

**NATIONAL ASSOCIATION FOR LATINO
COMMUNITY ASSET BUILDERS**

**Consolidated Financial Statements
and Additional Information**

December 31, 2016

With Independent Auditor's Report Thereon

**NATIONAL ASSOCIATION FOR LATINO
COMMUNITY ASSET BUILDERS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
National Association for Latino
Community Asset Builders

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Association for Latino Community Asset Builders (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Association for Latino Community Asset Builders as of December 31, 2016, 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

Report on Supplementary Information

The Schedules of Consolidating Statement of Financial Position and Consolidating Statement of Activities (Schedules 1 & 2, pages 21 & 22) are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards (Schedule 3, page 23), is presented for purposes of additional analysis 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* and is not a required part of the basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly presented in all material respects in relation to the consolidated financial statements as a whole.

Report on Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2017 on our consideration of National Association for Latino Community Asset Builders internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



June 19, 2017

**National Association for Latino Community Asset Builders
and Subsidiaries and Affiliates
Consolidated Statement of Financial Position
December 31, 2016**

Assets

Current Assets:

Cash and cash equivalents	\$	2,114,347
Cash restricted for loan fund		320,141
Receivables		574,442
Promises to give		525,000
Notes receivable		1,008,594
Accrued interest receivable		2,443
Federal income tax refund receivable		3,694
Prepaid expenses		12,796
Deposits		13,416
		13,416
Total current assets		4,574,873

Property and Equipment:

Land and land improvements	480,000
Building and improvements	1,328,492
Furniture and equipment	239,763
Total property and equipment	2,048,255
Less accumulated depreciation	(152,115)
Net property and equipment	1,896,140

Other Assets:

Property under development	837,642
Tenant and security deposits held	2,998
Total other assets	840,640
Total assets	\$ 7,311,653

See accompanying notes to financial statements

**National Association for Latino Community Asset Builders
and Subsidiaries and Affiliates
Consolidated Statement of Financial Position
December 31, 2016**

Liabilities and net assets

Current liabilities:

Accounts payable	\$	276,437
Accrued expenses		12,828
Deferred revenue		38,499
Tenant security deposits held		3,948
Federal income tax payable		1,200
Current portion of long-term debt		67,341
Total current liabilities		400,253

Long-term debt, net of current portion

882,470

Total liabilities

1,282,723

Net assets:

Net assets, attributable to NALCAB

Unrestricted		1,672,438
Temporarily restricted		2,473,828
Total net assets attributable to NALCAB		4,146,266

Net assets, attributable to non-controlling interests - unrestricted

1,882,664

Total net assets

6,028,930

Total liabilities and net assets

\$ 7,311,653

See accompanying notes to financial statements

**National Association for Latino Community Asset Builders
and Subsidiaries and Affiliates
Consolidated Statement of Activities
For the Year Ended December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and other operating revenue:			
Contract and grants from:			
Federal grants	\$ 1,143,084	400,000	1,543,084
Other contributions and grants	89,070	3,430,000	3,519,070
Net assets released from restrictions	2,309,231	(2,309,231)	-
Total contracts and grants funding	<u>3,541,385</u>	<u>1,520,769</u>	<u>5,062,154</u>
Program service revenue	302,375	-	302,375
Rental income	124,203	-	124,203
Interest income	4,215	-	4,215
Other income	1,769	-	1,769
Total support and revenues	<u>3,973,947</u>	<u>1,520,769</u>	<u>5,494,716</u>
Expenses:			
Capacity building and development services	2,227,940	-	2,227,940
Leadership development and training	379,274	-	379,274
Policy	271,673	-	271,673
Social investments	168,759	-	168,759
Commercial leasing activity	45,201	-	45,201
Supporting services:			
Management and general	672,837	-	672,837
Fundraising	54,622	-	54,622
Total expenses	<u>3,820,306</u>	<u>-</u>	<u>3,820,306</u>
Change in net assets	153,641	1,520,769	1,674,410
Net assets, beginning of year	3,033,057	953,059	3,986,116
Capital contributions	412,954	-	412,954
Offering expenses	(44,550)	-	(44,550)
Net assets, end of year	<u>\$ 3,555,102</u>	<u>2,473,828</u>	<u>6,028,930</u>
Change in net assets, attributable to NALCAB			
Net assets, beginning of year	\$ 1,474,288	953,059	2,427,347
Change in net assets	214,605	1,520,769	1,735,374
Offering expenses	(16,455)	-	(16,455)
Net assets, end of year	<u>1,672,438</u>	<u>2,473,828</u>	<u>4,146,266</u>
Change in net assets, attributable to non-controlling interests			
Unrestricted net assets, beginning of year	1,558,769	-	1,558,769
Change in net assets	(60,964)	-	(60,964)
Capital contributions	412,954	-	412,954
Offering expenses	(28,095)	-	(28,095)
Unrestricted net assets, end of year	<u>1,882,664</u>	<u>-</u>	<u>1,882,664</u>
Total net assets	<u>\$ 3,555,102</u>	<u>2,473,828</u>	<u>6,028,930</u>

