

CARE FOR THE HOMELESS AND AFFILIATES

**Consolidated Financial Statements and Audit Reports and
Supplementary Information Related to
Title 2 U.S. Code of Federal Regulations Part 200
*Uniform Administrative Requirements, Cost Principles and Audit
Requirements for Federal Awards*
For the Year Ended December 31, 2018
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

CARE FOR THE HOMELESS AND AFFILIATES
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 Title 2 U.S. Code of Federal Regulations Part 200
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 For the Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Care for the Homeless and Affiliates

Report on the financial statements

We have audited the accompanying consolidated financial statements of Care for the Homeless and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses 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 (U.S. GAAP); 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

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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, 2018, and 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.

Report on Summarized Comparative Information

We have previously audited Care for the Homeless and Affiliates' 2017 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, Care for the Homeless and Affiliates adopted the provisions of Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. Our opinion is not modified with respect to this matter.

Other information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 consolidated 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019 on our consideration of Care for the Homeless and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Care for the Homeless and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Care for the Homeless and Affiliates' internal control over financial reporting and compliance.

Mitchell Titus, LLP

September 30, 2019

CARE FOR THE HOMELESS AND AFFILIATES
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	Care for the Homeless	Jerome, Inc.	Total	
			2018	2017
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 307,979	\$ 374,764	\$ 682,743	\$ 322,314
Investments	2,134,105	-	2,134,105	2,196,630
Government grants and contracts receivable	580,888	2,355,953	2,936,841	3,862,431
Accounts receivable - patients (net of allowance for doubtful accounts of \$232,927 and \$737,502 and contractual allowances of \$4,410,435 and \$4,561,301 for 2018 and 2017, respectively)	1,044,953	-	1,044,953	954,142
Prepaid expenses and deposits	109,422	20,048	129,470	97,882
Total current assets	4,177,347	2,750,765	6,928,112	7,433,399
Cash - escrow deposits	-	112,548	112,548	102,548
Property and equipment, net	1,246,360	5,796,853	7,043,213	7,035,040
Due from (to) affiliates	836,710	(836,710)	-	-
Total assets	\$ 6,260,417	\$ 7,823,456	\$ 14,083,873	\$ 14,570,987
LIABILITIES AND NET ASSETS				
<i>Current liabilities</i>				
Accounts payable and accrued expenses	\$ 2,203,537	\$ 749,494	\$ 2,953,031	\$ 2,131,897
Refundable advances from grantors	-	2,258,213	2,258,213	1,883,763
Deferred revenues	103,812	-	103,812	-
Due to funders	-	-	-	121,245
Loan payable	4,944	484,763	489,707	452,458
Total current liabilities	2,312,293	3,492,470	5,804,763	4,589,363
Deferred rent	68,911	1,269,162	1,338,073	1,386,691
Loan payable	2,651	6,328,642	6,331,293	6,820,803
Total liabilities	2,383,855	11,090,274	13,474,129	12,796,857
<i>Net assets (net asset deficiency)</i>				
Without donor restrictions	3,385,785	(3,266,818)	118,967	1,293,554
With donor restrictions	490,777	-	490,777	480,576
Total net assets (net asset deficiency)	3,876,562	(3,266,818)	609,744	1,774,130
Total liabilities and net assets (net asset deficiency)	\$ 6,260,417	\$ 7,823,456	\$ 14,083,873	\$ 14,570,987

The accompanying notes are an integral part of these consolidated financial statements.

