
Ada S. McKinley Community Services, Inc.
Group Homes

(a component of Ada S. McKinley Community Services, Inc.,
a not-for-profit corporation)

HUD Project No. 071-EH224

Financial Report
with Supplemental Information
June 30, 2024

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Certificate of Officers

We certify that we have examined the attached financial statements and supplemental information of HUD Project No. 071-EH224, Ada S. McKinley Community Services, Inc. Group Homes, and to the best of our knowledge and belief, the same is a true statement of the financial condition as of June 30, 2024.

Ezekiel Morris
President

September 26, 2024
Date

Jamal K. Malone
Chief Executive Officer

September 26, 2024
Date

ID# 36-2144820
Employer Identification Number

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Management Agent's Certification

We certify that we have examined the attached financial statements and supplemental information of HUD Project No. 071-EH224, Ada S. McKinley Community Services, Inc. Group Homes, and to the best of our knowledge and belief, the same is a true statement of the financial condition as of June 30, 2024.

Jamal K. Malone
President

September 26, 2024
Date

(312) 385-0600
Telephone Number

ID# 36-2144820
Management Company Employer Identification
Number

Eric Edquist
Property Manager

**Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224**

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Independent Auditor's Report

To the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of Ada S. McKinley Community Services, Inc. Group Homes (the "Project"), which comprise the statement of financial position as of June 30, 2024 and 2023 and the related statements of activities, changes in deficiency in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Project as of June 30, 2024 and 2023 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Financial Statements

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

To the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Project's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Project's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2024 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.



September 26, 2024

By: Toni Diprizio
Engagement Partner
10 South Riverside Plaza, 9th Floor
Chicago, IL 60606
Federal ID Number: 38-1357951
Phone Number: 312-207-1040

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Financial Position

June 30, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|---|--------------------------|--------------------------|
| Assets | | |
| Current Assets | | |
| Cash - Operations | \$ 144,112 | \$ 97,095 |
| Deposits - Held in Trust | | |
| Tenant deposits held in trust | 5,404 | 5,221 |
| Deposits - Funded | | |
| Replacement reserve | 300,638 | 282,156 |
| Residual receipts reserve | 766 | 754 |
| Total deposits - Funded | <u>301,404</u> | <u>282,910</u> |
| Fixed Assets | | |
| Land and land improvements | 84,057 | 84,057 |
| Buildings and building improvements | 2,659,335 | 2,574,285 |
| Building equipment (portable) | 31,560 | 31,560 |
| Total fixed assets | <u>2,774,952</u> | <u>2,689,902</u> |
| Accumulated depreciation | <u>(2,397,016)</u> | <u>(2,349,660)</u> |
| Net fixed assets | <u>377,936</u> | <u>340,242</u> |
| Total assets | <u>\$ 828,856</u> | <u>\$ 725,468</u> |
| Liabilities and Deficiency in Net Assets | | |
| Current Liabilities | | |
| Accounts payable - Operations | \$ 822,875 | \$ 770,710 |
| Accrued management fee payable | 226,064 | 184,376 |
| Accrued interest payable - First mortgage | 13,284 | 13,284 |
| Mortgage payable - First mortgage | 44,356 | 147,889 |
| Miscellaneous current liabilities | 766 | 754 |
| Total current liabilities | <u>1,107,345</u> | <u>1,117,013</u> |
| Deposits - Held in Trust (Contra) | | |
| Tenant deposits held in trust (contra) | 4,963 | 4,750 |
| Long-term Liabilities | | |
| Mortgage payable - First mortgage | - | 44,182 |
| Other loans and notes payable - Surplus cash | 463,165 | 463,165 |
| Miscellaneous long-term liabilities | 867,531 | 742,966 |
| Total long-term liabilities | <u>1,330,696</u> | <u>1,250,313</u> |
| Total liabilities | <u>2,443,004</u> | <u>2,372,076</u> |
| Deficiency in Net Assets | | |
| Deficiency in net assets without donor restrictions | <u>(1,614,148)</u> | <u>(1,646,608)</u> |
| Total deficiency in net assets | <u>(1,614,148)</u> | <u>(1,646,608)</u> |
| Total liabilities and deficiency in net assets | <u>\$ 828,856</u> | <u>\$ 725,468</u> |

See notes to financial statements.