See accompanying notes to financial statements

**National Association for Latino Community Asset Builders
and Subsidiaries and Affiliates
Consolidated Statement of Cash Flows
Year Ended December 31, 2016**

Cash flow from operations:

Change in net assets	\$ 1,674,410
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	68,314
Basis of equipment sold	228
Non-cash reimbursement of organization and syndication costs	(75,000)
Non-cash organization costs	30,450
(Increase) decrease in assets:	
Receivables	(175,621)
Promises to give	(215,000)
Notes receivable	(1,008,594)
Accrued interest receivable	(2,442)
Federal income tax refund receivable	(3,694)
Prepaid expenses	(2,354)
Deposits	(12,938)
Tenant and security deposits held	(2,998)
(Decrease) increase in liabilities:	
Accounts payable	(95,686)
Accrued expenses	8,554
Tenant security deposits held	2,088
Federal income tax payable	1,200
Deferred revenue	(5,225)
Net cash provided by operations	<u>185,692</u>

Cash flows from investing activities:

Cash used for purchase of property and equipment	(52,403)
Cash used for purchase of property under development	(837,642)
Net cash provided by investing activities	<u>(890,045)</u>

Cash flows from financing activities:

Cash used to pay long-term debt	(64,080)
Proceeds from capital contributions	412,954
Net cash (used) provided by financing activities	<u>348,874</u>

Increase (decrease) in cash	(355,479)
Cash, beginning of year	<u>2,789,967</u>
Cash, end of year	\$ <u><u>2,434,488</u></u>

Supplemental disclosures:

Interest paid	\$ <u><u>50,384</u></u>
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See accompanying notes to financial statements

National Association for Latino Community Asset Builders and Subsidiaries and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	<u>Programs</u>					<u>Supporting Services</u>				
	<u>Capacity Building and Development Services</u>	<u>Leadership Development and Training</u>	<u>Policy</u>	<u>Social Investments</u>	<u>Total</u>	<u>Commercial Leasing Activity</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Grants	\$ 664,100	108,703	500	-	773,303	-	-	-	-	773,303
Salaries, benefits, and payroll taxes	943,045	90,079	145,100	37,236	1,215,460	1,040	561,908	46,856	608,764	1,825,264
Professional services	406,511	43,243	34,336	9,803	493,893	99	30,540	2,547	33,087	527,079
Management and administration	-	-	-	19,253	19,253	-	-	-	-	19,253
Travel	85,883	23,532	20,264	-	129,679	-	8,535	313	8,848	138,527
Conferences, conventions and meetings	7,288	104,692	5,512	-	117,492	-	10,966	211	11,177	128,669
Rent and building occupancy	15,181	1,450	39,083	-	55,714	6,540	9,045	754	9,799	72,053
Property operating expenses	-	-	-	34,866	34,866	-	-	-	-	34,866
Real estate taxes	-	-	-	17,641	17,641	6,567	-	-	-	24,208
Interest expense	18,333	1,751	2,821	7	22,912	15,638	10,923	911	11,834	50,384
Depreciation expense	21,829	2,085	3,359	18,345	45,618	8,604	13,007	1,085	14,092	68,314
Office expenses	25,867	2,025	3,813	858	32,563	-	12,631	1,053	13,684	46,247
Information technology	29,968	1,462	14,405	-	45,835	-	9,122	761	9,883	55,718
Staff and training development	7,292	-	2,073	-	9,365	-	4,585	-	4,585	13,950
Insurance	2,643	252	407	-	3,302	-	1,575	131	1,706	5,008
Organization costs	-	-	-	30,450	30,450	-	-	-	-	30,450
Federal and state income tax	-	-	-	300	300	6,713	-	-	-	7,013
Total expenses	\$ 2,227,940	379,274	271,673	168,759	3,047,646	45,201	672,837	54,622	727,459	3,820,306

See accompanying notes to financial statements

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 1 - Nature of Organization

National Association for Latino Community Asset Builders (NALCAB) is a non-profit member-based organization located in San Antonio, TX that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. NALCAB's mission is to build assets for Latino families, communities and organizations. Its work advances economic mobility for low and moderate income people. NALCAB is the national voice for a geographically and ethnically diverse group of Latino-led community development corporations (CDC's), community development finance institutions (CDFI's) and other community-based organizations that focus on asset building projects. NALCAB's members serve Latino communities by developing affordable housing, implementing economic development strategies, providing consumer education services and providing wealth-building products and services. NALCAB funds its programs through federal grants, foundation grants and donations.

