

**CARE FOR THE HOMELESS  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2016**

# **CARE FOR THE HOMELESS AND AFFILIATES**

## **TABLE OF CONTENTS**

### **Independent Auditor's Report**

### **Exhibit**

**A - Consolidated Statement of Activities**

**B - Consolidated Balance Sheet**

**C - Consolidated Statement of Cash Flows**

### **Notes to Consolidated Financial Statements**

### **Schedule**

**1 - Consolidated Schedule of Functional Expenses**



## Independent Auditor's Report

**Board of Directors**  
**Care for the Homeless and Affiliates**

### *Report on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Care for the Homeless and Affiliates, which comprise the consolidated balance sheet as of December 31, 2016 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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 from material misstatement.

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Care for the Homeless and Affiliates as of December 31, 2016 and the results of their operations, the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Opinion on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information for the year ended December 31, 2016 included in the Consolidated Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information for the year ended December 31, 2016 is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

***Report on Summarized Comparative Information***

We previously audited Care for the Homeless and Affiliates' December 31, 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

We had also expressed an unmodified opinion on the supplementary information included in the Consolidated Schedule of Functional Expenses for the year ended December 31, 2015 in relation to those financial statements as a whole. In our opinion, the supplementary information for the year ended December 31, 2015 included in the Consolidated Schedule of Functional Expenses is consistent, in all material respects, with the audited supplementary information from which it has been derived.

*Loeb + Troper LLP*

July 19, 2017

CARE FOR THE HOMELESS AND AFFILIATES

EXHIBIT A

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

	Unrestricted			Temporarily Restricted	Eliminations	Total	
	Care for the Homeless	Jerome, Inc.	Total			2016	2015
Operating revenues							
Net patient services revenues (net of contractual allowances and discounts) (Note 2)	\$ 4,272,804	\$ 150,000	\$ 4,422,804			\$ 4,422,804	\$ 3,795,631
Public Health Services Section 330(h) - contract	5,485,791		5,485,791			5,485,791	5,262,855
NYC Department of Homeless Services - contract		7,243,978	7,243,978			7,243,978	7,006,396
Government grants and contracts	1,547,466		1,547,466			1,547,466	1,398,937
Other income		750	750			750	5,541
Management fees	359,871		359,871		\$ (359,871)		
Interest and dividends	60,491		60,491			60,491	20,481
Total operating revenues	11,726,423	7,394,728	19,121,151		(359,871)	18,761,280	17,489,841
Operating expenses (Schedule 1)							
Program services							
Medical Clinics	8,748,201		8,748,201			8,748,201	8,340,391
Residential Services at Susan's Place		7,182,798	7,182,798			7,182,798	6,770,340
Total program services	8,748,201	7,182,798	15,930,999			15,930,999	15,110,731
Supporting services							
Management and general	2,548,422		2,548,422		(359,871)	2,188,551	1,995,571
Fundraising and development	377,472		377,472			377,472	289,711
Total supporting services	2,925,894		2,925,894		(359,871)	2,566,023	2,285,282
Total operating expenses	11,674,095	7,182,798	18,856,893		(359,871)	18,497,022	17,396,013
Gain (loss) from operations	52,328	211,930	264,258		-	264,258	93,828
Nonoperating revenues and expenses							
Net realized and unrealized loss on investments	(11,641)	334	(11,307)			(11,307)	(12,020)
Contributions	156,698	400	157,098	\$ 115,000		272,098	730,658
Special event							
Direct cost of special events	\$ 196,250						\$ 147,826
Net revenue from special events	(80,038)						(61,406)
Net revenue from special events	116,212		116,212			116,212	86,420
Net assets released from restrictions (Note 6)	176,622	3,333	179,955	(179,955)			
Total nonoperating revenues and expenses	437,891	4,067	441,958	(64,955)		377,003	805,058
Change in net assets before other changes	490,219	215,997	706,216	(64,955)		641,261	898,886
Depreciation and amortization	(77,112)	(597,751)	(674,863)			(674,863)	(691,780)
Change in net assets (Exhibit C)	413,107	(381,754)	31,353	(64,955)	-	(33,602)	207,106
Net assets (deficit) - beginning of year	5,832,223	(2,549,459)	3,282,764	663,601		3,946,365	3,739,259
Net assets - (deficit) end of year (Exhibit B)	\$ 6,245,330	\$ (2,931,213)	\$ 3,314,117	\$ 598,646	\$ -	\$ 3,912,763	\$ 3,946,365