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Activities

Years Ended June 30, 2024 and 2023

| | 2024 | 2023 |
|---|------------|------------|
| Rent Revenue | | |
| Rent revenue - Gross potential | \$ 232,694 | \$ 321,816 |
| Tenant assistance payments | 647,543 | 512,784 |
| Miscellaneous rent revenue | - | 448 |
| Total rent revenue (potential at 100 percent occupancy) | 880,237 | 835,048 |
| Vacancies | | |
| Apartments | (88,533) | (192,658) |
| Total vacancies | (88,533) | (192,658) |
| Net rent revenue (rent revenue less vacancies) | 791,704 | 642,390 |
| Financial Revenue | | |
| Investments - Residual receipts | 12 | 10 |
| Investments - Replacement reserve | 11,826 | 3,695 |
| Total financial revenue | 11,838 | 3,705 |
| Total revenue | 803,542 | 646,095 |
| Administrative Expenses | | |
| Conventions and meetings | 2,403 | 6,980 |
| Management consultants | 371 | - |
| Other renting expenses | 2,581 | 5,326 |
| Office salaries | 97,003 | 154,028 |
| Office expenses | 19,860 | 17,587 |
| Management fee | 41,688 | 40,008 |
| Manager or superintendent salaries | 86,516 | 72,852 |
| Auditing expenses | 2,800 | 20,352 |
| Bookkeeping fees/Accounting services | 4,320 | 4,320 |
| Miscellaneous administrative expenses | 13,688 | 11,726 |
| Total administrative expenses | 271,230 | 333,179 |
| Utilities Expenses | | |
| Electricity | 29,852 | 25,970 |
| Water | 6,104 | 11,314 |
| Gas | 25,214 | 27,403 |
| Total utilities expenses | 61,170 | 64,687 |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Activities (Continued)

Years Ended June 30, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|---|-------------------------|----------------------------|
| Operating and Maintenance Expenses | | |
| Payroll | \$ 63,795 | \$ 62,352 |
| Supplies | 19,067 | 46,534 |
| Contracts | 116,405 | 43,931 |
| Garbage and trash removal | 56,357 | 844 |
| Security payroll/Contract | 12,314 | 24,415 |
| Heating/Cooling repairs and maintenance | 31,901 | 24,394 |
| Snow removal | 25,245 | 33,680 |
| Vehicle and maintenance equipment operation and repairs | 2,034 | 23 |
| Miscellaneous operating and maintenance expenses | 2,026 | 8,296 |
| Total operating and maintenance expenses | <u>329,144</u> | <u>244,469</u> |
| Taxes and Insurance | | |
| Payroll taxes (FICA) | 12,206 | 16,647 |
| Property and liability insurance (hazard) | 11,366 | 11,478 |
| Workers' compensation | 5,275 | 7,588 |
| Health insurance and other employee benefits | 21,644 | 28,787 |
| Total taxes and insurance | <u>50,491</u> | <u>64,500</u> |
| Financial Expenses | | |
| Interest on first mortgage payable | 11,691 | 24,609 |
| Total financial expenses | <u>11,691</u> | <u>24,609</u> |
| Total costs of operations before depreciation | <u>723,726</u> | <u>731,444</u> |
| Change in Net Assets before Depreciation | 79,816 | (85,349) |
| Depreciation Expense | <u>47,356</u> | <u>47,935</u> |
| Change in Total Net Assets from Operations | <u><u>\$ 32,460</u></u> | <u><u>\$ (133,284)</u></u> |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Changes in Deficiency in Net Assets

Years Ended June 30, 2024 and 2023

| | |
|---|-------------------------------------|
| Deficiency in Net Assets - July 1, 2022 | \$ (1,513,324) |
| Increase in deficiency in net assets | <u>(133,284)</u> |
| Deficiency in Net Assets - June 30, 2023 | (1,646,608) |
| Decrease in deficiency in net assets | <u>32,460</u> |
| Deficiency in Net Assets - June 30, 2024 | <u><u>\$ (1,614,148)</u></u> |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Cash Flows

Years Ended June 30, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|---|--------------------------|--------------------------|
| Cash Flows from Operating Activities | | |
| Receipts: | | |
| Rental | \$ 791,704 | \$ 642,390 |
| Interest | 11,838 | 3,705 |
| Miscellaneous financial | 12 | 10 |
| Total receipts | <u>803,554</u> | <u>646,105</u> |
| Disbursements: | | |
| Administrative | 6,142 | (81,732) |
| Utilities | (61,170) | (64,687) |
| Salaries and wages | (247,314) | (289,232) |
| Operating and maintenance | (265,349) | (182,117) |
| Property insurance | (11,366) | (11,478) |
| Miscellaneous taxes and insurance | (39,125) | (53,022) |
| Tenant security deposits | 213 | 25 |
| Interest payments - First mortgage | (11,691) | (24,609) |
| Total disbursements | <u>(629,660)</u> | <u>(706,852)</u> |
| Net cash and restricted cash provided by (used in) operating activities | 173,894 | (60,747) |
| Cash Flows from Investing Activities | | |
| Net purchase of fixed assets | <u>(85,050)</u> | <u>(42,500)</u> |
| Net cash and restricted cash used in investing activities | (85,050) | (42,500) |
| Cash Flows from Financing Activities | | |
| Principal payments - First mortgage | (147,715) | (134,798) |
| Proceeds from operating loss payable | <u>124,565</u> | <u>291,557</u> |
| Net cash and restricted cash (used in) provided by financing activities | <u>(23,150)</u> | <u>156,759</u> |
| Net Increase in Cash and Restricted Cash | 65,694 | 53,512 |
| Cash and Restricted Cash - Beginning of year | <u>385,226</u> | <u>331,714</u> |
| Cash and Restricted Cash - End of year | <u>\$ 450,920</u> | <u>\$ 385,226</u> |
| Classification of Cash and Restricted Cash | | |
| Cash - Operations | \$ 144,112 | \$ 97,095 |
| Tenant deposits held in trust | 5,404 | 5,221 |
| Restricted cash: | | |
| Replacement reserve | 300,638 | 282,156 |
| Residual receipts reserve | 766 | 754 |
| Total cash and restricted cash | <u>\$ 450,920</u> | <u>\$ 385,226</u> |