CARE FOR THE HOMELESS AND AFFILIATES

Consolidated Statement of Activities

Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018					2017	
	Without Donor Restrictions Care for the Homeless	Without Donor Restrictions Jerome, Inc.	Without Donor Restrictions Total	With Donor Restrictions	Eliminations	Total	Total
<i>Operating revenues</i>							
Net patient services revenues							
(net of contractual allowances and discounts)	\$ 3,948,870	\$ 150,000	\$ 4,098,870	\$ -	\$ -	\$ 4,098,870	\$ 3,462,649
Public Health Services Section 330(h) - contract	6,040,218	-	6,040,218	-	-	6,040,218	6,545,769
NYC Department of Homeless Services - contract	-	8,345,645	8,345,645	-	-	8,345,645	8,025,917
Government grants and contracts	1,244,798	-	1,244,798	-	-	1,244,798	1,222,840
Other income	270,232	1,500	271,732	-	-	271,732	76,219
Management fees	520,256	-	520,256	-	(520,256)	-	-
Total operating revenues	<u>12,024,374</u>	<u>8,497,145</u>	<u>20,521,519</u>	<u>-</u>	<u>(520,256)</u>	<u>20,001,263</u>	<u>19,333,394</u>
<i>Operating expenses</i>							
<i>Program services</i>							
Medical clinics	9,771,264	-	9,771,264	-	-	9,771,264	9,756,400
Residential services at Susan's Place	-	7,631,042	7,631,042	-	(520,256)	7,110,786	7,210,086
Total program services	<u>9,771,264</u>	<u>7,631,042</u>	<u>17,402,306</u>	<u>-</u>	<u>(520,256)</u>	<u>16,882,050</u>	<u>16,966,486</u>
<i>Supporting services</i>							
Management and general	3,715,689	-	3,715,689	-	-	3,715,689	3,362,311
Fundraising and development	372,995	-	372,995	-	-	372,995	365,445
Total supporting services	<u>4,088,684</u>	<u>-</u>	<u>4,088,684</u>	<u>-</u>	<u>-</u>	<u>4,088,684</u>	<u>3,727,756</u>
Total operating expenses	<u>13,859,948</u>	<u>7,631,042</u>	<u>21,490,990</u>	<u>-</u>	<u>(520,256)</u>	<u>20,970,734</u>	<u>20,694,242</u>
Change in net assets from operations	(1,835,574)	866,103	(969,471)	-	-	(969,471)	(1,360,848)
<i>Nonoperating revenues and expenses</i>							
Net investment (loss) return	(62,329)	-	(62,329)	-	-	(62,329)	160,714
Contributions	104,739	-	104,739	403,000	-	507,739	274,771
Special event	\$ 106,096	-	-	-	-	-	\$ 55,612
Direct cost of special event	<u>(51,105)</u>	-	-	-	-	-	<u>(3,146)</u>
Net revenue from special events	54,991	-	54,991	-	-	54,991	52,466
Net assets released from restrictions (Note 8)	392,799	-	392,799	(392,799)	-	-	-
Depreciation and amortization	(81,124)	(614,192)	(695,316)	-	-	(695,316)	(697,069)
Total nonoperating revenues and expenses	<u>409,076</u>	<u>(614,192)</u>	<u>(205,116)</u>	<u>10,201</u>	<u>-</u>	<u>(194,915)</u>	<u>(209,118)</u>
Change in net assets	(1,426,498)	251,911	(1,174,587)	10,201	-	(1,164,386)	(1,569,966)
Net assets (net asset deficiency) - beginning of year	4,812,283	(3,518,729)	1,293,554	480,576	-	1,774,130	3,344,096
Net assets (net asset deficiency) - end of year	<u>\$ 3,385,785</u>	<u>\$ (3,266,818)</u>	<u>\$ 118,967</u>	<u>\$ 490,777</u>	<u>\$ -</u>	<u>\$ 609,744</u>	<u>\$ 1,774,130</u>

The accompanying notes are an integral part of these consolidated financial statements.

CARE FOR THE HOMELESS AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended 2017)