NALCAB launched the NALCAB Catalyst Fund I, LLC (the Fund) in 2016, a controlled social investment fund organized to support the provision of affordable housing opportunities to low-income and minority individuals in locations that provide households with access to employment, quality education and health care resources, all important factors for advancing economic mobility. The Fund accomplishes its mission by acquiring and funding the development of single family and small multi-family real estate. The Fund is managed by Escalera Community Investments, LLC (Escalera), a wholly-owned subsidiary of NALCAB.

NALCAB is organized into the following programs:

Capacity Building/ Development Services for Non-Profits and Units of Government

The Capacity Building Program builds the capacity of NALCAB Network members, other non-profits and units of government to implement projects and programs that build assets in low- and moderate-income communities. NALCAB implements this work through grant-making, technical assistance, and the facilitation of peer-to-peer collaboration. The Capacity Building Program accounted for approximately 73% of total program expenditures for the year ended December 31, 2016.

Since 2011 NALCAB has made over \$6 million in grants to non-profit organizations and utilized over \$4 million in federal technical assistance funding (US HUD and SBA) to provide support to non-profits and local/state government agencies (urban and rural). NALCAB also hosts a national conference.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 1 - Nature of Organization (continued)

Leadership Development and Training

The Leadership Development and Training Program provides culturally-relevant training to practitioners in the field of economic development and seeks to build a pool of next generation leaders by hosting the NALCAB *Colegio* Fellowship Program for young and aspiring leaders. The Leadership Development and Training Program accounted for approximately 12% of total program expenditures for the year ended December 31, 2016. Since 2010 the NALCAB *Colegio* Fellowship Program has graduated 69 Fellows.

Policy

The Policy Program seeks to engage and inform NALCAB Network members, undertake research, and influence policy makers and institutions in furtherance of NALCAB's mission. The Policy Program accounted for approximately 9% of total program expenditures for the year ended December 31, 2016.

Social Investments

Through the Social Investments Program, NALCAB works in collaboration with its member network to invest capital in low- and moderate- income households and under-served communities. The Social Investments Program accounted for approximately 6% of total program expenditures for the year ended December 31, 2016. The program objectives are accomplished through the NALCAB Catalyst Fund I, LLC and its wholly-owned subsidiaries within the program. Current projects include:

Financing

An interest-bearing note made to a housing cooperative in Washington DC, to support the rehabilitation of affordable housing.

Development

An active real estate development project that includes the construction of forty-five new affordable single-family homes in San Antonio, TX.

Leasing

Several affordable residential multi-family-multi-use and single-family rentals in San Antonio, TX.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 2 - Significant Accounting Policies

Basis of Consolidation

NALCAB's policy is to consolidate its wholly-owned subsidiaries and those entities that are controlled by NALCAB. Investments in partnerships (and limited liability companies treated as partnerships) in which NALCAB has a controlling interest, or in which its wholly owned subsidiary Escalera is the managing member, and for which the presumption of control by managing member is not overcome, are consolidated. The accompanying consolidated financial statements include the following entities within each functional area:

Programs

National Association for Latino Community Asset Builders is the entity responsible for carrying out NALCAB's programmatic and asset-building mission.

Social Investments

NALCAB engages in lending, the development of affordable housing, and the operation of small multi-family and single-family housing developments through limited liability companies that are controlled by NALCAB or its subsidiaries. The entities that manage, hold, develop and operate these properties are **Escalera Community Investments, LLC**, NALCAB's wholly-owned subsidiary responsible for managing NALCAB's real estate economic development activities, and which serves as Managing Member of the **NALCAB Catalyst Fund I, LLC** and its subsidiaries; **NALCAB Catalyst Fund I, LLC**, the entity responsible for capitalizing, investing in and carrying out NALCAB's real estate economic development activities; **Ingram Road Investments, LLC**, and **3010 N. St. Mary's, LLC**, wholly-owned subsidiaries of the NALCAB Catalyst Fund I, LLC, that were established for the purpose of executing specific investment transactions on behalf of the Fund; and **NALCAB Network Investors, LLC (NNI)**, a partnership owned by NALCAB and three key association members, that was formed to provide seed capital for the Fund and to acquire and warehouse investments for the benefit of the Fund before its launch.

The consolidated financial statements include the assets, liabilities, net assets and financial activities of the entities described above. The interests owned by unaffiliated members and the three key association members who each own 20% of NNI are referred to in the accompanying consolidated financial statements as the non-controlling interest and represents various investor members' proportionate share of equity and net results from operations. Except as otherwise specified in the operating agreements, all items of income, expense, gain, loss, tax credits, tax preferences and cash are allocated to the partners based upon their ownership percentage.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 2 - Significant Accounting Policies (continued)

Basis of Consolidation (continued)

All material intercompany transactions and accounts have been eliminated in consolidation.