June 30, 2024 and 2023

Note 1 - Nature of Business

Ada S. McKinley Community Services, Inc. Group Homes (the "Project") is a component of Ada S. McKinley Community Services, Inc. (McKinley or the "Project Sponsor"), which was incorporated as an Illinois not-for-profit organization. Ada S. McKinley Group Homes (Samaritas) constructed five residential care facilities for the developmentally disabled on Chicago's South Side. The Project is operated under Section 811 of the National Affordable Housing Act and is regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental changes and operating methods. The Project receives a direct loan through Section 811. Legal title to the Project is held by McKinley. The accompanying financial statements are those of the Project and do not represent the financial statements of McKinley. The Project also is subject to a Section 8 housing assistance payments agreement with the U.S. Department of Housing and Urban Development, and a significant portion of the Project's rental income is received from HUD as a Section 8 rent subsidy.

Units that are designated for occupancy by eligible low-income tenants under a Section 8 Housing Assistance Payments Contract require tenants to contribute a portion of the contract rent based on formulas prescribed by the U.S. Department of Housing and Urban Development. Housing assistance payments are received for the balance of contract rent from HUD. The current contract expires on September 28, 2024 and was extended effective September 29, 2024 until September 30, 2025.

Note 2 - Significant Accounting Policies

Basis of Accounting

The Project maintains its accounting records and prepares its financial statements on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Project and is presented on the same basis of accounting as the financial statements. The information in this schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Regulatory Agreement

A Regulatory Agreement with HUD was signed in connection with the mortgage note. An instance of noncompliance was reported for the year ended June 30, 2024. There were no violations of this agreement noted for the year ended June 30, 2023.

Under the Regulatory Agreement, the Project may not increase rents charged to tenants without HUD's approval. In fiscal year 2023, gross rent increased from \$1,708 per unit to \$1,749 per unit. In fiscal year 2024, gross rent increased from \$1,749 per unit to \$1,852 per unit.

Restricted Deposits

Under the Regulatory Agreement, the Project is required to set aside amounts for the replacement of property and other project expenditures approved by HUD. The restricted deposits are held in separate accounts, which are insured by the Federal Deposit Insurance Corporation (FDIC) and generally are not available for operating purposes. The restricted deposit balances as of June 30, 2024 and 2023 are \$301,404 and \$282,910, respectively. During the period from September 2023 through February 2024, HUD approved a pause in required replacement reserve deposits.

June 30, 2024 and 2023

Note 2 - Significant Accounting Policies (Continued)

The residual receipts reserve can be withdrawn only upon consent of HUD. The excess residual receipts reserve is required to be remitted to HUD upon expiration of the project rental assistance contract. Excess residual receipts that are deemed probable to be paid to or recaptured by HUD are recorded as a liability. The excess residual receipts reserve was \$766 and \$754 at June 30, 2024 and 2023, respectively, and is included in miscellaneous current liabilities on the statement of financial position. Each year, the liability is adjusted to reflect current year activity to the residual receipts, including required deposits, earned interest, approved withdrawals, and any adjustments to the amounts deemed probable to be paid to or recaptured by HUD.

Deposits Held in Trust

In accordance with the Regulatory Agreement with HUD, the Project is required to maintain a tenant security deposit trust account. The amount must at all times be equal to or exceed the aggregate of all outstanding obligations to tenants for refundable security deposits. Regulations require that security deposits be segregated from the general funds of the Project. Accordingly, the Project holds all security deposits in a separate interest-bearing account.

Impairment of Assets

The Project recognizes impairment of long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. No impairment of the Project's rental property has occurred.

Classification of Net Assets

Net assets of the Project are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Project.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Project or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

All net assets of the Project at June 30, 2024 and 2023 are considered net assets without donor restrictions.

Property and Equipment

Depreciation is computed using the straight-line method. The Project's policy is to capitalize all fixed asset purchases greater than \$1,000. Assets are recorded at cost. Depreciation is straight line based on the estimated useful lives of the assets as follows: 39 years for buildings, 5 years for equipment and fixtures, and 5 years for furniture.

Income Taxes

No provision for income taxes has been included in the financial statements since the Project Sponsor is a not-for-profit corporation and is exempt from such taxes under Section 501(c)(3) of the Internal Revenue Code. The Project Sponsor is also exempt from Illinois taxes.

Distributions

The Project's Regulatory Agreement with HUD prohibits the distribution of assets or income to any officers or directors unless approved by HUD.

