

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
Libertyville, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY (an Illinois nonprofit corporation) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 02, 2017, on our consideration of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY'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 THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Haran & Associates Ltd".

HARAN & ASSOCIATES LTD
Certified Public Accountants
Wilmette, Illinois 60091

October 02, 2017

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

CURRENT ASSETS	
Cash in bank	\$ 881,708
Prepaid expenses	9,648
Accounts receivable	282,502
NFS properties held for sale	2,045,593
ARUI properties held for sale	<u>341,099</u>
Total current assets	<u>\$ 3,560,550</u>
PROPERTY AND EQUIPMENT	
Furniture and furnishings	\$ 120,173
Less: Accumulated depreciation	<u>(112,520)</u>
Net property and equipment	<u>\$ 7,653</u>
OTHER ASSETS	
Security deposit	\$ 3,149
Loan receivable - homebuyer programs	<u>19,908</u>
Total other assets	<u>\$ 23,057</u>
Total assets	<u><u>\$ 3,591,260</u></u>

The accompanying notes are an integral part of this financial statement.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 50,985
Acquisition & rehabilitation line of credit	898,479
Prepaid fees - Community Partners Program	11,000
Affordable Plus Mortgage Program funds payable to lenders	28,663
Rental programs rents due to landlords	<u>96,654</u>
 Total current liabilities	 <u>\$ 1,085,781</u>
LONG-TERM LIABILITIES	
Homeowner rehabilitation program funds payable to lenders	\$ 245,653
Deferred revenue - National Foreclosure Settlement program	<u>1,195,671</u>
 Total long-term liabilities	 <u>\$ 1,441,324</u>
 Total liabilities	 <u>\$ 2,527,105</u>
NET ASSETS	
Net assets, unrestricted	<u>\$ 1,064,155</u>
 Total liabilities and net assets	 <u><u>\$ 3,591,260</u></u>

The accompanying notes are an integral part of this financial statement.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

UNRESTRICTED NET ASSETS

Support:

Housing counseling program	\$ 266,227
Homeowner rehabilitation program	146,048
Rental programs	39,933
Homebuyer program	118,469
Acquisition rehabilitation resale program	416,789
Unrestricted donations and earned revenue	250,414
Miscellaneous income	<u>101,375</u>

Total support and revenues \$ 1,339,255

EXPENSES

Program services:

Foreclosure prevention counseling	\$ 183,846
Homeowner rehabilitation assistance	75,108
Acquisition and rehabilitation	68,618
Rental programs	22,611
Hardest hit fund program	61,362
Homebuyer loan administration	55,974
Pre-purchase counseling	56,216
National foreclosure settlement	370,934
Neighborhood stabilization program	32,812
Community partners program	13,903
Home accessibility program	5,041

Supporting services:

Management and general	<u>116,494</u>
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Total expenses \$ 1,062,919

Increase (decrease) in unrestricted net assets \$ 276,336

Net assets - unrestricted at beginning of year 787,819

Net assets - unrestricted at end of year \$ 1,064,155

The accompanying notes are an integral part of this financial statement.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

FUNCTIONAL EXPENSES	Foreclosure Prevention Counseling	Homebuyer Rehabilitation Assistance	Rental Programs	Homebuyer Loan Administration	Pre- Purchase Counseling	National Foreclosure Settlement	Neighborhood Stabilization Program	Hardest Hit Fund	Acquisition and Rehabilitation Program	Community Partners Program	Home Accessibility Program	Management and General	Total
Payroll, taxes and benefits	\$ 138,328	\$ 57,514	\$ 17,481	\$ 42,405	\$ 44,703	\$ 94,979	\$ 26,856	\$ 45,444	\$ 57,197	\$ 11,902	\$ 4,282	\$ 88,798	\$ 629,889
Transportation	289	1,609	245	169	13	4,559	992	76	2,460	114	69	1,234	11,829
Professional development	1,265	121	39	128	100	138	39	106	78	17	7	178	2,216
Accounting	11,355	4,671	1,584	4,290	3,641	5,714	1,673	3,866	2,884	586	192	7,589	48,045
Equipment usage	3,609	1,414	499	1,431	1,123	1,704	492	1,292	876	190	75	2,216	14,921
Supplies	2,682	782	270	750	633	941	270	684	499	107	55	1,288	8,961
Client fees	199	1,510	-	-	246	405	-	3,952	90	-	-	40	6,442
Facilities	24,503	6,896	2,274	6,219	5,264	8,205	2,259	5,436	4,147	911	326	10,268	76,708
Marketing	1,616	591	219	582	493	759	231	506	387	76	35	982	6,477
NFS project costs	-	-	-	-	-	253,530	-	-	-	-	-	-	253,530
Depreciation	-	-	-	-	-	-	-	-	-	-	-	3,901	3,901
Total functional expenses	<u>\$ 183,846</u>	<u>\$ 75,108</u>	<u>\$ 22,611</u>	<u>\$ 55,974</u>	<u>\$ 56,216</u>	<u>\$ 370,934</u>	<u>\$ 32,812</u>	<u>\$ 61,362</u>	<u>\$ 68,618</u>	<u>\$ 13,903</u>	<u>\$ 5,041</u>	<u>\$ 116,494</u>	<u>\$ 1,062,919</u>