	2018							2017
	Program Services			Supporting Services				Total
	Medical Clinics	Residential Services at Susan's Place	Total	Management and General	Fundraising and Development	Eliminations	Total	
Salaries	\$ 4,345,595	\$ 1,772,896	\$ 6,118,491	\$ 1,680,917	\$ 232,787	\$ -	\$ 8,032,195	\$ 8,233,295
Payroll taxes and employee benefits	1,019,487	467,735	1,487,222	389,030	54,402	-	1,930,654	1,866,626
Total salaries and related expenses	5,365,082	2,240,631	7,605,713	2,069,947	287,189	-	9,962,849	10,099,921
Program supplies	1,084,604	112,548	1,197,152	1,865	-	-	1,199,017	919,289
Medical provider expenses	1,415,059	-	1,415,059	-	-	-	1,415,059	1,082,768
Consulting and professional services	759,577	2,530,305	3,289,882	795,795	33,177	(520,256)	3,598,598	3,763,842
Occupancy	166,587	1,303,766	1,470,353	185,319	12,312	-	1,667,984	1,653,221
Maintenance and repairs	105,276	99,762	205,038	52,284	856	-	258,178	191,941
Publication and printing	68,603	28	68,631	17,378	3,473	-	89,482	62,027
Office expenses	25,868	35,446	61,314	143,682	7,720	-	212,716	193,649
Insurance	28,093	119,688	147,781	90,560	1,802	-	240,143	229,243
Telephone	300,290	46,358	346,648	104,964	7,485	-	459,097	459,981
Postage and delivery	7,137	1,338	8,475	2,868	557	-	11,900	10,581
Travel expenses	74,380	97,166	171,546	21,456	736	-	193,738	243,084
Equipment	137,321	22,821	160,142	82,696	4,943	-	247,781	309,506
Membership and dues	13,655	-	13,655	4,440	1,312	-	19,407	35,201
Meetings and conference	32,314	26,621	58,935	57,561	2,217	-	118,713	185,253
Advertising	158,084	-	158,084	60,607	351	-	219,042	125,442
Food	15,366	423,330	438,696	24,267	3,179	-	466,142	459,475
Bad debts	-	-	-	-	-	-	-	80,035
Interest	-	571,043	571,043	-	-	-	571,043	605,686
Miscellaneous	13,968	191	14,159	-	5,686	-	19,845	(15,903)
Total operating expenses before depreciation and amortization	9,771,264	7,631,042	17,402,306	3,715,689	372,995	(520,256)	20,970,734	20,694,242
Depreciation and amortization	-	614,192	614,192	81,124	-	-	695,316	697,069
Total expenses by function	\$ 9,771,264	\$ 8,245,234	\$ 18,016,498	\$ 3,796,813	\$ 372,995	\$ (520,256)	\$ 21,666,050	\$ 21,391,311

The accompanying notes are an integral part of these consolidated financial statements.

CARE FOR THE HOMELESS AND AFFILIATESConsolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,164,386)	\$ (1,569,966)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Bad debt expense	-	80,035
Depreciation and amortization	695,316	697,069
Unrealized loss (gain) on investments, net	98,946	(89,326)
<i>Decrease (increase) in assets</i>		
Government grants and contracts receivable	925,590	1,187,719
Pledges and contributions receivable	-	79,966
Accounts receivable - patients	(90,811)	(652,663)
Prepaid expenses and deposits	(31,588)	233,458
<i>Increase (decrease) in liabilities</i>		
Accounts payable and accrued expenses	821,134	458,673
Refundable advances from grantors	374,450	8,995
Deferred revenues	103,812	(20,000)
Due to funders	(121,245)	(194,892)
Deferred rent	(48,618)	(25,355)
Net cash provided by operating activities	<u>1,562,600</u>	<u>193,713</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in cash - escrow deposits	(10,000)	(10,133)
Purchase of investments	(36,421)	(64,418)
Fixed asset acquisitions	(703,489)	(247,555)
Net cash used in investing activities	<u>(749,910)</u>	<u>(322,106)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of loan	(452,261)	(399,925)
Net cash used in financing activities	<u>(452,261)</u>	<u>(399,925)</u>
Net increase (decrease) in cash and cash equivalents	360,429	(528,318)
Cash and cash equivalents - beginning of year	<u>322,314</u>	<u>850,632</u>
Cash and cash equivalents - end of year	<u><u>\$ 682,743</u></u>	<u><u>\$ 322,314</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u><u>\$ 571,043</u></u>	<u><u>\$ 605,686</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

NOTE 1 NATURE OF ORGANIZATION

Care for the Homeless (CFH) provides, coordinates and arranges primary care, health education, HIV counseling and testing, early intervention services for those affected with HIV/AIDS, social services and behavioral health services to homeless people at more than 24 homeless clinics, shelters, soup kitchens and drop-in centers. CFH 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. CFH outreach team members also address the 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. Jerome has a net asset deficiency (without donor restrictions) of \$3,266,818 at December 31, 2018. CFH has advanced funds to Jerome to help Jerome meet operating needs. CFH will continue to lend funds to Jerome as necessary for operating needs. Based on this funding, as well as Jerome's projected revenues and expenses, Jerome believes it will continue to meet its obligations through 2019.