Notes to Financial Statements

June 30, 2024 and 2023

Note 2 - Significant Accounting Policies (Continued)

Rental Income

The Project records apartment rentals at gross potential rent, as prescribed by HUD. Rental value of vacancies is stated separately to present net rental income on the accrual basis. The Project typically rents apartments under one-year leases, which are accounted for as operating leases.

Units that are designated for occupancy by eligible low-income tenants under a Section 8 Housing Assistance Payment Contract require tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development. Housing assistance payments are received for the balance of contract rent from HUD. The current contract expires on September 28, 2024.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 7. All expenses reported are directly identified as relating to program or support services and, therefore, are not allocated to more than one program or supporting function. Although this method used is considered appropriate, other methods could be used that would produce different amounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 26, 2024, which is the date the financial statements were available to be issued.

Note 3 - Long-term Debt

Long-term debt at June 30 is as follows:

| | 2024 | 2023 |
|---|-----------|------------|
| The Project has a 40-year Section 811 award from the U.S. Department of Housing and Urban Development, payable in monthly installments of \$13,284, including interest at 9.25 percent based on 454-month amortization, with the final payment due in October 2024. Under this commitment, McKinley constructed five residential care facilities for the developmentally disabled on Chicago's South Side. The award is collateralized by the land and building of the Project. The mortgage imposes certain conditions on the Project, including, among others, prescribed operating policies, preventing any other liens or encumbrances on project property, and limitations on project distribution | \$ 44,356 | \$ 192,071 |
| Less current portion | 44,356 | 147,889 |
| Long-term portion | \$ - | \$ 44,182 |

The balance of the above debt of \$44,356 matures in fiscal year 2025.

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Notes to Financial Statements

June 30, 2024 and 2023

Note 3 - Long-term Debt (Continued)

Interest expense for the years ended June 30, 2024 and 2023 was \$11,691 and \$24,609, respectively.

Note 4 - Related Party Transactions

The Project entered into an agreement with McKinley for management of the Project. Certain operating expenses have been financed through advances from McKinley. Additionally, the Project pays an annual management fee to McKinley. The management fee was calculated at 4.5129 percent of residential income, which has been approved by HUD.

Amounts paid or payable to McKinley are as follows:

| | 2024 | 2023 |
|--|-------------------|-------------------|
| Management consultants | \$ 371 | \$ - |
| Management fee | 41,688 | 40,008 |
| Accrued management fee payable | 226,064 | 184,376 |
| Accounting/Bookkeeping | 4,320 | 4,320 |
| Other renting expenses | 2,581 | 5,326 |
| Service coordinator | 86,516 | 72,852 |
| Janitorial service | 63,795 | 62,352 |
| Office salaries | 97,003 | 154,028 |
| Payroll taxes (FICA) | 12,206 | 16,647 |
| Workers' compensation | 5,275 | 7,588 |
| Health insurance and other employee benefits | 21,644 | 28,787 |
| Total | <u>\$ 561,463</u> | <u>\$ 576,284</u> |

The Project Sponsor does pay for other direct expenses of the Project as necessary. As of June 30, 2024 and 2023, the Project had a payable to the Project Sponsor, Ada S. McKinley, in the amount of \$1,690,406 and \$1,513,676 (of which \$867,531 and \$742,966 is classified as miscellaneous long-term liabilities), respectively. As of June 30, 2024 and 2023, the Project had management fees payable in the amount of \$226,064 and \$184,376, respectively.

The Project also has an owner advance payable to the Project Sponsor in the amount of \$463,165 as of June 30, 2024 and 2023. The advance is unsecured and has no stated maturity date. Under the Regulatory Agreement, this amount is only payable with surplus cash.

Note 5 - Current Vulnerability Due to Certain Concentrations

The Project's operations are concentrated in providing housing to people with disabilities. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including additional administrative burden, to comply with a change.

Note 6 - Liquidity and Availability of Resources

The Project has \$144,112 and \$97,095 of financial assets available within one year of June 30, 2024 and 2023, respectively, to meet cash needs for general expenditure consisting of cash. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Notes to Financial Statements

June 30, 2024 and 2023

Note 6 - Liquidity and Availability of Resources (Continued)

The Project manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. The Project maintains financial assets on hand to meet 60 days of normal operating expenses. In addition, the Project maintains funds in a reserve for replacement and a residual receipts reserve. These funds are used for the benefit of the tenants and/or the Project and are required by HUD. The funds may be withdrawn only with the approval of HUD.