The consolidated statement of activities reports all changes in net assets, including changes in unrestricted net assets.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("GAAP"), including current pronouncements applicable to non-profit organizations.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, NALCAB's net assets and changes therein are classified and reported as follows:

Unrestricted net assets attributable to NALCAB – Net assets that are the remaining part of NALCAB's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Unrestricted net assets attributable to non-controlling interests - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets attributable to non-controlling interests consist of assets and contributions available for the support of Fund investments that are attributable to the ownership interests of third party investors in those properties.

Temporarily restricted net assets – Net assets that result from contributions and other inflow of assets that are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of NALCAB pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as temporarily restricted income and as net assets released from restrictions.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 2 - Significant Accounting Policies (continued)

Contributions

Contributions received are recorded as unrestricted or temporarily restricted support depending on the existence or nature of any donor restrictions.

Functional Expenses

NALCAB's costs for programs, supporting services and equity fund investments have been reported on a functional basis. This requires the allocation of certain costs among the various programs, supporting services and equity fund investments based on estimates made by management. For purposes of the statement of functional expenses, program services include all direct program expenses plus allocated indirect expenses determined by management to benefit programs operated by NALCAB.

Deferred Revenue

Income drawn from grant awards and not expensed is deferred and will be recognized in the periods in which expenses for the grant are incurred. Funds received in advance of performing fee-for-service contracts are deferred and will be recognized as revenue when the services are performed.

Syndication and Organization Costs

Syndication and organization costs of the Fund are expensed as incurred. **Syndication costs** represent costs incurred for the preparation and offering of the private placement memorandum. These costs are reflected as a direct reduction of partners' capital. **Organization costs** represent costs incident to the creation of the LLC and the preparation of the Operating Agreement. Approximately \$75,000 was incurred for syndication and organization costs in the initial year of the Fund.

Estimates

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

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 2 - Significant Accounting Policies (continued)

Estimates (continued)

NALCAB qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, is not subject to income tax. Certain unrelated business income, as defined in the IRC, is subject to federal income tax. For the year ended December 31, 2016, NALCAB had unrelated business income of \$39,500.

Income Taxes

NALCAB Catalyst Fund I, LLC and NALCAB Network Investors, LLC are limited liability companies that have elected to be treated as partnerships for federal income tax purposes and all taxable income and losses are allocated to the partners.

Cash and Cash Equivalents

For purpose of the statement of cash flows, NALCAB considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is stated at cost at date of acquisition or fair market value at the date of gift. All items over \$2,500 are capitalized. Depreciation on equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Land	None
Buildings and improvements	15-40 years
Land Improvements	15-20 years
Furniture, fixtures and equipment	5-12 years

Property under development

Property under development is recorded using the cost method. Costs associated with the acquisition, development and construction of property including property taxes, interest and insurance, are capitalized as a cost of the property. Property under development consists of costs to develop affordable homeownership or rental units in buildings that may also include retail or commercial space.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 3 – Cash and Restricted Cash

NALCAB and its affiliates maintain cash in bank deposit accounts which may, at times, exceed federally insured limits. NALCAB has not experienced any losses in such accounts and it monitors the credit-worthiness of the financial institutions with which it conducts business. Management does not perceive any significant credit risk on its cash, cash equivalents and other deposits at December 31, 2016.

Note 4 – Receivables and Promises to Give

Receivables and promises to give consist of the following:

	<u>2016</u>
Federal grants	\$ 518,442
Foundations	525,000
Other organizations	<u>56,000</u>
Total	\$ <u>1,099,442</u>

NALCAB considers accounts receivable to be fully collectible. Therefore, no allowance for doubtful accounts is reported.

Note 5 – Notes Receivable

In 2016 the Catalyst Fund advanced (\$928,668) on a \$1,000,000 promissory note due from an unaffiliated organization. Interest rate on the note is 8%, not compounded. The maturity date is December 19, 2017. The note receivable is secured by real estate.

During 2014 NALCAB received grant funding from the Department of Housing and Urban Development to establish a revolving loan fund in the amount of \$400,000 to fund rural projects. The funds were loaned under one note agreement in 2016. The outstanding balance of the loan was \$79,926 at December 31, 2016. Loans made with funds from HUD bear no interest.

Note 6 - Property Under Development

The Fund has a development project for the construction and sale of 45 single-family homes to mixed income individuals and families in San Antonio, TX. Predevelopment activities commenced in 2016, and construction is expected begin in mid to late 2017. Total development and construction costs are expected to be \$5.9 million.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 7 – Property and Equipment

Property and equipment, partially pledged, consisted of the following at December 31, 2016:

<u>NALCAB</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Life</u>	<u>Method</u>
Land	\$ 280,000	-	280,000	-	-
Building and improvements	881,365	65,760	815,605	30 yrs	S/L
Furniture, fixtures and equipment	<u>221,763</u>	<u>67,905</u>	<u>153,858</u>	5-30 yrs	S/L
	<u>1,383,128</u>	<u>133,665</u>	<u>1,249,463</u>		

<u>Rental Properties</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Life</u>	<u>Method</u>
Land and land improvements	200,000	-	200,000	-	-
Building and improvements	447,127	13,039	434,088	15-40 yrs	S/L
Furniture, fixtures and equipment	<u>18,000</u>	<u>5,411</u>	<u>12,589</u>	5-12 yrs	Various
	<u>665,127</u>	<u>18,450</u>	<u>646,677</u>		
TOTALS	\$ <u>2,048,255</u>	<u>152,115</u>	<u>1,896,140</u>		

Depreciation expense for the year was \$68,314.