In 2018, CFH provided services to more than 7,098 homeless men, women and children.

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

CFH and Jerome are not-for-profit corporations, which are tax-exempt organizations pursuant to Section 501(c)(3) of the Internal Revenue Code. The organizations are also exempt from state and local taxes. As of March 2018, the Better Business Bureau has extended CFH's designation as an accredited charity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated 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

Year Ended December 31, 2018

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

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

Cash in escrow deposits represents cash being held in a maintenance fund, which is required by the Low-Income Investment Fund (Note 9).

Investments

Investments are recorded at fair value. CFH invests in various investment securities that are exposed to risks, such as interest rate, market and credit risks. Due to the 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. The changes could materially affect CFH's consolidated 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 a 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.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

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, 2018. Such estimate is based on the age 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 expense is charged if the receivable is determined to be uncollectible based on a 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 Funders

Estimated amounts due to funders, when applicable, represent retroactive rate or other adjustments due to the funders or amounts to be returned due to cancellation of grants.

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. There was no deferred revenue at December 31, 2017.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

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

Net Assets Without Donor Restrictions

Net assets without donor restrictions include funds without restriction as to their use or purpose imposed by donors.

Net Assets With Donor Restrictions

Net assets with donor restrictions are subject to donor-imposed purpose or time restrictions. Care for the Homeless and Affiliates do not have any net assets subject to restrictions stipulating that resources be maintained in perpetuity at December 31, 2018 and 2017.

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 Medicaid and Medicare programs.

Charity Care

CFH 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 13).

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 within net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

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

In-kind Contributions

Donated services are recognized as revenue and expense in the consolidated financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and those skills would typically need to be purchased if they had not been donated. There were no donated services reported as revenue and expense for the years ended December 31, 2018 and 2017.

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. The majority of expenses can generally be directly identified with the program or supporting service to which they relate, and are charged accordingly. Other expenses, such as occupancy and insurance costs, have been allocated among program and supporting service classifications on the basis of employee full-time equivalent headcount and office space square footage.

Fair Value Measurements

Accounting Standards Codification (ASC) 820 establishes a hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) when market prices are not readily available or reliable. The three levels of the fair value hierarchy under ASC 820 are described as:

- Level 1:* Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.
- Level 2:* Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
 - Quoted prices for similar assets and liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in markets that are not active
 - Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

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

Fair Value Measurements *(continued)*

Level 3: Unobservable inputs for the asset or liability (*i.e.*, supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of the input significant to the fair value measurement. In determining fair value, CFH uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and also considers non-performance risk.

Changes in valuation techniques may result in transfers in or out of an investment's assigned level within the hierarchy.

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 during the years ended December 31, 2018 and 2017.

Mutual funds - Valued at the quoted net asset value of shares held at year end.

Corporate bonds and U.S. government bonds - Valued primarily 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 the closing price reported on the active market on which individual securities are traded.

The methods described above may produce a fair value calculation that may not indicate net realizable value or reflect 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 U.S. GAAP. Rent expense is recorded on the straight-line basis. Deferred rent, when material, is recorded for the difference between straight-line basis rent and rent paid.

CARE FOR THE HOMELESS AND AFFILIATES
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

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

Advertising

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

Measure of Operations

CFH excludes net investment returns, contributions, special events revenue (net of direct costs) and depreciation and amortization from its measure of operations.

Uncertain Tax Positions

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, 2015 and subsequent remain subject to examination by applicable taxing authorities.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires an amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources. CFH has adopted this guidance for its consolidated financial statements for the year ended December 31, 2018, with retrospective application of certain provisions to the consolidated financial statements for the year ended December 31, 2017.