Note 7 - Functional Expenses

The Project provides various services to its tenants. Expenses related to providing these services are as follows for the years ended June 30:

| | 2024 | 2023 |
|--|------------|------------|
| Administrative expenses | \$ 205,960 | \$ 292,147 |
| Utilities expenses | 61,170 | 64,687 |
| Operating and maintenance expenses | 329,144 | 244,469 |
| Taxes and insurance | 50,491 | 64,500 |
| Financial expenses | 11,691 | 24,609 |
| Depreciation | 47,356 | 47,935 |
| Total | 705,812 | 738,347 |
| Support services - Management and general activities - Administrative expenses: | | |
| Conventions and meetings | 2,403 | 6,980 |
| Management consultants | 371 | - |
| Management fee | 41,688 | 40,008 |
| Auditing expenses | 2,800 | 20,352 |
| Bookkeeping fees/Accounting services | 4,320 | 4,320 |
| Miscellaneous administrative expenses | 13,688 | 11,726 |
| Total support services - Management and general activities - Administrative expenses | 65,270 | 83,386 |
| Total | \$ 771,082 | \$ 821,733 |

The costs of providing the program and support services are reported on a functional basis. Costs are allocated between the various program and support services on an actual basis, where available, or based upon reasonable methods. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

We have audited the financial statements of HUD Project No. 071-EH224, Ada S. McKinley Community Services, Inc. Group Homes, as of and for the year ended June 30, 2024 and have issued our report thereon dated September 26, 2024, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements of Ada S. McKinley Community Services, Inc. Group Homes taken as a whole. The accompanying supplemental information, including the schedule of expenditures of federal awards, is presented for the purpose of additional analysis, as required by HUD and the Uniform Guidance, and is not a required part of the financial statements. For the purpose of electronic submission to the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), the supplemental information is also deemed to include the financial data template information presented in the statement of financial position and the statements of activities, changes in deficiency in net assets, and cash flows. 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.

Plante & Moran, PLLC

September 26, 2024

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Financial Position Data

| | | June 30, 2024 |
|---|---|--------------------------|
| Assets | | |
| Current Assets | | |
| 1120 | Cash - Operations | \$ 144,112 |
| 1100T | Total current assets | 144,112 |
| Deposits - Held in Trust | | |
| 1191 | Tenant deposits held in trust | 5,404 |
| Deposits - Funded | | |
| 1320 | Replacement reserve | 300,638 |
| 1340 | Residual receipts reserve | 766 |
| 1300T | Total deposits - Funded | 301,404 |
| Fixed Assets | | |
| 1410 | Land and land improvements | 84,057 |
| 1420 | Buildings and building improvements | 2,659,335 |
| 1440 | Building equipment (portable) | 31,560 |
| 1400T | Total fixed assets | 2,774,952 |
| 1495 | Accumulated depreciation | (2,397,016) |
| 1400N | Net fixed assets | 377,936 |
| 1000T | Total assets | <u><u>\$ 828,856</u></u> |
| Liabilities and Deficiency in Net Assets | | |
| Current Liabilities | | |
| 2110 | Accounts payable - Operations | \$ 822,875 |
| 2123 | Accrued management fee payable | 226,064 |
| 2131 | Accrued interest payable - First mortgage | 13,284 |
| 2170 | Mortgage payable - First mortgage | 44,356 |
| 2190 | Miscellaneous current liabilities (residual receipts liability) | 766 |
| 2122T | Total current liabilities | 1,107,345 |
| Deposits - Held in Trust (Contra) | | |
| 2191 | Tenant deposits held in trust (contra) | 4,963 |
| Long-term Liabilities | | |
| 2323 | Other loans and notes payable - Surplus cash | 463,165 |
| 2390 | Miscellaneous long-term liabilities | 867,531 |
| 2300T | Total long-term liabilities | 1,330,696 |
| 2000T | Total liabilities | 2,443,004 |
| Deficiency in Net Assets | | |
| 3131 | Deficiency in net assets without donor restrictions | (1,614,148) |
| 3130 | Total deficiency in net assets | (1,614,148) |
| 2033T | Total liabilities and deficiency in net assets | <u><u>\$ 828,856</u></u> |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Activities Data