Note 8 – Investment in Partnership

Pursuant to a \$6 million grant received from JP Morgan Chase Foundation, NALCAB and three key NALCAB members (NALCAB CDFI Cluster) entered an agreement to capitalize a new controlled equity fund (the Fund) to produce and preserve affordable housing opportunities that advance economic mobility for low- and moderate-income households in predominately Latino communities. Preceding the launch of the Fund, the NALCAB CDFI Cluster contributed \$2.6 million to form NALCAB Network Investors, LLC (NNI), to provide seed capital for the fund, to establish their ownership stakes in the Fund, and to acquire and warehouse investments for the benefit of the Fund. The Fund was formed in May of 2016 and was launched on September 23, 2016 with the following capital commitments:

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 8 – Investment in Partnership (continued)

		Total Commitments	Funded at 12/31/16	Unfunded at 12/31/16
NNI	\$	2,548,470	2,063,533	484,937
Other Members		<u>685,000</u>	<u>554,654</u>	<u>130,346</u>
Total	\$	<u>3,233,470</u>	<u>2,618,187</u>	<u>615,283</u>

\$630,184 of NNI’s funded capital contributions were satisfied through assignment of its 100% membership interest in 3010 N. St. Mary’s, LLC (the sole warehoused investment) to the Fund.

In addition, \$75,000 of NALCAB’s capital contributions were satisfied in lieu of reimbursement for syndication and organization costs it incurred on behalf of the fund.

Note 9 - Related Party Transactions

NALCAB considers Escalera Community Investments, LLC, the NALCAB Catalyst Fund I, LLC, NALCAB Network Investors, LLC, members of management, boards or committees, members of their immediate families, and entities under common control to be related parties. Amounts due from and due to related parties are generally settled in the normal course of business without formal payment terms.

In the ordinary course of business, NALCAB provided sub-grants to member organizations who have representation on the Board of NALCAB. During the year ended December 31, 2016, grants to member organizations amounted to \$184,650.

In connection with the management of the NALCAB Catalyst Fund I, LLC, and NALCAB Network Investors, LLC, Escalera was paid management fees of \$42,932 in 2016.

Certain non-controlling Fund Members are related parties of NALCAB. The aggregate value of non-controlling Members’ capital owned by related parties at December 31, 2016 is approximately \$493,847.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 10 – Deferred Revenue

NALCAB records grant awards accounted for as exchange transactions and advances on fee-for-service contracts as deferred revenue until related services are performed, at which time they are recognized as revenue. The activity in the deferred revenue account is reported as follows:

Deferred revenue, beginning of year	\$ 43,724
Grant awards and other advances	237,104
Performance on grants and contracts	<u>(242,329)</u>
Deferred revenue, end of year	\$ <u>38,499</u>

In addition to deferred revenue, NALCAB has nine grant awards on which it has the availability to draw \$5,101,493 at December 31, 2016.

Note 11 – Federal Grants

Federal grants were as follows:

<u>Name of Grant</u>	<u>2016</u>
HUD-Community Compass 2015	\$ 23,434
HUD OneCPD 2011	189,764
HUD-Fair Housing Initiative Program	441,707
HUD Rural Capacity Building	693,623
SBA PRIME	<u>194,556</u>
Total federal grant support	\$ <u>1,543,084</u>

Note 12 - Retirement Plan

NALCAB has a 401(k) retirement plan that matches up to 5% for all eligible employees who contribute. Contributions of \$54,950 were made to the plan for 2016.

Note 13- Concentration of Credit Risk

Financial instruments which potentially subject NALCAB to credit risk consist principally of cash accounts and accounts receivable. NALCAB places its cash accounts at highly rated local banks and they may at times exceed the federally insured limit of \$250,000.