A summary of net asset classifications pursuant to the adoption of ASU 2016-14 is as follows as of December 31, 2017:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<i>As previously presented</i>			
Unrestricted	\$ 1,293,554	\$ -	\$ 1,293,554
Temporarily restricted	-	480,576	480,576
Net assets, as reclassified	\$ 1,293,554	\$ 480,576	\$ 1,774,130

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

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

Accounting Pronouncements Yet to be Adopted

The FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The ASU also requires entities to disclose information about the nature of restrictions on its cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for CFH's fiscal year ending December 31, 2019, with early adoption permitted. This ASU will impact the presentation of the consolidated statement of cash flows when it is adopted.

The FASB also issued ASU 2016-02, *Leases (Topic 842)*, which requires recognition of (a) a lease asset (right of use) and lease liability, initially measured at the present value of the least payments, in the statement of financial position and (b) a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis. All cash payments are to be classified within operating activities in the statement of cash flows. The amendments are effective for CFH's fiscal year ending December 31, 2020, with early adoption permitted. This ASU will impact the accounting for lease arrangements when it is adopted.

The FASB also issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires additional disclosures pertaining to qualitative and quantitative disaggregation of revenue into categories that explain how revenue and cash flows are impacted by economic factors, information about contract balances and discussion of remaining performance obligations. The scope of this ASU excludes contributions and collaborative arrangements since they are not viewed to be contracts with customers. The key principle of the guidance is to recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are effective for CFH's fiscal year ending December 31, 2019, with early adoption permitted. This ASU is relevant to the accounting for CFH's revenue other than contributions and investment income when it is adopted.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

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

Accounting Pronouncements Yet to be Adopted *(continued)*

The FASB also issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides a more robust framework for determining whether a transaction should be accounted for as a contribution or exchange transaction. Organizations would have to evaluate whether the resource provider is receiving value in return for the resources transferred. If the resource provider is not itself receiving commensurate value for the resources provided, the organization would have to determine whether a transfer of assets represents a payment from a third-party payer on behalf of an existing exchange transaction between the recipient and an identified customer. In such circumstances, other guidance, such as the revenue recognition standard (ASC 606) would apply. The amendments are effective for Care for the Homeless and Affiliates' fiscal year ending December 31, 2019, with early adoption permitted.

Summarized Financial Information for 2017

The accompanying consolidated 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Care for the Homeless and Affiliates' consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Subsequent Events

Subsequent events have been evaluated through September 30, 2019, which is the date the consolidated financial statements were available to be issued. Except as noted in Notes 7, 10 and 14, there were no events requiring recognition or disclosure in the consolidated financial statements.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

	<u>Care for the Homeless</u>	<u>Jerome, Inc.</u>	<u>Total</u>
<i>Financial assets at year end</i>			
Cash and cash equivalents	\$ 307,979	\$ 374,764	\$ 682,743
Investments	2,134,105	-	2,134,105
Government grants and contract receivable	580,888	2,355,953	2,936,841
Accounts receivable - patients	<u>1,044,953</u>	<u>-</u>	<u>1,044,953</u>
Total financial assets	4,067,925	2,730,717	6,798,642
Less: Amounts not available to be used within one year			
Amounts restricted by donors as to purpose	<u>(490,777)</u>	<u>-</u>	<u>(490,777)</u>
Financial assets available to meet general expenditures over the next year	<u><u>\$ 3,577,148</u></u>	<u><u>\$ 2,730,717</u></u>	<u><u>\$ 6,307,865</u></u>

As part of CFH's liquidity management plan, CFH invests cash in excess of daily requirements in short-term, liquid investments. In the event of any unanticipated liquidity need, CFH could draw upon its \$750,000 line of credit. In June 2019, CFH renewed the line of credit with the bank and increased the availability to \$850,000 (see Note 10).