Year Ended June 30, 2024

| | | | |
|-------|---|----|-----------------|
| | Rent Revenue | | |
| 5120 | Rent revenue - Gross potential | \$ | 232,694 |
| 5121 | Tenant assistance payments | | <u>647,543</u> |
| 5100T | Total rent revenue (potential at 100 percent occupancy) | | 880,237 |
| | Vacancies | | |
| 5220 | Apartments | | <u>(88,533)</u> |
| 5200T | Total vacancies | | <u>(88,533)</u> |
| 5152N | Net rent revenue (rent revenue less vacancies) | | 791,704 |
| | Financial Revenue | | |
| 5430 | Investments - Residual receipts | | 12 |
| 5440 | Investments - Replacement reserve | | <u>11,826</u> |
| 5400T | Total financial revenue | | <u>11,838</u> |
| 5000T | Total revenue | | 803,542 |
| | Administrative Expenses | | |
| 6203 | Conventions and meetings | | 2,403 |
| 6204 | Management consultants | | 371 |
| 6250 | Other renting expenses | | 2,581 |
| 6310 | Office salaries | | 97,003 |
| 6311 | Office expenses | | 19,860 |
| 6320 | Management fee | | 41,688 |
| 6330 | Manager or superintendent salaries | | 86,516 |
| 6350 | Auditing expenses | | 2,800 |
| 6351 | Bookkeeping fees/Accounting services | | 4,320 |
| 6390 | Miscellaneous administrative expenses | | <u>13,688</u> |
| 6263T | Total administrative expenses | | 271,230 |
| | Utilities Expenses | | |
| 6450 | Electricity | | 29,852 |
| 6451 | Water | | 6,104 |
| 6452 | Gas | | <u>25,214</u> |
| 6400T | Total utilities expenses | | 61,170 |
| | Operating and Maintenance Expenses | | |
| 6510 | Payroll | | 63,795 |
| 6515 | Supplies | | 19,067 |
| 6520 | Contracts | | 116,405 |
| 6525 | Garbage and trash removal | | 56,357 |
| 6530 | Security payroll/Contract | | 12,314 |
| 6546 | Heating/Cooling repairs and maintenance | | 31,901 |
| 6548 | Snow removal | | 25,245 |
| 6570 | Vehicle and maintenance equipment operation and repairs | | 2,034 |
| 6590 | Miscellaneous operating and maintenance expenses | | <u>2,026</u> |
| 6500T | Total operating and maintenance expenses | | 329,144 |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Activities Data (Continued)

Year Ended June 30, 2024

| | | | |
|-------|---|-----------|-----------------------------|
| | Taxes and Insurance | | |
| 6711 | Payroll taxes (FICA) | \$ | 12,206 |
| 6720 | Property and liability insurance (hazard) | | 11,366 |
| 6722 | Workers' compensation | | 5,275 |
| 6723 | Health insurance and other employee benefits | | <u>21,644</u> |
| 6700T | Total taxes and insurance | | 50,491 |
| | Financial Expenses | | |
| 6820 | Interest on first mortgage payable | | <u>11,691</u> |
| 6800T | Total financial expenses | | <u>11,691</u> |
| 6000T | Total costs of operations before depreciation | | <u>723,726</u> |
| 5060T | Change in Net Assets before Depreciation | | 79,816 |
| 6600 | Depreciation Expense | | <u>47,356</u> |
| 3250 | Change in Total Net Assets | \$ | <u><u>32,460</u></u> |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Activities Data (Continued)

Supplemental Information
Year Ended June 30, 2024

| | | | | |
|-----------|---|--|----|---------|
| S1000-010 | 1 | Total principal required under the mortgage, even if payments under a workout agreement are less or more than those required under the mortgage | \$ | 147,715 |
| S1000-020 | 2 | Replacement reserve deposits required by the Regulatory Agreement or amendments thereto, even if payments may be temporarily suspended or waived | | 41,713 |
| S1000-030 | 3 | Replacement reserve or residual receipt releases that are included as expense items on this profit and loss statement | | 14,099 |
| S1000-040 | 4 | Project improvement reserve releases under the flexible subsidy program that are included as expense items on this profit and loss statement | | 0 |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Changes in Deficiency in Net Assets Data

Year Ended June 30, 2024

| | | |
|-----------|---|------------------------------|
| S1100-050 | Deficiency in Net Assets - July 1, 2023 | \$ (1,646,608) |
| 3250 | Decrease in deficiency in net assets | <u>32,460</u> |
| 3130 | Deficiency in Net Assets - June 30, 2024 | <u><u>\$ (1,614,148)</u></u> |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Statement of Cash Flows Data

Year Ended June 30, 2024

| Cash Flows from Operating Activities | | |
|---|--|-------------------|
| | Receipts: | |
| S1200-010 | Rental | \$ 791,704 |
| S1200-020 | Interest | 11,838 |
| S1200-025 | Miscellaneous financial | 12 |
| | | <hr/> |
| S1200-040 | Total receipts | 803,554 |
| | Disbursements: | |
| S1200-050 | Administrative | 6,142 |
| S1200-090 | Utilities | (61,170) |
| S1200-100 | Salaries and wages | (247,314) |
| S1200-110 | Operating and maintenance | (265,349) |
| S1200-140 | Property insurance | (11,366) |
| S1200-150 | Miscellaneous taxes and insurance | (39,125) |
| S1200-160 | Tenant security deposits | 213 |
| S1200-180 | Interest payments - First mortgage | (11,691) |
| | | <hr/> |
| S1200-230 | Total disbursements | (629,660) |
| S1200-240 | Net cash provided by operating activities | 173,894 |
| | Cash Flows from Investing Activities | |
| S1200-250 | Net deposit to the reserve for replacement account | (18,665) |
| S1200-260 | Net deposit to the residual receipts account | (12) |
| S1200-330 | Net purchase of fixed assets | (85,050) |
| | | <hr/> |
| S1200-350 | Net cash used in investing activities | (103,727) |
| | Cash Flows from Financing Activities | |
| S1200-360 | Principal payments - First mortgage | (147,715) |
| S1200-405 | Proceeds from operating loss loans | 124,565 |
| | | <hr/> |
| S1200-460 | Net cash used in financing activities | (23,150) |
| S1200-470 | Net Increase in Cash | 47,017 |
| S1200-480 | Cash - Beginning of year | 97,095 |
| | | <hr/> |
| S1200T | Cash - End of year | \$ 144,112 |
| | | <hr/> <hr/> |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Supplemental Information