The accompanying notes are an integral part of this financial statement.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ 276,336
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities	
Depreciation	3,901
Changes in assets and liabilities	
Decrease (increase) in:	
Prepaid expenses	12,106
Fees receivable	(29,295)
Increase (decrease) in:	
Accounts payable	32,359
Prepaid fees	4,955
Affordable plus mortgage program funds payable to lenders	(1,593)
Rental programs rents due to landlords	75,917
	<u>374,686</u>
Net cash provided by (used in) operating activities	\$ <u>374,686</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net purchase of fixed assets	\$ (4,255)
NFS properties held for sale	(272,319)
ARUI properties held for sale	(5,363)
Loan receivable from homebuyer program	(4,272)
	<u>(286,209)</u>
Net cash provided by (used in) investing activities	\$ <u>(286,209)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Line of credit	\$ 196,431
Construction costs payable	(69,809)
Homeowner rehabilitation program funds from Lake County, net	(68,730)
Deferred revenue national foreclosure settlement program	196,280
National foreclosure settlement program payable to lenders	(78,099)
Neighborhood stabilization program payable to Lake County, net	(21,284)
	<u>154,789</u>
Net cash provided by (used in) financing activities	\$ <u>154,789</u>
Net increase (decrease) in cash	\$ 243,266
Cash at beginning of year	<u>638,442</u>
Cash at end of year	<u>\$ 881,708</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - ORGANIZATION

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY (AHC) was incorporated on December 21, 1992, as an Illinois Not-for-Profit Corporation under the laws of the State of Illinois. The Corporation was created for the purpose of development and betterment of affordable housing located in Lake County, Illinois. The Corporation receives its funding from the private sector and from grants awarded by government agencies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY have been prepared on the accrual basis. The significant policies followed are described below:

Financial Statement Presentation

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Uninsured Cash Balances

The Corporation maintains cash balances at a bank where accounts are insured by the F.D.I.C. for up to \$250,000. Balances in excess of insured limits totaled \$233,332 at June 30, 2017. The Corporation has not experienced any losses in such accounts.

Contributions

Contributions received by the Corporation are recorded as either unrestricted, temporarily restricted or permanently restricted support.

Unrestricted contributions do not have any donor-imposed stipulations. Temporarily restricted contributions result from stipulations imposed by donors that expire by passage of time or fulfillment by the Corporation of certain donor-imposed actions. Permanently restricted contributions neither expire by the passage of time nor can otherwise be removed by actions of the Corporation.

Property and Equipment

Depreciation on furniture and furnishings is recorded using the straight-line method over the estimated useful lives of the related assets, which range from five to seven years.

Income Tax Status

The Corporation is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provisions for federal income taxes in the accompanying financial statements. The Corporation's information returns for the years ended June 30, 2014, 2015 and 2016 remain open to examination by the Internal Revenue Service and state taxing agencies. The Corporation is not currently under examination by any regulatory body.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Cash Flows

The Corporation considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through October 02, 2017, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events requiring disclosure.

NOTE 3 - LINE OF CREDIT

The Corporation has a line of credit with First Midwest Bank, which provides for borrowings up to \$500,000. Outstanding balances bear interest at the prime rate as published in The Wall Street Journal minus 0.50%. At June 30, 2017, the interest rate on the note was 3.75% with interest payable monthly. The line of credit matures on February 10, 2018 and is secured by all accounts receivable, inventory, property and equipment of the company. As of June 30, 2017, \$499,782 was outstanding under the line. See footnote 8.

