EL HOGAR DEL NIÑO

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

For the Year Ended June 30, 2021

El Hogar del Niño

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

<u>Independent Auditor's Report</u>

To the Board of Directors
El Hogar del Niño
Chicago, IL

We have audited the accompanying financial statements of El Hogar del Niño (a non-profit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Hogar del Niño as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2022, on our consideration of El Hogar del Niño'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 El Hogar del Niño's internal control over financial reporting and compliance.

Desmond & Ahern, Ltd

June 13, 2022
Chicago, IL

EL HOGAR DEL NIÑO
STATEMENT OF FINANCIAL POSITION
As of June 30, 2021

Assets		
Cash and cash equivalents	$	4,399,972
Government receivables		1,996,265
Accounts receivable		225
Program service fees, net of allowance		4,976
Prepaid expenses		13,620
Total current assets		6,415,058
Property and Equipment		
Land		46,569
Building and improvements		6,436,681
Furniture and equipment		432,147
		6,915,397
Less accumulated depreciation and amortization		(5,963,003)
Net property and equipment		952,394
Total Assets	$	7,367,452
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$	82,758
Accrued expenses		39,816
Mortgage note, current portion		83,349
PPP loan		688,625
Total current liabilities		894,548
Long-Term		
Mortgage note, net of current portion		1,226,359
Total liabilities		2,120,907
Net Assets		
Without donor restrictions		5,239,146
With donor restrictions		7,399
Total net assets		5,246,545
Total Liabilities and Net Assets	$	7,367,452

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

EL HOGAR DEL NIÑO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Government contracts	$ 7,035,071	$ -	$ 7,035,071
Grants and contributions	10,312	-	10,312
Parent fees	55,104	-	55,104
Special events	1,000	-	1,000
Total public support	7,101,487	-	7,101,487
Other revenue:			
Interest income	205	-	205
Other income	2,060	-	2,060
Total other revenue	2,265	-	2,265
Net assets released from restrictions -	116,600	(116,600)	-
Total public support and other revenue	7,220,352	(116,600)	7,103,752
Expenses			
Program services	5,559,122	-	5,559,122
Management and general	485,047	-	485,047
Fundraising	44,133	-	44,133
Total Expenses	6,088,302	-	6,088,302
Change in Net Assets	1,132,050	(116,600)	1,015,450
Net assets, beginning of year	4,107,096	123,999	4,231,095
Net assets, end of year	$ 5,239,146	$ 7,399	$ 5,246,545

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

EL HOGAR DEL NIÑO
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	Preschool	Toddler	After School	Early Head Start / Home Visiting	Home Day Care	Preventional Initiative	Total Program Services	Management and General	Fundraising	Total
Functional Expenses										
Salaries and wages	$ 1,050,120	$ 1,713,606	$ 238,264	$ 188,656	$ 24,271	$ 113,525	$ 3,328,442	$ 62,109	$ 6,092	$ 3,396,643
Fringe benefits and related taxes	175,733	200,972	40,322	15,909	4,678	14,840	452,454	45,550	4,327	502,331
	1,225,853	1,914,578	278,586	204,565	28,949	128,365	3,780,896	107,659	10,419	3,898,974
Professional fees	151,283	119,355	9,273	2,880	51,992	3,151	337,934	84,301	26,828	449,063
Office expense	14,949	13,936	1,678	420	8	239	31,230	3,328	1,276	35,834
Occupancy	139,023	164,731	15,556	8,213	284	6,007	333,814	41,776	1,885	377,475
Travel and meetings	-	63	260	2,548	-	2,211	5,082	1,686	119	6,887
Parent meetings	5,407	4,823	-	6,245	-	3,108	19,583	1	-	19,584
Interest	-	-	-	-	-	-	-	63,986	-	63,986
Insurance	10,111	11,140	1,423	552	30	553	23,809	2,819	165	26,793
Child and infant meals and snacks	104,877	97,735	36,269	29	2	29	238,941	148	-	239,089
Classroom and educational supplies	241,874	171,336	41,255	18,063	1,526	3,753	477,807	384	-	478,191
Postage and shipping	106	82	-	3	-	3	194	147	-	341
Telecommunications	8,227	9,599	1,484	2,093	25	1,773	23,201	3,348	165	26,714
Professional development	2,617	3,660	510	1,371	3	326	8,487	8,691	31	17,209
Equipment	8,701	10,355	1,439	500	27	507	21,529	1,741	225	23,495
Miscellaneous	1,652	1,487	160	24	-	22	3,345	16,983	12	20,340
Bad debt	-	-	-	-	-	-	-	117,854	-	117,854
Depreciation and amortization	102,041	116,709	22,431	5,901	315	5,873	253,270	30,195	3,008	286,473
Total Expenses	$ 2,016,721	$ 2,639,589	$ 410,324	$ 253,407	$ 83,161	$ 155,920	$ 5,559,122	$ 485,047	$ 44,133	$ 6,088,302