Year Ended June 30, 2024

1. Schedule of Reserve for Replacements

In accordance with the provisions of the Regulatory Agreement, restricted cash is held by BMO Harris Bank N.A. to be used for replacement of property with the approval of HUD as follows:

| | | |
|---------|-----------------------------------|--------------------------|
| 1320P | Balance - July 1, 2023 | \$ 282,156 |
| 1320DT | Monthly deposits (\$3,391.57 x 2) | 6,783 |
| 1320DT | Monthly deposits (\$3,493.00 x 4) | 13,972 |
| 1320INT | Interest | 11,826 |
| 1320WT | Approved withdrawals | <u>(14,099)</u> |
| 1320 | Balance - June 30, 2024 | <u><u>\$ 300,638</u></u> |

2. Schedule of Residual Receipts

In accordance with the provisions of the Regulatory Agreement, surplus cash is calculated per the HUD formula and deposited into the residual receipts account. Restricted cash is held by BMO Bank NA to be used for any project purpose with the approval of HUD as follows:

| | | |
|---------|--------------------------------|----------------------|
| 1340P | Balance - July 1, 2023 | \$ 754 |
| 1340INT | Interest | <u>12</u> |
| 1340 | Balance - June 30, 2024 | <u><u>\$ 766</u></u> |

3. Computation of Surplus Cash - Form HUD 93486 - See attached

4. Schedule of Changes in Fixed Asset Accounts - See attached

5. Schedule of 5300 Accounts - N/A

6. Schedule of 6900 Accounts - N/A

7. Nursing Home Data - N/A

8. Detail of Accounts:

| | | |
|------|----------------------------|--------------------------|
| 2390 | Long-term accounts payable | <u><u>\$ 867,531</u></u> |
|------|----------------------------|--------------------------|

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Schedule of Changes in Fixed Asset Accounts

Year Ended June 30, 2024

| | | Assets | | | Accumulated Depreciation | | | | Net Book Value | |
|--------------|-------------------------------------|-------------------------|------------------|-------------|--------------------------|-------------------------|----------------------|-------------|--------------------------|-------------------|
| | | Balance July 1, 2023 | Additions | Deductions | Balance June 30, 2024 | Balance July 1, 2023 | Current Provision | Deductions | Balance June 30, 2024 | June 30, 2024 |
| 1410 | Land and land improvements | \$ 84,057 | \$ - | \$ - | \$ 84,057 | \$ - | \$ - | \$ - | \$ - | \$ 84,057 |
| 1420 | Buildings and building improvements | 2,574,285 | 85,050 | - | 2,659,335 | 2,318,100 | 47,356 | - | 2,365,456 | 293,879 |
| 1440 | Building equipment (portable) | 31,560 | - | - | 31,560 | 31,560 | - | - | 31,560 | - |
| Total | | \$ 2,689,902 | \$ 85,050 | \$ - | \$ 2,774,952 | \$ 2,349,660 | \$ 47,356 | \$ - | \$ 2,397,016 | \$ 377,936 |

Fixed Asset Addition Detail:

Flooring renovations \$ 85,050

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2024

| <u>Federal Agency/Pass-through Agency/Program Title</u> | <u>Assistance Listing Number</u> | <u>Federal Expenditures</u> |
|---|--------------------------------------|---------------------------------|
| U.S. Department of Housing and Urban Development: | | |
| Supportive Housing for the Elderly | 14.157 | \$ 192,071 |
| Section 8 Housing Assistance Payments Program | 14.195 | <u>647,543</u> |
| Total federal awards | | <u>\$ 839,614</u> |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Computation of Surplus Cash

| | | June 30, 2024 |
|----------------------------|--|----------------------|
| S1300-010 | Cash | \$ 149,516 |
| S1300-040 | Total cash | 149,516 |
| Current Obligations | | |
| S1300-050 | Accrued mortgage (or bond) interest payable | 13,284 |
| S1300-075 | Accounts payable - 30 days | 822,875 |
| S1300-100 | Accrued expenses (not escrowed) | 226,064 |
| 2191 | Tenant/Patient deposits held in trust (contra) | 4,963 |
| S1300-140 | Total current obligations | 1,067,186 |
| S1300-150 | Surplus cash (deficiency) | \$ (917,670) |
| S1300-210 | Deposit due residual receipts | \$ - |

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*

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Ada S. McKinley Community Services, Inc. Group Homes (the "Project"), which comprise the statement of financial position as of June 30, 2024 and the related statements of activities, changes in deficiency in net assets, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 26, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Project's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project'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 Project's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

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 Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moreau, PLLC

September 26, 2024

Report on Compliance for Each Major Federal
Program and Report on Internal Control Over
Compliance Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required
by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Ada S. McKinley Community Services, Inc. Group Homes' (the "Project") compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Project's major federal programs for the year ended June 30, 2024. The Project's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Project complied, in all material respects, with the 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, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Project and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Project's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Project's federal programs.