The agreement with First Midwest Bank contains financial covenants requiring the Corporation to achieve certain minimum performance levels. As of June 30, 2017, the Corporation was in compliance with these covenants.

The Corporation has a line of credit with Lake Forest Bank and Trust, which provides for borrowings up to \$500,000. Outstanding balances bear interest at the prime rate as published in The Wall Street Journal minus 0.50%. At June 30, 2017, the interest rate on the note was 3.75% with interest payable monthly. The line of credit matures on March 18, 2018 and is secured by all accounts receivable, inventory, property and equipment of the company. As of June 30, 2017, \$242,893 was outstanding under the line. See Footnote 8.

The agreement with Lake Forest Bank and Trust contains financial covenants requiring the Corporation to achieve certain minimum performance levels. As of June 30, 2017, the Corporation was in compliance with these covenants.

NOTE 4 - BENEFIT PLAN

As part of the benefits package, the Corporation makes contributions to simplified employee pension individual retirement accounts for eligible employees. Contributions due and paid to the plan for the year ended June 30, 2017 were \$23,641.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017

NOTE 5 - LAKE COUNTY HOMEBUYER PROGRAM AND HOMEOWNER REHABILITATION

PROGRAM THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY (AHC)

originates and

services loans to help low-income and moderate-income households purchase, improve and save their homes from foreclosure.

Loan Terms and Security Instruments

While the specific terms may vary, loans typically fall into one of two categories: (a) a low-interest amortized loan with monthly payments, or (b) an interest-free deferred loan that is due upon sale, transfer of title or cash-out refinance. Many deferred loans are forgiven after some period of time in the property. All loans are secured by a mortgage, note and/or recapture agreement.

Investor Agreements

AHC continuously seeks investments from public and private sources to finance loans, particularly from government entities and financial institutions. All investments are governed by a formal agreement or contract that addresses all matters related to the use, origination, servicing and eventual return/forgiveness of the funds. Some investments allow the pairing of funds with other investments; this may occur in one of two ways: (a) Investors combine their funds into a lending pool administered by AHC, typically referred to as a “Lender Consortium”, and/or (b) Borrowers receive multiple loans from two or more investors. For AHC’s protection, all governing agreements are designed to insure that AHC has no liability in the event of delinquency or foreclosure, and that any loan losses will be assumed by the investor. Some governing contracts are written so that AHC is listed as the mortgagor on the loan security instruments, whereas others require the investor to be listed as the mortgagor.

Loans as Assets and Liabilities

Per accounting protocol, those loans in which AHC is not the mortgagor are not reflected as part of AHC’s assets and liabilities. In many cases, AHC has full responsibility for all loan origination and servicing activities regardless of the stated mortgagor. The organizational staffing, capacity and core competencies reflect the extensive time commitment that these loan administration activities require.

Categories of Loans

Below is a summary and description of loans AHC has offered throughout its history.

Loan Type	Originator	Servicer	Mortgagor	Funder
Homebuyer Deferred / Lake County	AHC	Lake County	Lake County	Lake County
Homebuyer Deferred / IHDA	AHC	IHDA	IHDA	IHDA
Affordable Plus Mortgage / Wintrust	AHC	AHC	AHC	Wintrust
Affordable Plus Mort / Harris Bank	Harris	Harris	Harris	Harris
Acquisition Rehab Resale	AHC	Lake County	Lake County	Lake County
Homeowner Rehab Deferred	AHC	AHC	Lake County	Lake County
Homeowner Rehab Amortized	AHC	AHC	AHC	Lender Consortium
Home Accessibility Program	AHC	IHDA / AHC	IHDA/Lake C.	IHDA / Lake C.
LCHA Rehab Loans	LCHA	AHC	LCHA	Lake County
Hardest Hit Fund	AHC	IHDA	IHDA	IHDA

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 5 - LAKE COUNTY HOMEBUYER PROGRAM AND HOMEOWNER REHABILITATION PROGRAM
(CONTINUED)

Homebuyer Deferred Loans / Lake County are small interest-free deferred loans used to support down payment and closing costs. Loans are funded by Lake County utilizing HUD programs such as HOME and CDBG, as well as Lake County's own Affordable Housing Program. Per County policy implemented in 2012, all new and existing loans will be forgiven after five years in the property.

Homebuyer Deferred Loans / IHDA are interest-free deferred loans funded by the Illinois Housing Development Authority that are used to support the purchase of a home. In many cases, a portion of the funds (typically \$3,000-\$5,000) are forgiven after five years in the property. AHC originates the loans and provides some servicing support, while IHDA acts as primary servicer.