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**CARE FOR THE HOMELESS AND AFFILIATES**

**EXHIBIT B**

**CONSOLIDATED BALANCE SHEET**

**DECEMBER 31, 2016**

**(With Summarized Financial Information  
as of December 31, 2015)**

	<u>Care for the Homeless</u>	<u>Jerome, Inc.</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 765,054	\$ 85,578	\$ 850,632	\$ 1,575,561
Investments - (Note 3)	2,042,886		2,042,886	1,994,403
Government grants and contracts receivable	2,627,711	1,909,516	4,537,227	2,804,378
Pledges and contributions receivable	160,001		160,001	176,306
Accounts receivable - patients (net of allowance for doubtful accounts of \$157,000 in 2016)	301,479		301,479	149,446
Prepaid expenses and deposits	<u>169,738</u>	<u>161,602</u>	<u>331,340</u>	<u>306,344</u>
Total current assets	6,066,869	2,156,696	8,223,565	7,006,438
Cash - escrow deposits		92,415	92,415	82,096
Leasehold improvements (net of accumulated amortization of \$4,379,576 in 2016 and \$3,854,048 in 2015)		6,641,808	6,641,808	7,167,336
Furniture and equipment (net of accumulated depreciation of \$2,427,245 in 2016 and \$2,277,910 in 2015)	757,932	595,698	1,353,630	1,290,309
Due from (to) related party	<u>1,897,440</u>	<u>(1,897,440)</u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 8,722,241</u>	<u>\$ 7,589,177</u>	<u>\$ 16,311,418</u>	<u>\$ 15,546,179</u>

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**CARE FOR THE HOMELESS AND AFFILIATES**

**EXHIBIT B**

**-2-**

**CONSOLIDATED BALANCE SHEET**

**DECEMBER 31, 2016**

**(With Summarized Financial Information  
as of December 31, 2015)**

	<u>Care for the Homeless</u>	<u>Jerome, Inc.</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 1,421,536	\$ 251,688	\$ 1,673,224	\$ 1,180,397
Refundable advances from grantors		1,874,768	1,874,768	1,254,712
Deferred revenues (Note 2)	20,000		20,000	20,000
Due to third-party payors and other contingencies (Note 4)	342,894		342,894	342,894
Loan payable (Note 7)		412,569	412,569	380,610
	<u>1,784,430</u>	<u>2,539,025</u>	<u>4,323,455</u>	<u>3,178,613</u>
Total current liabilities				
Deferred rent	104,019	710,564	814,583	748,016
Loan payable (Note 7)		7,260,617	7,260,617	7,673,185
	<u>1,888,449</u>	<u>10,510,206</u>	<u>12,398,655</u>	<u>11,599,814</u>
Total liabilities				
Net assets (deficit) (Exhibit A)				
Unrestricted	6,245,330	(2,931,213)	3,314,117	3,282,764
Temporarily restricted (Note 6)	588,462	10,184	598,646	663,601
	<u>6,833,792</u>	<u>(2,921,029)</u>	<u>3,912,763</u>	<u>3,946,365</u>
Total net assets (deficit)				
Total liabilities and net assets	<u>\$ 8,722,241</u>	<u>\$ 7,589,177</u>	<u>\$ 16,311,418</u>	<u>\$ 15,546,179</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**CARE FOR THE HOMELESS AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit A)	\$ (33,602)	\$ 207,106
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	674,863	691,780
Net realized and unrealized loss on investments	11,307	12,020
Decrease (increase) in assets		
Government grants and contracts receivable	(1,732,849)	(1,343,490)
Pledges and contributions receivable	16,305	(86,959)
Accounts receivable - patients	(152,033)	124,661
Prepaid expenses and deposits	(24,996)	(188,902)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	492,827	(165,521)
Refundable advances from grantors	620,056	(15,608)
Deferred revenues		20,000
Due to third-party payors and other contingencies		342,894
Deferred rent	66,567	83,219
Net cash provided (used) by operating activities	<u>(61,555)</u>	<u>(318,800)</u>
Cash flows from investing activities		
Increase in cash - escrow deposits	(10,319)	(10,276)
Purchase of investments	(689,532)	(2,000,920)
Proceeds from the sale of investments	629,742	
Fixed asset acquisitions	(212,656)	(154,791)
Net cash provided (used) by investing activities	<u>(282,765)</u>	<u>(2,165,987)</u>
Cash flows from financing activities		
Repayments of loan	(380,609)	(351,126)
Net increase (decrease) in cash and cash equivalents	(724,929)	(2,835,913)
Cash and cash equivalents - beginning of year	<u>1,575,561</u>	<u>4,411,474</u>
Cash and cash equivalents - end of year	<u>\$ 850,632</u>	<u>\$ 1,575,561</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 637,660</u>	<u>\$ 657,128</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 - NATURE OF ORGANIZATION**