To the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Project's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Project's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Project's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Project's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Project's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be recorded in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2024-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Project's response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The Project's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

To the Board of Directors
Ada S. McKinley Community Services, Inc.
Group Homes

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2024-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Project's response to the internal control over compliance finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Project's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on it.

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.

Plante & Moran, PLLC

September 26, 2024

Schedule of Findings and Questioned Costs

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Schedule of Findings and Questioned Costs

Year Ended June 30, 2024

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? X Yes _____ No

Identification of major programs:

| Assistance Listing Number | Name of Federal Program or Cluster | Opinion |
|---------------------------|--|------------|
| 14.157 | U.S. Department of Housing and Urban Development - Supportive Housing for the Elderly | Unmodified |
| 14.195 | U.S. Department of Housing and Urban Development - Section 8 Housing Assistance Payments Program | Unmodified |

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Audit Findings

| Reference Number | Finding | Questioned Costs |
|---------------------|---------|------------------|
| Current Year | None | |
| Reference Number | Finding | Questioned Costs |
| Prior Year | None | |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2024

Section III - Federal Program Audit Findings

| Reference Number | Finding | Questioned Costs |
|---------------------|--|------------------|
| 2024-001 | <p>Finding Type:</p> <ul style="list-style-type: none"> - Immaterial noncompliance with major program requirements - Significant deficiency in internal control over compliance <p>Title and Assistance Listing Number of Federal Program - U.S. Department of Housing and Urban Development - Supportive Housing for the Elderly - 14.157</p> <p>Finding Resolution Status - Resolved</p> <p>Information on Universe and Population Size - Allowable costs incurred and expensed by the Project for the year ended June 30, 2024</p> <p>Sample Size Information - 25 allowable costs incurred and expensed by the Project for the year ended June 30, 2024.</p> <p>Identification of Repeat Finding and Finding Reference Number- N/A</p> <p>Criteria - The Project should incur allowable costs that are only associated to the Project for the year ended June 30, 2024.</p> <p>Statement of Condition - Expenditures totaling \$9,250 were improperly charged to the improper project during the year ended June 30, 2024.</p> <p>Cause - The Project failed to timely review proper location and address for expenditures incurred and recorded expenditures for improper project.</p> <p>Effect or Potential Effect - Expenditures were initially understated during the year ended June 30, 2024.</p> <p>Auditor Noncompliance Code - S - Internal Control Deficiency</p> <p>Reporting Views of Responsible Officials - Effective controls should exist to ensure that incurred expenses are being recorded in the proper project. Management has corrected the expenses reported for the project.</p> <p>Context - The Project failed to timely review proper location and address for the expenditure incurred and initially recorded the expenditure incurred in a different project.</p> <p>Recommendation - The Project needs to review internal controls to ensure that all expenses are being properly recorded in the proper project for which service is performed and determine if any modifications to stated controls are needed.</p> | None |
| 2024-001 (Cont.) | <p>Auditor's Summary of the Auditee's Comments on the Findings and Recommendations - Management should establish a timely review of all invoices and services incurred or purchased to ensure proper cutoff and coding.</p> <p>Response Indicator - Agree</p> | |

Ada S. McKinley Community Services, Inc. Group Homes
HUD Project No. 071-EH224

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2024

Section III - Federal Program Audit Findings (Continued)

| Reference Number | Finding | Questioned Costs |
|---------------------|---------|---------------------|
|---------------------|---------|---------------------|

Completion Date - September 26, 2024

Response - Management acknowledges noncompliance in the current fiscal year and has taken measures to improve internal controls over compliance.

| Reference Number | Finding | Questioned Costs |
|---------------------|---------|---------------------|
|---------------------|---------|---------------------|

Prior Year None



HONORING THE LEGACY

**ADA S. MCKINLEY
COMMUNITY SERVICES, INC**

Administrative Office
1359 West Washington Boulevard
Chicago, IL 60607-1905
(312) 554-0600 Phone
(312) 554-2518 Fax
(312) 67-6794 TDD

Re: Planned Corrective Action
Ada S. McKinley Community Services, Inc. Group Homes, HUD Project No. 071-EH224

Section III - Federal Program Audit Findings

Finding Number: 2024-001

Statement of Condition - Expenditures totaling \$9,250 were improperly charged to the improper Project during the year ended June 30, 2024.

Planned Corrective Action - We concur with the finding expenditures totaling \$9,250 which should have been charged to this Project were improperly charged to a separate Project during the year ended June 30, 2024. This Project and the separate Project are located on the same street which contributed to the error. The Finance team currently reviews and will continue to review invoices charged to each Project to ensure invoices are charged to the proper Project.

Contact person responsible for corrective action – Brian Grundy

Completion Date – September 30, 2024