Historically, NALCAB has not incurred any significant credit related losses.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016**

Note 14 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 consist of the following:

Donor	As of December 31, 2015	Contributions Received	Current Year Released	As of December 31, 2016
Wal-Mart (Sam's Club) \$	\$272,479	750,000	(537,825)	484,654
Northwest Area Foundation	239,833	10,000	(249,833)	-
Surdna Foundation	196,545	525,000	(150,123)	571,422
Citi Foundation	139,244	375,000	(409,310)	104,934
JPM Chase Foundation	74,958	1,000,000	(483,098)	591,860
BB&T	30,000	15,000	(30,000)	15,000
Open Society Foundation	-	250,000	(142,182)	107,818
NeighborWorks America	-	75,000	(1,500)	73,500
Capital One	-	100,000	(44,340)	55,660
Wells Fargo Bank	-	200,000	(161,020)	38,980
Union Bank	-	30,000	-	30,000
Meadows Foundation	-	100,000	(100,000)	-
HUD RCB	-	400,000	-	400,000
Total	\$ 953,059	3,830,000	(2,309,231)	2,473,828

Note 15 – Long-term Debt

Note payable to Wells Fargo Bank, N.A., dated January 30, 2015 bearing interest at 5.25%, payable in monthly installments of \$6,212 including principal and interest, maturing October 1, 2024, secured by building.	\$ 865,040
Note payable to Wells Fargo Equipment Finance, Inc. dated February 3, 2015, bearing interest at 4.35%, payable in monthly installments of \$3,422 including principal and interest, maturing February 3, 2019, secured by equipment.	<u>84,771</u>
Total notes payable	949,811
Less current portion	<u>(67,341)</u>
Long-term debt, net of current portion	\$ <u>882,470</u>

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

Note 16 – Risk Factor

The Fund seeks investment opportunities that offer the possibility of attaining capital appreciation. The Fund intends to make investments in distressed and low-income communities which may, in certain cases, involve certain non-performing or other distressed assets. These Investments may involve a high degree of financial risk and there can be no assurance that the Fund's rate of return objectives will be realized or that there will be any return of capital from these Investments. Numerous other risks also arise in distressed communities or in connection with troubled assets. Investments in the Fund are also subject to the general risk inherent in real estate investments, such as operating risks common to the construction and development of real estate, market risks associated with selling or renting property, and occupancy rates of rental property. The value of real property and the ability to generate income from real property is affected by many factors, such as general and local economic conditions, energy supplies, the supply of and demand for, property of the kind in which the Fund has invested, environmental regulations, changing regulatory and tax environments, Federal and local controls and real property tax rates. These factors are beyond the Fund's control, and the likelihood that they may occur cannot be predicted.

Note 17 – Contingencies

NALCAB's programs are partially supported through federal programs that are governed by various rules and regulations. Expenses charged to the grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that NALCAB has not complied with the rules and regulations governing the grants, refunds of any money received may be required.

In the opinion of management, there are no contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been made in the accompanying financial statements for such contingencies.

The financial instruments for NALCAB include cash and cash equivalents, accounts receivables, prepaid expenses, other assets, and accounts payable. The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

Note 17 – Contingencies (continued)

The Fund executed a loan agreement with several lenders, some of whom are Members of the Fund, to borrow additional resources to carry out its investment strategy. The Lenders agreed to make available up to \$990,000 when requested by the Fund. Interest will accrue at an annual rate of two percent (2%) and will not compound. The loans will mature on September 23, 2021. No advances had been made as of December 31, 2016.

The Fund has provided general indemnifications to Escalera, any affiliate of Escalera, and any person acting on behalf of the Escalera or that affiliate when they act, in good faith, in the best interest of the Fund. The Fund is unable to develop an estimate of the maximum potential amount of future payments that could potentially result from any hypothetical future claim but expects the risk of having to make any payments under these general business indemnifications to be remote.

Note 18 - Subsequent Events

NALCAB evaluates subsequent events in accordance with ASC Topic No. 855, “*Subsequent Events*” (formally SFAS No. 165). The guidance requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. In preparing these financial statements, NALCAB has evaluated events and transactions for potential recognition or disclosure through June 19, 2017, the date the financial statements were available to be issued. NALCAB has determined there are no subsequent events requiring disclosure.

ADDITIONAL INFORMATION

National Association for Latino Community Asset Builders and Subsidiaries and Affiliates
Consolidating Statement of Financial Position
December 31, 2016