EL HOGAR DEL NIÑO
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities	
Change in net assets	$ 1,015,450
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	286,473
(Increase) decrease in	
Government receivables	111,398
Program service fees receivable, net	63,889
Increase (decrease) in	
Accounts payable	26,902
Accrued expenses	(7,243)
Net cash provided by operating activities	1,496,869
Cash Flows used in Investing Activities	
Purchase of furniture and equipment	(205,899)
Net cash used in investing activities	(205,899)
Cash Flows from Financing Activities	
Payments on capital leases	(1,604)
Payments on mortgage note	(76,892)
Net cash (used in) financing activities	(78,496)
Net increase in cash and cash equivalents	1,212,474
Cash and cash equivalents, beginning of year	3,187,498
Cash and cash equivalents, end of year	$ 4,399,972
Supplemental Disclosure of Cash Flows	
Cash paid for interest	$ 63,986

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

EL HOGAR DEL NIÑO
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

Organization

El Hogar Del Nino (the "Organization") is an Illinois not-for-profit corporation incorporated in 1972. The Organization's mission is to provide and demonstrate comprehensive bilingual/bicultural early childhood development programs for infants, toddlers, preschool, school-age children, and their families. The Organization provides the following services: full-day Head Start and Child Care for toddlers and pre-school aged children, before and after-school childcare, Early Head Start and Home Visiting and Family Child Care Homes in Chicago, Illinois. The Organization receives most of its support from government entities, private corporations, foundations, and individual contributions.

Tax-Exempt Status

The Organization was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of the Organization and the nature in which it operates is described above. The Organization continues to operate in compliance with its tax-exempt purpose. The Organization's annual information and income tax returns filed with the federal and state governments are subject to examination generally for three years after they are filed.

The Organization has adopted the requirements for accounting for uncertain tax positions and management has determined that Organization was not required to record a liability related to uncertain tax positions as of June 30, 2021.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant accounts receivable, payable, and other liabilities in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation

As required by the generally accepted accounting principles for Not-for-Profit accounting, the Organization is required to report information regarding its financial position and activities according to two classes:

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions. Such gifts include gifts without restrictions, including an investment account designated by the Board to function as restricted and restricted gifts whose donor-imposed restrictions were met during the fiscal year.

With Donor Restrictions – Net assets subject to donor-imposed restrictions which will be met either by actions of the Organization or the passage of time. Items that affect this net asset

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

With donor restrictions (cont.)
category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Restrictions that have been met on net assets with donor restrictions are reported as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as without donor restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained perpetually by the Organization, including gifts and pledges wherein donors stipulate that the corpus of the gift is to be held in perpetuity and that only the income be made available for programs. As of June 30, 2021, there are no donor-imposed restrictions to be maintained permanently.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
Cash and cash equivalents consist of bank deposits in federally insured accounts. The accounts may, at times, exceed the federally insured limit of $250,000. For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments, if any, purchased with an original maturity of three months or less to be cash equivalents. No taxes were paid during the year ended June 30, 2021.

Property and Equipment
Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The Organization provides for depreciation and amortization on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

Building and improvements	30 years
Furniture and equipment	3 - 10 years

Accounts and Government Grants Receivable
Accounts and grants receivable consist of both unconditional promises to give by donors and amounts due from governmental agencies for services. Unconditional promises to give are recorded in the year the promises are made, either unrestricted, or restricted for the subsequent period. Amounts due from governmental agencies are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Conditional promises to give –

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

Accounts and Government Grants Receivable (cont.)

that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. The Organization has conditional grants from the City of Chicago Department of Family and Support Services and Start Early to provide childcare and education services in the total amounts of $7,037,976 that are available to be used during the 2022 and 2023 fiscal years on qualifying expenses.

Accounts and grants receivable are carried net an allowance for doubtful accounts. The Organization records an allowance for doubtful accounts based on specifically identified amounts that are not certain to be collected. The Organization has an allowance for uncollectible promises to give at June 30, 2021 of $11,421.

Support and Revenue

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Organization’s policy to immediately liquidate donations of common stock.

The Organization reports gifts of land, buildings, and equipment as without donor restriction support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. During the year ending June 30, 2021 no such gifts of land, buildings, or equipment were received.