Affordable Plus Mortgages / Wintrust are low-interest loans of up to \$35,000 to help homebuyers purchase their first home. Loans were initially funded by a Lender Consortium, and were eventually purchased by Wintrust Corporation in December 2010. While servicing continues, the APM is now closed and no new loans are originated.

Affordable Plus Mortgage / Harris Bank refers to loans that were originated and funded by Harris Bank during 2006-2007 prior to the creation of the Lender Consortium referenced above. New loans are not originated.

Acquisition Rehab Resale Deferred Loans are 0%-interest deferred loans for buyers of distressed properties that were acquired, rehabbed and resold by AHC or the cities of Waukegan or North Chicago. Most are forgiven after five years in the property. Some buyers may also receive a closing cost credit. Loans are funded by the Neighborhood Stabilization Program or other grant funds.

Homeowner Rehab Deferred Loans are interest-free deferred financing for homeowners in need of critical repairs. Loans are funded by Lake County, utilizing HUD programs such as HOME and CDBG, as well as Lake County's own Affordable Housing Program. AHC is responsible for all loan administration activities.

Homeowner Rehab Amortized Loans are low-interest amortized financing for homeowners in need of critical home repairs. Loans are funded by a consortium of Wintrust banks. AHC is responsible for all loan administration activities.

Home Accessibility Program Loans are interest-free deferred loans funded by the Illinois Housing Development Authority and/or Lake County that are used to support accessibility improvements for low-income seniors and persons with disabilities. The loans are forgiven after five years in the home.

LCHA Rehab Loans are homeowner rehab loans originated by the Lake County Housing Authority in the 1980's and 1990's and then assigned to AHC for servicing in 1998. AHC is responsible for all loan administration activities.

Hardest Hit Fund offers 0%-interest deferred loans—forgiven after five years—of up to \$35,000 that assist homeowners in avoiding foreclosure by reinstating their mortgage and/or contributing to monthly payments. AHC is one of several local administrators throughout the State that originates the loans and provides some servicing support. IHDA administers the larger State program and acts as primary servicer.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017

NOTE 5 - LAKE COUNTY HOMEBUYER PROGRAM AND HOMEOWNER REHABILITATION PROGRAM
 (CONTINUED)

Loan Originations in FY17

Below is a summary of loan activity from July 01, 2016 through June 30, 2017.

Loan Type	# Loans	Dollars
Homebuyer Deferred	57	\$311,876
Acquisition Rehab Resale	2	\$21,500
Homeowner Rehab Deferred	16	\$422,786
Homeowner Rehab Amortized	4	\$48,266
Hardest Hit Fund	59	\$2,065,000
TOTAL	138	\$2,869,428

Schedule of Outstanding Loans Serviced by AHC as of June 30, 2017

Below is a summary of loans lost during the fiscal year, as well as a snapshot of outstanding loans serviced by AHC as of June 30, 2017. Whereas AHC has historically serviced Homebuyer Deferred and Acquisition Rehab Resale loans, Lake County assumed servicing of these as of July 1, 2014.

	Portfolio Balance		Loans Lost During FY17		Loans Lost FY17 As % of Portfolio
	#	\$	#	\$	%
Aggregate Portfolio	261	\$5,065,028	0	\$0	0.00%
Affordable Plus Mortg.	84	\$2,154,247	0	\$0	0.00%
Rehab Deferred	113	\$2,327,006	0	\$0	0.00%
Rehab Amortized	21	\$150,332	0	\$0	0.00%
LCHA Rehab	43	\$433,443	0	\$0	0.00%

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017

NOTE 5 - LAKE COUNTY HOMEBUYER PROGRAM AND HOMEOWNER REHABILITATION PROGRAM (CONTINUED)

Historical Perspective of Loan Originations

Below represents our best estimate of AHC's loan origination and servicing activity from 1998 through June 30, 2017. As early tracking systems did not anticipate the extent of AHC's eventual loan activity, there must be allowed a reasonably small amount of room for error.