Care for the Homeless (“CFH”) provides, coordinates and arranges for primary care, health education, HIV counseling and testing, early intervention services for those with HIV/AIDS, social services and behavioral health services to homeless people at more than 35 homeless clinics, shelters, soup kitchens and drop-in centers, and has two street outreach teams in four boroughs of New York City. Care for the Homeless is licensed by the New York State Department of Health under Article 28 of the Public Health Law to operate clinics as diagnostic and treatment centers, which are designated as federally qualified health centers. Care for the Homeless outreach team members also address long-range needs of homeless people by improving their access to services and public benefits and helping them develop life skills, while advocating for appropriate public policies.

CFH’s affiliate, Jerome Avenue Care for the Homeless Housing Development Fund Corporation (“Jerome”) operates Susan’s Place, a 200-bed transitional residential shelter.

In 2016, CFH provided services to more than 7,700 homeless men, women and children.

The organizations are primarily funded by government contracts, grants and Medicaid fees with more than 85% of revenue directed to the direct provision of services to clients.

The consolidated financial statements include the activities and net assets of Care for the Homeless and Jerome, whose sole member is CFH Jerome, Inc. (a dormant organization), whose sole member is, in turn, Care for the Homeless.

Care for the Homeless and Affiliates are not-for-profit corporations, which are tax-exempt organizations pursuant to Section 501(c)(3) of the Internal Revenue Code. As of September 2015 the Better Business Bureau has extended CFH’s designation as an accredited charity.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***Basis of consolidation*** - All material intercompany balances and activities have been eliminated in the consolidation.

**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*Summarized financial information* - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organizations' financial statements for the year ended December 31, 2015, from which the summarized information was derived.

*Cash and cash equivalents* - Cash and cash equivalents include investments in highly liquid instruments with maturities, when acquired, of three months or less.

*Cash - escrow deposits* - This represents cash being held in a maintenance fund, which is required by the Low Income Investment Fund (Note 7).

*Investments* - Investments are recorded at fair value. CFH invests in various investment securities. These securities are exposed to various risks such as interest rate, market and credit risks. Due to level of risks associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect CFH's financial statements.

*Pledges and contributions receivable and allowance for doubtful accounts* - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until conditions are substantially met. Bad debt is charged if the receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. There was no allowance for doubtful accounts at December 31, 2016 and December 31, 2015.

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**CARE FOR THE HOMELESS AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Government grants and contracts revenue, receivable and allowance for doubtful accounts*** - Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, Care for the Homeless and Affiliates record refundable advances from grantors. Care for the Homeless and Affiliates have determined that an allowance for uncollectible accounts for government grants and contracts receivable is not necessary as of December 31, 2016. Such estimate is based on the aged basis of its receivables, subsequent collections, as well as current economic conditions and historical information. Interest income is not accrued or recorded on outstanding receivables.

***Accounts receivable and allowance for doubtful accounts*** - Care for the Homeless and Affiliates record receivables based on established rates or contracts for services provided. Bad debt is charged if the receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on accounts receivable.