Schedule 1

Assets	Operations	Social Investments	Eliminations	Total
Current Assets:				
Cash and cash equivalents	\$ 1,413,683	700,664	-	2,114,347
Cash restricted for loan fund	-	320,141	-	320,141
Receivables	574,442	-	-	574,442
Promises to give	525,000	-	-	525,000
Notes receivable	-	1,008,594	-	1,008,594
Accrued interest receivable	-	2,443	-	2,443
Federal income tax refund receivable	3,694	-	-	3,694
Prepaid expenses	12,796	-	-	12,796
Deposits	9,211	4,205	-	13,416
Receivables from related parties	60,325	-	(60,325)	-
Total current assets	<u>2,599,151</u>	<u>2,036,047</u>	<u>(60,325)</u>	<u>4,574,873</u>
Property and Equipment:				
Land and land improvements	280,000	200,000	-	480,000
Building and improvements	881,365	447,127	-	1,328,492
Furniture and equipment	221,763	18,000	-	239,763
Total property and equipment	<u>1,383,128</u>	<u>665,127</u>	<u>-</u>	<u>2,048,255</u>
Less accumulated depreciation	<u>(133,665)</u>	<u>(18,450)</u>	<u>-</u>	<u>(152,115)</u>
Net property and equipment	<u>1,249,463</u>	<u>646,677</u>	<u>-</u>	<u>1,896,140</u>
Other Assets:				
Property under development	-	837,642	-	837,642
Investment in NALCAB Network Investors, LLC	987,694	-	(987,694)	-
Investment in NALCAB Catalyst Fund I, LLC	137,641	-	(137,641)	-
Investment in Escalera Community Investments, LLC	9,741	-	(9,741)	-
Tenant and security deposits held	-	2,998	-	2,998
Total other assets	<u>1,135,076</u>	<u>840,640</u>	<u>(1,135,076)</u>	<u>840,640</u>
Total assets	<u>\$ 4,983,690</u>	<u>3,523,364</u>	<u>(1,195,401)</u>	<u>7,311,653</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 244,824	31,613	-	276,437
Accrued expenses	12,828	-	-	12,828
Deferred revenue	28,828	9,671	-	38,499
Tenant security deposits held	-	3,948	-	3,948
Federal income tax payable	1,200	-	-	1,200
Current portion of long-term debt	67,341	-	-	67,341
Due to related parties	-	60,325	(60,325)	-
Total current liabilities	<u>355,021</u>	<u>105,557</u>	<u>(60,325)</u>	<u>400,253</u>
Long-term debt, net of current portion	<u>882,470</u>	<u>-</u>	<u>-</u>	<u>882,470</u>
Total liabilities	<u>1,237,491</u>	<u>105,557</u>	<u>(60,325)</u>	<u>1,282,723</u>
Net assets:				
Net assets, attributable to NALCAB				
Unrestricted	1,672,371	1,135,143	(1,135,076)	1,672,438
Temporarily restricted	2,073,828	400,000	-	2,473,828
	<u>3,746,199</u>	<u>1,535,143</u>	<u>(1,135,076)</u>	<u>4,146,266</u>
Net assets, attributable to non-controlling interests in Equity Fund Investments	<u>-</u>	<u>1,882,664</u>	<u>-</u>	<u>1,882,664</u>
Total net assets	<u>3,746,199</u>	<u>3,417,807</u>	<u>(1,135,076)</u>	<u>6,028,930</u>
Total liabilities and net assets	<u>\$ 4,983,690</u>	<u>3,523,364</u>	<u>(1,195,401)</u>	<u>7,311,653</u>

See accompanying auditor's report

National Association for Latino Community Asset Builders and Subsidiaries and Affiliates
Consolidating Statement of Activities
For the Year Ended December 31, 2016

Schedule 2

	Programs, Leasing Activity, Management and General, and Fundraising	Social Investments	Eliminations	Total
Public support and other operating revenue:				
Contract and grants from:				
Federal grants	\$ 1,143,084	400,000	-	1,543,084
Other contributions and grants	3,519,070	-	-	3,519,070
Net assets released from restrictions	-	-	-	-
Total contracts and grants funding	<u>4,662,154</u>	<u>400,000</u>	<u>-</u>	<u>5,062,154</u>
Program service revenue	302,375	-	-	302,375
Rental income	74,644	49,559	-	124,203
Interest income	261	3,954	-	4,215
Other income	1,769	-	-	1,769
Income (Loss) from Subsidiaries	(54,349)	-	54,349	-
Total support and revenues	<u>4,986,854</u>	<u>453,513</u>	<u>54,349</u>	<u>5,494,716</u>
Expenses:				
Capacity building and development services	2,227,940	-	-	2,227,940
Leadership development and training	379,274	-	-	379,274
Policy	271,673	-	-	271,673
Social investments	-	168,759	-	168,759
Commercial leasing activity	45,201	-	-	45,201
Supporting services:				
Management and general	672,837	-	-	672,837
Fundraising	54,622	-	-	54,622
Total expenses	<u>3,651,547</u>	<u>168,759</u>	<u>-</u>	<u>3,820,306</u>
Change in net assets	1,335,307	284,754	54,349	1,674,410
Net assets, beginning of year	2,427,347	2,597,949	(1,039,180)	3,986,116
Capital contributions	-	579,654	(166,700)	412,954
Offering expenses	(16,455)	(44,550)	16,455	(44,550)
Net assets, end of year	<u>\$ 3,746,199</u>	<u>3,417,807</u>	<u>(1,135,076)</u>	<u>6,028,930</u>
Change in net assets, attributable to NALCAB				
Net assets, beginning of year	\$ 2,427,347	1,039,180	(1,039,180)	2,427,347
Change in net assets	1,335,307	345,718	54,349	1,735,374
Capital contributions	-	166,700	(166,700)	-
Offering expenses	(16,455)	(16,455)	16,455	(16,455)
Net assets, end of year	<u>3,746,199</u>	<u>1,535,143</u>	<u>(1,135,076)</u>	<u>4,146,266</u>
Change in net assets, attributable to non-controlling interests				
Unrestricted net assets, beginning of year	-	1,558,769	-	1,558,769
Non-controlling interest in income (loss) of consolidated affiliates	-	(60,964)	-	(60,964)
Capital contributions	-	412,954	-	412,954
Offering expenses	-	(28,095)	-	(28,095)
Unrestricted net assets, end of year	<u>-</u>	<u>1,882,664</u>	<u>-</u>	<u>1,882,664</u>
Total net assets	<u>\$ 3,746,199</u>	<u>3,417,807</u>	<u>(1,135,076)</u>	<u>6,028,930</u>