Loan Type	# Loans	Loan Amount
Homebuyer Deferred / Lake County	2095	\$7,010,739
Homebuyer Deferred / IHDA	594	\$3,400,234
Affordable Plus / Wintrust	118	\$3,845,000
Affordable Plus / Harris Bank	32	\$1,120,000
Acquisition Rehab Resale	79	\$752,780
Homeowners Rehab Deferred	212	\$3,502,618
Homeowners Rehab Amortized	66	\$797,659
Home Accessibility Program (began FY18)	0	\$0
LCHA Rehab Loans transferred to AHC	261	\$2,927,987
Hardest Hit Fund	211	\$6,349,986
TOTAL	3,668	\$29,707,003

NOTE 6 - NEIGHBORHOOD STABILIZATION PROGRAM

The Corporation has entered into a contract with Lake County for the purpose of acquiring and redeveloping abandoned and foreclosed homes and residential properties in targeted communities in Lake County.

Households benefiting under the program must remain affordable, as defined in the NSP contract, for not less than an applicable period, ranging from five to twenty years. In the event of non-compliance, all NSP funds expended on such unit must be repaid to Lake County. As of June 30, 2017, there were no occurrences of non-compliance.

NOTE 7 - COMMITMENTS

On April 1, 2010, the Corporation entered into a Lease Agreement for office space located at 1590 S. Milwaukee Ave, Suite 312, Libertyville, IL through March 31, 2017. On November 15, 2013, the Corporation entered into another Lease Agreement for office space located at 1580 S. Milwaukee Ave, Suite 607, Libertyville, IL through March 31, 2017. The lease for 1580 S. Milwaukee Ave, Suite 607 was terminated early in March 2016 for a reduced fee of \$22,410. The \$22,410 fee was recorded as a pre-paid expense in March 2016 and is expensed equally each month through December 2016 based on a reimbursement agreement with Lake County. The lease for 1590 S. Milwaukee Ave, Suite 312 has an option for an additional five years with six months' prior written notice. The Corporation has extended the lease for one additional year, to expire March 31, 2018.

Future minimum rental payments are as follows:

Year ending June 30,	
2018	\$ 34,350
Total	<u>\$ 34,350</u>

Rent expense was \$64,174 for the year ended June 30, 2017.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 8 - NATIONAL FORECLOSURE SETTLEMENT PROGRAM

Effective July 1, 2014, the Corporation entered into a three-year agreement with the Office of the Illinois Attorney General (IAG) to receive funds from the State of Illinois' portion of the National Foreclosure Settlement Fund (NFS). The NFS represents funds received from the nation's five largest servicers regarding fraudulent practices that ultimately contributed to the foreclosure crisis. As a result of this settlement, the IAG received and then distributed funds to qualified organizations to be used to mitigate the effects of the foreclosure crisis in Illinois. From these funds, the Corporation was awarded \$2,000,000 to revitalize foreclosed, vacant and otherwise distressed properties in communities hard hit by the foreclosure crisis. As of June 30, 2017, the agreement was extended to December 31, 2017. Per the agreement, funds are to be distributed to the Corporation as follows:

Date	Amount
July 15, 2014	\$ 333,333
January 15, 2015	333,333
July 15, 2015	333,333
January 15, 2016	333,333
July 15, 2016	333,333
January 15, 2017	166,667
July 15, 2017	166,668
Total	\$ 2,000,000

The Corporation is using NFS funds to acquire, rehabilitate and sell approximately 50 homes in targeted areas and to provide various counseling services to homeowners and homebuyers. NFS funds are to be used for direct property costs—such as acquisition, property evaluation, construction and resale—as well as for project delivery costs to support the administration of these activities and other consumer empowerment services. Proceeds from the sale of each property are retained by AHC and re-used to further the purposes of the agreement.

The Village of Round Lake Beach, the Village of Mundelein and First Midwest Bank have provided additional loan funds to be used for property acquisition and rehab. Upon the sale of a home purchased or improved with these funds, the Corporation pays back the Villages or Bank. These funds may then be re-used for additional properties.

Funds earned for project delivery costs are reported as Support (\$147,250). Operational expenses to administer the program, such as personnel and consumables (\$117,404) and project costs for properties acquired, rehabbed and resold (\$253,530), are reported as a Functional Expense (\$370,934).

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 8 - NATIONAL FORECLOSURE SETTLEMENT PROGRAM (CONTINUED)

Funds invested by the Villages and Bank in properties currently being held in inventory (i.e., properties acquired but not yet resold) are recorded as a liability. Such liabilities as of June 30, 2017 include:

Village of Round Lake Beach - LOC	\$	155,804
Lake Forest Bank & Trust - LOC		242,893
First Midwest Bank - LOC - See Footnote 3		<u>499,782</u>
Total	\$	<u>898,479</u>

NFS funds invested in homes held in inventory and proceeds from sales of homes that are reinvested in homes that are held in inventory, are recorded as an asset. Such assets as of June 30, 2017 include eight homes totaling \$2,045,593.