***Fixed assets*** - Fixed assets are stated at cost. Acquisitions and leasehold improvements with a cost over \$1,000 and a useful life of greater than one year are capitalized. Depreciation is computed on the straight-line basis over the estimated useful life of each asset. Amortization of leasehold improvements is computed over the lesser of their estimated useful lives or the term of the lease. The estimated useful lives of the assets are as follows:

Leasehold improvements	10-21 years
Furniture and equipment	5 years

***Due to third-party payors*** - Estimated amount due to third parties, when applicable, represent retroactive rate adjustments due to the New York State Department of Health (DOH).

***Deferred revenues*** - Event income is recognized at the net realizable amount when earned. The portion of event charges collected in the current fiscal year pertaining to events that will take place in the next fiscal year is reflected as deferred revenue. Deferred revenue is generally earned within one year.

***Unrestricted net assets*** - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

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**CARE FOR THE HOMELESS AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Temporarily restricted net assets*** - Temporarily restricted net assets are those whose use by the organization has been limited by donors to a specific time period or purpose.

***Patient service revenues*** - Patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing health care programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicaid and Medicare programs.

Patient services revenues, net of contractual allowances and discounts, include third-party payors of \$4,422,804 for the year ended December 31, 2016. Resident services revenues, net of contractual allowances and discounts, include third-party payors of \$3,795,631 for the year ended December 31, 2015.

***Charity care*** - *Charity Care for Disclosure* uses the estimated cost as the measurement basis for the disclosure of charity care provided. CFH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because CFH does not pursue a collection of amounts determined to qualify as charity care, they are not reported as revenue (see Note 11).

***Contributions*** - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

***Functional allocation of expenses*** - The costs of providing the organization's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements***

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Care for the Homeless and Affiliates has the ability to access. Level 2 inputs to the valuation methodology include:

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

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 as compared to those used at December 31, 2015.

***Mutual funds*** - Valued at the net asset value ("NAV") of shares held at year end.

***Corporate bonds and U.S. government bonds*** - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing values on yields currently available on comparable securities of issuers with similar credit ratings.

***Equities*** - Valued at closing price reported on the active market on which individual securities are traded.

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**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements (continued)***

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

***Rent expense*** - CFH leases space in various locations. All leases are operating leases and are recorded in accordance with generally accepted accounting principles. Rent is recorded on the straight-line basis. Deferred rent, when material, is recorded for the difference between straight-line basis rent and rent paid.

***Advertising*** - It is the policy of CFH to expense advertising costs as incurred.

***Measure of operations*** - CFH excludes net realized and unrealized gain (loss) on investments, contributions, special events and depreciation and amortization from its measure of operations.

***Uncertainty in income taxes*** - CFH has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending December 31, 2013 and subsequent remain subject to examination by applicable taxing authorities.

***Subsequent events*** - Subsequent events have been evaluated through July 19, 2017, which is the date the consolidated financial statements were available to be issued.

**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3 - INVESTMENTS**

The following table presents the asset balances measured at fair value by level as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds - large cap	\$ <u>301,916</u>		\$ <u>301,916</u>
U.S. Government bonds		\$ <u>326,825</u>	<u>326,825</u>
Corporate bonds		<u>168,186</u>	<u>168,186</u>
Equities			
Healthcare	125,023		125,023
Consumer staples	91,419		91,419
Information technology	137,587		137,587
Consumer discretionary	92,366		92,366
Industrials	81,448		81,448
Materials	26,329		26,329
Financial	84,981		84,981
Telecommunications services	18,186		18,186
Utilities	15,361		15,361
Real Estate	9,163		9,163
Energy	<u>28,129</u>		<u>28,129</u>
Total equities	<u>709,992</u>		<u>709,992</u>
Total investments reported on the fair value hierarchy	<u>\$ 1,011,908</u>	<u>\$ 495,011</u>	1,506,919
Cash and cash equivalents			<u>535,967</u>
Total investments			<u>\$ 2,042,886</u>

-continued-

**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 4 - DUE TO THIRD-PARTY PAYORS AND OTHER CONTINGENCIES**

CFH is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and the New York State Department of Health (DOH). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General (OIG), and other agencies have the right to audit CFH. These agencies have the right to audit fiscal, as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements.