The Organization recognizes contract revenue at an amount that reflects consideration to which the Organization expects to be entitled to in exchange for transferring goods or services to a customer. There is currently one type of contract that the Organization is engaged, which is based on performance reporting. Due to the nature and varying performance obligations of these contracts, the timing and methods of recognizing revenue from these contracts will vary. All contracts recognize revenue in accordance with ASU No. 2014-09 and prior year revenues have been retrospectively adjusted. There was no contract revenue recorded in 2021 for any performance obligations met in the prior year.

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

Support and Revenue (cont.)

For performance reporting contracts, a customer pays the agreed upon amounts after the completion and submission of specified deliverables in the contract. For these contracts, the Organization will allocate the transaction price of the contract to the specific performance obligations based on the contract. The Organization recognizes revenue when the performance obligations are met and delivered to the customer. The Organization had no contracts during 2021 that were performance reporting contracts. There are no contract assets or liabilities.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. These expenditures are subject to audit and acceptance by the granting organization and, as a result of such audit, adjustments could be required. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization had no amounts in refundable advances from government agencies recorded at June 30, 2021.

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended June 30, 2021, the Organization did not receive any donated legal and other services meeting the above criteria.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount. For the year ended June 30, 2021, the Organization did not receive any in-kind donations

Certain Vulnerabilities and Concentrations

The Organization's total revenue for the year ended June 30, 2021 amounted to $7,103,752. Of this amount, approximately 99% of its funding was from four government sources. Furthermore, 100% of the government receivable is due from three different agencies. Possible cuts in governmental funding for social service programs could result in a reduction of funding to the Organization. The Organization continues to pursue additional sources of funding.

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

Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Subsequent Events
Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Organization has evaluated subsequent events through June 13, 2022, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed.

Note 2 – Financial Assets and Liquidity Resources

As of June 30, 2021, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets at June 30, 2021	
Cash and cash equivalents	$ 4,399,972
Government receivables	1,996,265
Accounts receivable	225
Program service fees	16,397
Total financial assets and liquity resources	6,412,859
Less allowance for doubtful accounts	(11,421)
Less net assets with donor restrictions	(7,399)
Total financial assets available within one year	$ 6,394,039

The Organization provides various contractual program services from which it receives city, state and federal reimbursement as well as unrestricted and restricted gift pledges and contributions from individual, corporation and foundation donors; and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general operating purposes. The organization manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient

Note 2 – Financial Assets and Liquidity Resources (cont.)

reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the future. During the year ended June 30, 2021 the level of liquidity and reserves was managed within the policy requirements.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. General expenditures include payroll and related benefits, supplies, occupancy, interest, and professional services.

Note 3 – Long Term Debt

The Organization refinanced their mortgage on January 1, 2014. The mortgage matures on January 15, 2024 and requires monthly payments of principal and interest of $11,740, with the interest rate is fixed at 4.53%. The loan is collateralized by land and buildings location at 1710-18 South Loomis. The Organization must comply with certain covenants per the loan agreement. The Organization is in compliance with required loan covenants as of the year ended June 30, 2021.

Future maturities of long-term debt at June 30, 2021 are estimated as follows:

June 30,	Amount
2022	$ 83,349
2023	87,204
2024	1,139,155
	$ 1,309,708

Note 4 – Retirement Plan

The Organization maintains a 403(b) defined contribution plan for the benefit of substantially all of its employees who complete 1,000 hours of service, and which allows for both employee and employer contributions. Employees may defer up to 80% of their pre-tax compensation. There were no employer contributions for the year ending June 30, 2021.

Note 5 – Commitments

In September 2021 the Organization entered into a lease agreement for office space that expires on September 30, 2023. The lease called for monthly payments beginning at $1,470 and escalating to $1,611 in the final year. In connection with this lease, the Organization made a security deposit of $2,940 that is recorded as an asset on the Statement of Financial Position. Rent expense for the year ended June 30, 2021 amounted to $18,540.

Note 5 – Commitments (cont.)

Future minimum rental payments are as follows:

2022	$	18,645
2023		19,194
2024		4,833
	$	42,672

Note 6 –Net Assets with Donor Restrictions

Net assets with donor restrictions of $7,399 are available for construction and renovation projects as of June 30, 2021.

Note 7 – Contingency

The Organization has received significant revenue from federal, state, and city agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. Management believes that any disallowance would not be material to the financial statements.