See accompanying auditor's report

SINGLE AUDIT COMPLIANCE INFORMATION

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2016**

Schedule 3

Federal Agency/ Pass through Agency	CFDA Number	Grant Number	Expended During the Year Ended
Department of Housing and Urban Development			
Fair Housing Initiatives Program (FHIP)	14.408	FH200G15003	\$ 441,127
One CPD	14.259	O-11-TA-TX-0016	189,904
Rural Capacity Building	14.265	B-13-RCB-TX-001	185,389
Rural Capacity Building	14.265	B-14-RCB-TX-001	90,572
Rural Capacity Building	14.265	B-15-RCB-TX-0001	11,419
Community Compass	14.259	C-15-TA-TX-0010	25,896
Pass-Through:			
NeighborWorks America			1,500
US Small Business Administration			
PRIME 2015	59.050	SBAHQ-15-PR-0039	208,359
Department of Education			
Sub-Contractor Work:			
Promise Neighborhoods Program (MPN)	84.215N	U215N120046	29,656
Total expenditures of federal awards			\$ <u><u>1,183,822</u></u>

See accompanying auditor's report and notes to schedule of expenditures of federal awards.

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2016**

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the National Association for Latino Community Asset Builders and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance, “Audits of States, Local Governments, and Non-Profit Organizations.” Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Indirect Cost Rate

The Association has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

The amount expended includes \$186,194 claimed as an indirect cost recovery using an approved indirect cost rate of 55% of direct salaries and benefits.

Gonzalez & Walker

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Rinaldo J. Gonzalez, P.C., CPA

Randy L. Walker, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors

National Association for Latino Community Asset Builders

We have audited the financial statements of National Association for Latino Community Asset Builders as of and for the year ended December 31, 2016, and have issued our report thereon dated June 19, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered National Association for Latino Community Asset Builder's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of National Association for Latino Community Asset Builder's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of National Association for Latino Community Asset Builder's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



June 19, 2017

Gonzalez & Walker

Certified Public Accountants
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Rinaldo J. Gonzalez, P.C., CPA

Randy L. Walker, CPA

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

Board of Directors

National Association for Latino Community Asset Builders

Report on Compliance for Each Major Federal Program

We have audited National Association for Latino Community Asset Builder's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of National Association for Latino Community Asset Builder's major federal programs for the year ended December 31, 2016. National Association for Latino Community Asset Builder's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Managements Responsibility

Management is responsible for compliance with the requirements of laws, regulation contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of National Association for Latino Community Asset Builder'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 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 National Association for Latino Community Asset Builder 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 National Association for Latino Community Asset Builder's compliance.

Opinion on Each Major Federal Program

In our opinion, National Association for Latino Community Asset Builders 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 December 31, 2016.

Report on Internal Control Over Compliance

Management of National Association for Latino Community Asset Builders 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, we considered National Association for Latino Community Asset Builder's internal control over compliance with the 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. Accordingly, we do not express an opinion on the effectiveness of National Association for Latino Community Asset Builder'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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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

A handwritten signature in black ink, appearing to read "Douglas & Walker". The signature is written in a cursive, flowing style.

June 19, 2017

**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2016**

<u>Program</u>	<u>Prior Year's Finding/Noncompliance Questioned Costs</u>
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	None.
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**NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS
AND SUBSIDIARIES AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2016**

Summary of Auditors' Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified	None
Significant deficiencies identified that are not considered to be material weakness(es)	None
Non-compliance material to the financial statements.	None

Federal Awards

Internal control over major programs:	
Material weakness(es) identified	None
Significant deficiencies identified that are not considered to be material weakness(es)	None
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance	None

Major Programs

Federal Programs

CFDA 14.408 Department of Housing and Urban Development, Fair Housing Initiatives Program

Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee	Yes

Findings – Financial Statements Audit None

Findings and Questioned Costs – Major Federal Programs Audit None