CFH is licensed by DOH to operate an Article 28 Diagnostic and Treatment Center and has been designated as a Federally Qualified Health Center (FQHC). As an FQHC, CFH is reimbursed by DOH a Medicaid fee-for-service rate as well as a supplemental payment rate known as a "wrap" payment.

The current Medicaid program is based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is a possibility that recorded estimates may change.

CFH is party to a lawsuit in which a former employee is alleging discrimination and wrongful termination. While the outcome of this lawsuit cannot be determined at this time, management believes that any loss which may arise from these actions will be covered by insurance and will not have a material adverse effect on the financial position or results of operations of CFH.

During 2015 CFH management undertook a review of Medicaid billing practices, specifically related to the managed care supplemental rate payment program. As a result of this review, potential overpayments of \$342,894 were identified. Management has completed and filed with the New York State Office of Medicaid Inspector General a "self-disclosure" filing. In management's opinion this amount is an estimate and may be subject to change upon review.

**NOTE 5 - OPERATING LEASES**

In 2011, CFH entered into a ten-year operating lease agreement with 30 E. 33rd St. Realty LLC which expires December 31, 2020. CFH also rents space for one of its clinics on a month-to-month basis. Rent expense for 2016 was \$303,936.

As of March 1, 2005, Jerome began leasing space under an operating lease agreement which expires February 2027. Rent expense for 2016 was \$808,212.

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**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5 - OPERATING LEASES (continued)**

Future minimum lease obligations are as follows:

<u>30 East 33rd Street</u>	
2017	\$ 268,027
2018	273,387
2019	278,855
2020	<u>284,432</u>
	<u>\$ 1,104,701</u>
<u>1911-21 Jerome Avenue</u>	
2017	\$ 763,894
2018	786,811
2019	810,415
2020	834,728
2021	859,770
Thereafter	<u>4,871,824</u>
	<u>\$ 8,927,442</u>

The 1911-21 Jerome Avenue lease is noncancelable except in the event that the landlord plans to sell the premises and the tenant is given the first right of refusal (Article 29 of the lease agreement). There are no other cancellation clauses in the lease.

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**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2016 are available for:

Health care	\$ 30,465
Outreach and enrollment	599
Medical equipment	79,045
Equipment	20,000
Mental Health Supportive Housing	100,000
Client supplies	4,360
Volunteers	9,831
Dental care	2,023
Primary care utilization	125,000
Medical respite	150,000
Mobile van	<u>77,323</u>
	<u>\$ 598,646</u>

During the year, temporarily restricted net assets were released from restrictions by incurring expenses satisfying the following restricted purposes:

Medical equipment	\$ 10,890
Capital and healthcare	119,890
Client supplies	10,828
Mobile van	37,677
Volunteers	<u>670</u>
	<u>\$ 179,955</u>

During the year, temporarily restricted contributions were received for the following purposes:

Medical equipment	\$ 45,000
Client supplies	5,000
Mobile van	<u>65,000</u>
	<u>\$ 115,000</u>

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**CARE FOR THE HOMELESS AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 7 - LOAN PAYABLE**

In 2007 Jerome Avenue CFH HDFC borrowed \$10,077,137 from Low Income Investment Fund (LIIF) to finance the construction of Susan's Place. The loan is being paid by Department of Homeless Services (DHS) directly to LIIF as part of the debt service component of the reimbursement for the operations of Susan's Place. As of December 31, 2016, there was \$7,673,186 outstanding. The interest rate is fixed at 8.09% and interest expense was \$637,660 for the year ended December 31, 2016. The loan matures on August 1, 2028 and the improvements, which are carried as leasehold improvements, are collateral for the LIIF loan. As part of the loan, Jerome is required to contribute \$10,000 annually into a maintenance fund. These funds can be used as needed for capital expenditures.

Future principal payments are as follows:

2017	\$ 412,569
2018	447,211
2019	484,763
2020	525,467
2021	569,590
Thereafter	<u>5,233,586</u>
	<u>\$ 7,673,186</u>

**NOTE 8 - CONCENTRATIONS**

The PHS Section 330(h) and NYC Department of Homeless Services grants represent approximately 64% of program revenues.