Note 8 – Paycheck Protection Loan

In April 2020, the Organization received loan proceeds in the amount of approximately $688,625 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization has elected to follow ASC 470 and record the entire amount of the loan as debt and accrue interest in accordance with the interest method under ASC Subtopic 835-30, *Imputation of Interest* until the debt is extinguished, which is in accordance with FASB ASC 405-20, when the debtor has been “legally released” as the primary obligor or the debtor satisfies the outstanding balance of the debt. Once the debt is extinguished, the liability would be eliminated and a gain on extinguishment of debt will be recorded. As of June 30, 2021, the loan not forgiven and is recorded as a loan on the Statement of Financial Position. Subsequent to year, end in September of 2021, $224,419 in principal and $3,198 in interest was forgiven and will be recorded as extinguishment on debt with the remaining $464,206 due and payable including accrued interest maturing April 20, 2022.

Reports Required by
OMB's Uniform Guidance

EL HOGAR DEL NIÑO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Contract Number	Passed Through to Subrecipients		Disbursements or Expenditures
U.S. Department of Health and Human Services					
Passed through the City of Chicago Department of Family and Support Services					
Child care Mandatory and Matching Funds of the Child Care and Development	93.596	108150	$ -		$ 75,424
			-		75,424
Passed through the City of Chicago Department of Family and Support Services					
Head Start	93.600	113806	-		2,746,623
COVID-19 - Head Start	93.600	142299	-		163,560
			-	(1)	2,910,183
Total U.S. Department of Health and Human Services			-		2,985,607
U.S. Department of Agriculture					
Passed through Illinois State Board of Education					
Child and Adult Care Food Program	10.558	15-016577P00	-		173,151
Total U.S. Department of Agriculture			-		173,151
U.S. Department of Education					
Passed through Illinois State Board of Education					
Governor's Emergency Education Relief Fund	84.425C	146461	-		7,339
Total U.S. Department of Education			-		7,339
Total Expenditures of Federal Awards			$ -		$ 3,166,097

(1) Major Program

See accompanying notes to schedule of federal awards.

EL HOGAR DEL NIÑO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2021

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "SEFA") includes the Federal award activity of El Hogar del Niño under programs of the federal government for the year June 30, 2021. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because this schedule presents only a selected portion of the operations of El Hogar del Niño, it is not intended to and does not present the financial position, changes in net assets or cash flows of El Hogar del Niño.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *2 CFR Part 230 – Cost Principles for Non-Profit Organizations (OMB Circular A-122),* wherein certain types or expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Sub-Recipients

El Hogar del Niño did not provide any Federal awards to sub-recipients during the year ended June 30, 2021.

Note 4 – Other Matters

Amount of non-cash assistance	None
Amount of insurance	None
Amount of loans	None
Amount of loan guarantees	None

D&A
Desmond &Ahern, Ltd.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
El Hogar del Niño
Chicago, IL

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 El Hogar del Niño (the Organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Organization'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 El Hogar del Niño's internal control. Accordingly, we do not express an opinion on the effectiveness of El Hogar del Niño'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 and 2021-002 that we consider to be a material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Organization'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2021-002.

El Hogar del Niño's Response to Findings

El Hogar del Niño's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. El Hogar del Niño's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of 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.

Desmond & Ahern, Ltd

June 13, 2022
Chicago, IL

D&A
Desmond &Ahern, Ltd.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by Uniform Guidance

To the Board of Directors
El Hogar del Niño
Chicago, IL

Report on Compliance for Each Major Federal Program

We have audited El Hogar del Niño's compliance with the types of compliance requirements described in the *United States Office of Management and Budget* (*OMB) Compliance Supplement* that could have a direct and material effect on each of El Hogar del Niño's major federal programs for the year ended June 30, 2021. El Hogar del Niño'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 El Hogar del Niño'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 El Hogar del Niño'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 El Hogar del Niño's compliance.

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Opinion on Each of the Major Federal Programs

In our opinion, El Hogar del Niño 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, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

El Hogar del Niño's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. El Hogar del Niño's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of El Hogar del Niño 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 El Hogar del Niño'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 El Hogar del Niño'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 identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2021-002 that we consider to be a material weaknesses.

