entitlement Grants Cluster			
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants			
Passed Through City of Waukegan, Illinois	14.218	B-15-MC-17-0025	\$ 8,000
Passed Through City of North Chicago, Illinois	14.218	B-15-UC-17-0003	10,299
Total Community Development Block Grants/ Entitlement Grants			18,299
Home Investment Partnerships (HOME) Program			
Passed Through the Lake County Consortium			
HOME Investment Partnerships Program - HOME 2011	14.239	H1173	8,117
HOME Investment Partnerships Program - HOME 2006, 2007, 2009, 2011	14.239	H0668, H0775, H0880 H0977, H1173	A (181,545)
Total Home Investment Partnership Program			(173,428)
Total U.S. Department of Housing and Urban Development			(155,129)
WIOA Cluster			
U.S. Department of Labor			
WIOA Dislocated Workers Formula Grant-Passed through Illinois Department of Commerce and Economic Opportunity	17.278	16-634005	2,226
WIOA Youth Activities - Passed through Workforce Development Dept. of Lake County	17.259	15277	107,164
Total WIOA Cluster			109,390
YouthBuild 2015-2018	17.274	YB -24711-13-60-A-17	M 574,987
Total U.S. Department of Labor			684,377
Corporation for National and Community Service			
AmeriCorps 15/16	94.006	13NDHMA0010002	59,071
AmeriCorps 16/17	94.006	13NDHMA0010050	74,960
Total Corporation for National and Community Service			134,031
			\$ 663,279

M - Indicates a Major Program

A - This amount relates to expenditures incurred in prior years that were reimbursed and reported on prior years'

Schedules of Expenditures of Federal Awards. For additional information, refer to Note 9 in the audited financial statements.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

NOTE 1—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of YOUTHBUILD LAKE COUNTY, INC. and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The Organization has elected not to use the 10% de minimis indirect cost rate and is applying a negotiated rate of 20% instead.

NOTE 2—SUBRECIPIENTS

No federal funds were provided to subrecipients during the year ended June 30, 2017.

NOTE 3—NON-CASH ASSISTANCE

No federal awards were expended in the form of non-cash assistance during the year ended June 30, 2017.

NOTE 4—FEDERAL LOAN GUARANTEES AND FEDERALLY-FUNDED INSURANCE

The Organization had no federal loans, loan guarantees, or federally-funded insurance in effect during the year ended June 30, 2017.

NOTE 5—OVERSIGHT AGENCY

The Organization's federal oversight agency is the U.S. Department of Labor.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

I. SUMMARY OF AUDITOR'S RESULTS***Financial Statements***

Type of auditor's report issued:

Unmodified

Internal Control over Financial Reporting:

- Material weaknesses identified? _____ Yes X 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 program:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ 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 with 2 CFR section 200.516(a)?

_____ Yes X No

Identification of major programs:

CFDA Number

17.274

Name of Federal Program
or Cluster**U.S. Department of
Labor – YouthBuild**

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

YOUTHBUILD LAKE COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT

Our audit disclosed no findings that are required to be reported herein under Generally Accepted Accounting Principles.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Our audit disclosed no findings that are required to be reported herein under the Uniform Guidance.

YOUTHBUILD LAKE COUNTY, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND RESOLUTIONS

For the Year Ended June 30, 2017

IV. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT

FINDING 2016-001 – CONTROLS OVER FINANCIAL CLOSING PROCESS

Condition – The closing process did not identify significant adjustments related to the proper cutoff of receipts and restrictions of revenue.

Recommendation – We recommend that the Organization implement a control procedure to review grant agreements and award letters for proper cutoff and classification at year-end.

Status – Although a similar condition was noted related to revenue cut-off during the current year, the quantitative and qualitative factors involved did not warrant a finding being issued in 2017. Overall the controls related to grant agreement review and proper classification had improved.

V. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Our audit disclosed no findings that are required to be reported herein under the Uniform Guidance.