NFS funds received per the above schedule and/or proceeds received from sales of homes but not yet used for program investment are recorded as an asset. Such assets as of June 30, 2017 include \$33,250.

NFS funds received from the IAG, per the above schedule, are recorded in the period received as deferred revenue. Funds received for project delivery and operational costs are recognized as IAG Grant Income in the period received.

NOTE 9 - CASH

The Corporation's cash represents the funds held for the various programs as of June 30, 2017, as follows:

First-time homebuyer program - Lake County	\$	20,226
Homebuyer and owner occupied rehab lenders		184,367
Homeowner rehabilitation program - Lake County		135,257
Rental programs		101,435
National foreclosure settlement program		107,573
Neighborhood stabilization program		<u>7,013</u>
Total cash for programs	\$	555,871
Cash for operations		<u>325,837</u>
Total	\$	<u>881,708</u>

NOTE 10 - MON VALLEY INITIATIVE

The Corporation entered into a contract with Mon Valley Initiative to provide housing counseling services as part of the Multi-State Intermediary HUD Comprehensive Counseling Program. Funding for this program is based on actual time spent by the Corporation's staff. During the year ended June 30, 2017, the Corporation recognized revenue of \$53,646.

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
SCHEDULE OF FEDERAL AWARDS
JUNE 30, 2017

	<u>Pass Through Federal Grantor</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development	Mon Valley Initiative	14.169	\$ 38,646
U.S. Department of Housing and Urban Development	Lake County, Illinois	14.218	674,623
U.S. Department of Housing and Urban Development	Lake County, Illinois	14.239	495,910
Department of Treasury	NeighborWorks America	21.000	<u>45,071</u>
Total			<u>\$ 1,254,250</u>

NOTE 1 – SCOPE OF AUDIT PURSUANT TO UNIFORM GUIDANCE

All federal grant activities of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY (the Corporation), are included in the scope of the U.S. Office of Management and Budget (OMB) Uniform Guidance audit.

Under Government Auditing Standards and U.S. Department of Housing and Urban Development (HUD)'s and U.S. Department of Treasury's Regulations, all federal grant activities are considered major programs.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's basic financial statements.



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*

To the Board of Directors
THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
Libertyville, 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 THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY'S basic financial statements and have issued our report thereon dated October 02, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's internal control. Accordingly, we do not express an opinion on the effectiveness of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY'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 THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY'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*.



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* (CONTINUED)

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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Haran & Associates Ltd".

HARAN & ASSOCIATES LTD
Certified Public Accountants
Wilmette, Illinois 60091

October 02, 2017



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

To the Board of Directors
THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
Libertyville, Illinois

Report on Compliance for Each Major Federal Program

We have audited THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY'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 THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's major federal programs for the year ended June 30, 2017. THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY'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 THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's compliance.

Opinion on Each Major Federal Program

In our opinion, THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY 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.



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

Report on Internal Control Over Compliance

Management of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY 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 THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY'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.

A handwritten signature in cursive script that reads "Haran & Associates Ltd".

HARAN & ASSOCIATES LTD
Certified Public Accountants
Wilmette, Illinois 60091

October 02, 2017

THE AFFORDABLE HOUSING CORPORATION OF LAKE COUNTY
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
- Material weakness identified?	___ yes <u>X</u> no
- Reportable condition(s) identified that are not considered to be material weaknesses?	___ yes <u>X</u> no
Noncompliance material to financial statements noted?	___ yes <u>X</u> no

Federal Awards

Internal control over major programs:	
- Material weakness(es) identified?	___ yes <u>X</u> no
- Reportable condition(s) identified that are considered to be material weakness(es)?	___ yes <u>X</u> no
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the OMB Uniform Guidance?	__ yes <u>X</u> no

Identification of major programs:

<u>Name of Federal Program:</u>	<u>CFDA Number(s)</u>
Department of the Treasury	21.000
U.S. Department of Housing and Urban Development	

Passed through:

Mon Valley Initiative	14.169
Lake County, Illinois	14.218
Lake County, Illinois	14.239

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	<u>X</u> yes __ no
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