El Hogar del Niño's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. El Hogar del Niño's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Desmond & Ahern, Ltd

June 13, 2022
Chicago, IL

EL HOGAR DEL NIÑO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2021

Section I – Summary of Auditor's Results

Financial Statements
Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness identified?	X	yes		no
• Significant deficiencies identified that are not considered to be material weaknesses?		yes	X	no
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards
Internal control over major programs:

• Material weakness identified?	X	yes		no
• Significant deficiencies identified that are not considered to be material weakness?		yes	X	no

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516 (a)??	X	yes		no

Certification of Major Programs

CFDA Number	Name of Federal Program or Cluster
93.600	Head Start

Dollar threshold used to distinguish between type A and type B Programs: $750,000

Auditee qualified as low-risk auditee?	X	yes		no

EL HOGAR DEL NIÑO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2021

<u>Section II – Financial Statement Findings</u>

2021-001 Preparation of Generally Accepted Accounting Principles (GAAP) Financial Statements

Criteria: This absence of fiscal monitoring controls and knowledge does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

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

Cause: This material weakness is due to a combination of the size of the accounting department, as well as needing additional training and lack of management oversight, which may have identified the additional journal entries required to present GAAP financial statements. Management also did not make all the necessary entries to properly reconcile its accounting activity to award billings for the year ended June 30, 2021. The Organization consistently books the invoices based on budgeted amounts and then adjusts the revenue in a subsequent month when the funds are received. Expenditures are only tracked through an excel document rather than in the general ledger

Effect: Material adjusting entries were necessary to accounts including government revenue, receivables, fixed assets and expenses to present the financial statement and related footnotes in accordance with GAAP for the year ending June 30, 2021.

Recommendation: We recommend that someone independent of the report's preparation (who is knowledgeable of GAAP, including specific not for profit pronouncements) review the statements to ensure all transactions have been properly recorded. We also recommend that the Organization track grant expenditures by grant within the general ledger to support that expenses are not being allocated to more than one grant as well as recommend that amounts vouchered for and recorded to revenue are properly recorded based on the actual amounts submitted and not budgeted to record the revenue in the period of performance.

Grantee Response: Significant shifts in customary workflow due to COVID-19 safety restrictions created a temporary communication gap in this fiscal process as staff transitioned to offsite/remote work. This event has been remedied by scheduling regular meetings that accommodate both in-person and virtual attendance. During these meetings financial transactions are being reviewed including a closer review of all year-end transactions prior to the trial balance being shared with auditors. This will facilitate compliance with GAAP financial reporting by reducing the number of adjusting entries.

EL HOGAR DEL NIÑO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2021

Section III – Federal Award Findings and Questioned Costs

2021-002 Allowable Costs/Cost Principles

Criteria: Reports reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards, in accordance with *Cost Principles for Non-Profit Organizations (2 CFR Part 230.8).* The reports must reflect an after-the-fact determination of the actual activity of each employee. Charges to Federal awards must also be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. These records must also support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition: The Organization provided time records that account for the number of hours worked by the selected employees and the departments employees are charged to, however, details for the time worked in each individual program were not representative of actual time recorded per activity. The Organization is using projected salaries including vacant positions in order to calculate their full time equivalent rate to be used for administrative allocations and not using actual. We also noted that the allocations are not being shown on employee timecards and that the time cards of 31 out of 40 employees tested were not signed by their supervisor. D&A also noted that the expenses are not being properly tracked by federal grant within the general ledger properly to show expenses are not being allocated to multiple grants.

Cause: The Organization asserts that time records are consistently maintained to support the allocation of staff time to different functions however, budget estimates are used to support for charges to Federal awards. The Organization also asserts that they are not double dipping with any expenditures for multiple grants.

Effect: Budget estimates (i.e., estimates determined before the services are performed) alone, do not qualify as support for charges to Federal awards.

Questioned Costs: None

Recommendation: We recommend that quarterly recaps of the time sheets be done and that the time analysis be compared to the actual percent being allocated. If necessary, the projected allocation percentages, including full time equivalents, should be changed to reflect the actual time spent as required under 2 CFR 230. Also, the previous quarter should also be adjusted if the revised percentages would cause the financials to be

Section III – Federal Award Findings and Questioned Costs (cont.)

materially misstated. We further recommend that all employees receive additional training on filling out time sheets and that supervisors receive written procedures on reviewing the time sheets before approving to ensure that they are properly completed. With regards to allocations to awards, we recommend that the Organization properly allocate expenses within the general ledger to reflect the actual expenditures submitted for reimbursement and to ensure no expenses are being reimbursed from multiple grants.

Grantee Response: El Hogar del Nino will strengthen its internal controls. An expense allocation method will be developed that will more closely reflect the benefit each funding source receives from the expense and is supportable either by an amendable allocation method such as, real time tracking of time, number of students served or square footage to name a few possible examples. Allocation methods will be regularly reviewed and modified if the original conditions have changed. Where estimates are used in budgeting, an after the fact adjustment will be made when there is a material variance from budget.

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

None