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**CARE FOR THE HOMELESS AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 9 - FUNCTIONAL EXPENSES**

Program expenses	
Medical clinics	\$ 8,748,201
Residential services at Susan's Place	<u>7,780,549</u>
Total program expenses	16,528,750
Management and general	2,231,900
Fund raising and development	377,472
Direct costs of special events	80,038
Investment fees	<u>33,763</u>
Total	<u>\$ 19,251,923</u>

**NOTE 10 - PENSION**

CFH sponsors a defined contribution pension plan for all eligible employees who have completed one year of service. CFH contributed \$38,539 to the pension plan in 2016.

**NOTE 11 - CHARITY CARE**

The total cost of charity care provided was approximately \$500,000 for the year ended December 31, 2016. The cost of charity care is estimated by management based on the ratio of cost to gross charged multiplied by the gross uncompensated charges associated with providing care to charity patients.

## CARE FOR THE HOMELESS AND AFFILIATES

## SCHEDULE 1

## CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016  
(With Summarized Financial Information  
for the Year Ended December 31, 2015)

	Program Services			Supporting Services			Total		
	Medical Clinics	Residential Services at Susan's Place	Total	Management and General	Direct Cost of Special Event	Fundraising and Development	Eliminations	2016	2015
Salaries	\$ 3,727,544	\$ 1,696,618	\$ 5,424,162	\$ 1,289,358		\$ 169,069		\$ 6,882,589	\$ 6,692,726
Payroll taxes and employee benefits	949,122	453,327	1,402,449	275,438		43,072		1,720,959	1,654,340
Total salaries and related expenses	4,676,666	2,149,945	6,826,611	1,564,796		212,141		8,603,548	8,347,066
Program supplies	477,592	108,577	586,169	2,492		1,763		590,424	480,246
Medical provider expenses	1,373,423		1,373,423					1,373,423	1,368,250
Consulting and professional services	1,156,069	2,104,501	3,260,570	310,214	\$ 7,465	105,273	\$ (359,871)	3,323,651	2,881,999
Occupancy	206,024	1,342,823	1,548,847	155,030		16,787		1,720,664	1,737,916
Maintenance and repairs	30,985	88,258	119,243	18,741				137,984	85,657
Publication and printing	13,319		13,319	10,378	1,388	6,968		32,053	11,647
Office expenses	89,382	18,634	108,016	15,270	2,999	2,682		128,967	105,120
Insurance	51,083	138,172	189,255	53,350		3,488		246,093	271,006
Telephone	290,830	49,893	340,723	62,960		6,228		409,911	355,722
Postage and delivery	5,996	930	6,926	1,333	474	739		9,472	7,583
Travel expenses	74,576	106,478	181,054	9,514	402	496		191,466	153,620
Equipment	198,337	61,579	259,916	52,614		11,067		323,597	233,588
Membership and dues	1,844		1,844	24,856				26,700	29,146
Meetings and conference	35,541	12,314	47,855	76,130		6,820		130,805	119,226
Advertising				141,048		188		141,236	3,874
Food	28,558	349,340	377,898	15,933		2,832		396,663	420,976
Catering, space rental and other					67,310			67,310	1,474
Bad debts									157,000
Interest		637,660	637,660					637,660	657,128
Investment fees				33,763				33,763	3,848
Miscellaneous	37,976	13,694	51,670					51,670	29,175
Total operating expenses before depreciation and amortization	8,748,201	7,182,798	15,930,999	2,548,422	80,038	377,472	(359,871)	18,577,060	17,461,267
Depreciation and amortization		597,751	597,751	77,112				674,863	691,780
Total expenses by function	8,748,201	7,780,549	16,528,750	2,625,534	80,038	377,472	(359,871)	19,251,923	18,153,047
Less direct costs of special events					(80,038)			(80,038)	(61,406)
Less investment fees				(33,763)				(33,763)	(3,848)
Total expenses less direct costs of special events and investment fees	\$ 8,748,201	\$ 7,780,549	\$ 16,528,750	\$ 2,591,771	\$ -	\$ 377,472	\$ (359,871)	\$ 19,138,122	\$ 18,087,793

See independent auditor's report.