NOTE 4 PROPERTY AND EQUIPMENT, NET

Property and equipment, net is comprised of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 2,433,592	\$ 2,430,771
Vehicles	224,572	208,028
Leasehold improvements	11,637,153	11,247,050
Construction in progress	<u>919,381</u>	<u>653,081</u>
	15,214,698	14,538,930
Less: Accumulated depreciation and amortization	<u>(8,171,485)</u>	<u>(7,503,890)</u>
	<u><u>\$ 7,043,213</u></u>	<u><u>\$ 7,035,040</u></u>

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

NOTE 5 INVESTMENTS

The following table presents the asset balances measured at fair value by fair value hierarchy level as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds - large cap	\$ 330,149	\$ -	\$ 330,149
U.S. Government bonds	-	335,087	335,087
Corporate bonds	-	160,071	160,071
U.S. common stock	768,774	-	768,774
Cash and cash equivalents	540,024	-	540,024
Total investments	<u>\$ 1,638,947</u>	<u>\$ 495,158</u>	<u>\$ 2,134,105</u>

The following table presents the asset balances measured at fair value by fair value hierarchy level as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds - large cap	\$ 323,673	\$ -	\$ 323,673
U.S. Government bonds	-	352,646	352,646
Corporate bonds	-	175,664	175,664
U.S. common stock	814,542	-	814,542
Cash and cash equivalents	530,105	-	530,105
Total investments	<u>\$ 1,668,320</u>	<u>\$ 528,310</u>	<u>\$ 2,196,630</u>

NOTE 6 DUE TO FUNDERS 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, the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General, 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 the 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 the DOH a Medicaid fee-for-service rate, as well as a supplemental payment rate known as a "wrap" payment.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

NOTE 6 DUE TO FUNDERS AND OTHER CONTINGENCIES *(continued)*

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.

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. The funds were recouped during the year ended December 31, 2017.

NOTE 7 OPERATING LEASES

In 2011, CFH entered into a 10-year operating lease agreement with 30 East 33rd St. Realty LLC, which expires on December 31, 2020. CFH also rents space for one of its clinics on a month-to-month basis. In November 2018, CFH entered into a 10-year operating lease for space for a clinic at 91 Junius Street in Brooklyn, New York, which expires on October 31, 2028. In December 2018, CFH also signed a lease for a building for a new health center at 427-429 West 52nd Street in New York, New York. The lease term and rental payments for 427-429 West 52nd Street commence June 1, 2019 and the occupancy costs will be funded by government grant and contract funding.

Rent expense for 2018 and 2017 was \$263,634 and \$243,021, respectively.

Future minimum lease obligations as of December 31, 2018 are as follows:

<u>30 East 33rd Street, 91 Junius Street and 427- 429 West 52nd Street</u>	<u>Amount</u>
2019	\$ 1,461,453
2020	2,304,767
2021	2,022,203
2022	2,058,390
2023	2,084,844
Thereafter	<u>7,543,146</u>
	<u>\$ 17,474,803</u>

As of March 1, 2005, Jerome began leasing space under an operating lease agreement, which expires in February 2027. Rent expense for 2018 and 2017 was \$786,811 and \$764,528, respectively.

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

NOTE 7 OPERATING LEASES *(continued)*

The 1911-21 Jerome Avenue lease is noncancelable, unless 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. Future minimum lease obligations as of December 31, 2018 are as follows:

<u>1911-21 Jerome Avenue</u>	<u>Amount</u>
2019	\$ 810,415
2020	834,728
2021	859,770
2022	885,563
2023	912,130
Thereafter	<u>3,074,131</u>
	<u>\$ 7,376,737</u>

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 and 2017 are available for:

	<u>2018</u>	<u>2017</u>
Healthcare	\$ 205,745	\$ 80,464
Outreach and enrollment	-	599
Medical and other equipment	17,779	86,504
Mental health supportive housing	49,416	50,000
Client supplies	296	15,185
Dental care	-	2,024
Primary care utilization	210,035	218,711
Medical respite	-	19,583
Mobile van	<u>7,506</u>	<u>7,506</u>
	<u>\$ 490,777</u>	<u>\$ 480,576</u>

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS *(continued)*

During 2018 and 2017, net assets with donor restrictions were released from restrictions by incurring expenses satisfying the following restricted purposes:

	<u>2018</u>	<u>2017</u>
Healthcare	\$ 109,720	\$ -
Outreach and enrollment	599	-
Medical and other equipment	86,724	12,541
Mental health supportive housing	50,584	-
Client supplies	14,889	9,175
Dental care	2,024	-
Volunteers	-	9,831
Primary care utilization	108,676	6,289
Medical respite/telemedicine	19,583	130,417
Mobile van	-	67,417
	<u>\$ 392,799</u>	<u>\$ 235,670</u>

NOTE 9 LOAN PAYABLE

In 2007, Jerome borrowed \$10,077,137 from the Low-Income Investment Fund to finance the construction of Susan's Place. The loan is being paid by New York City Department of Homeless Services directly to the Low-Income Investment Fund as part of the debt service component of the reimbursement for the operations of Susan's Place. As of December 31, 2018 and 2017, there was \$6,813,405 and \$7,260,616 outstanding, respectively. The interest rate is fixed at 8.09% and interest expense was \$571,043 and \$605,686 for the years ended December 31, 2018 and 2017, respectively. The loan matures on August 1, 2028 and the improvements, which are carried as leasehold improvements, are collateral for the Low-Income Investment Fund 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 at December 31, 2018 are as follows:

2019	\$ 484,763
2020	525,467
2021	569,590
2022	617,417
2023	669,261
Thereafter	<u>3,946,907</u>
	<u>\$ 6,813,405</u>

CARE FOR THE HOMELESS AND AFFILIATES

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

NOTE 10 LINE OF CREDIT

As of December 31, 2018 and 2017, CFH had a \$750,000 line of credit with a bank. Borrowings bear interest based on the adjusted LIBOR rate plus 3.0%. There were no borrowings outstanding under the line of credit at December 31, 2018 and 2017. In June 2019, CFH renewed the line of credit with the bank and increased the availability to \$850,000.

NOTE 11 CONCENTRATIONS

The PHS Section 330(h) and New York City Department of Homeless Services grants represent approximately 72% and 76% of total consolidated operating revenues in the accompanying consolidated statements of activities for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 PENSION

CFH sponsors a defined contribution pension plan for all eligible employees who have completed one year of service. CFH contributed \$140,753 and \$106,122 to the pension plan in 2018 and 2017, respectively.

NOTE 13 CHARITY CARE

The total cost of charity care provided was approximately \$295,000 and \$235,000 for the years ended December 31, 2018 and 2017, respectively. 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.

NOTE 14 FINANCING AGREEMENT (SUBSEQUENT EVENT)

In May 2019, CFH entered into an agreement with the Fund for the City of New York for a loan to fund operating costs while government grant and contractual funding is pending for the new 52nd Street program location. In May 2019, CFH received the loan proceeds of approximately \$1,020,000. The short-term loan will be repaid by CFH when the government grant and contract funding is received in 2019.

**SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITOR'S REPORTS**

CARE FOR THE HOMELESS AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

<u>Federal Grant/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Provided to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services - Health Resources and Services Administration				
<i>Direct award:</i>				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care)	93.224	-	\$ 1,533,868	\$ 6,040,218
<i>Pass-through awards:</i>				
<i>Passed through Public Health Solutions</i>				
HIV Prevention Activities Health Department Based	93.940	11-HPT-593	-	25,158
Total U.S. Department of Health and Human Services			<u>1,533,868</u>	<u>6,065,376</u>
Total expenditures of Federal Awards			<u><u>\$ 1,533,868</u></u>	<u><u>\$ 6,065,376</u></u>

See accompanying notes.

CARE FOR THE HOMELESS AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Care for the Homeless and Affiliates for the year ended December 31, 2018, and is presented on the accrual basis of accounting as prescribed by generally accepted accounting principles in the United States of America. The information in this schedule is presented in accordance with the 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).

NOTE 2 INDIRECT COST RATE

Care for the Homeless and Affiliates did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**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
Care for the Homeless and Affiliates

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Care for the Homeless and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Care for the Homeless and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Care for the Homeless and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Care for the Homeless and Affiliates' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2018-001 that we consider to be a significant deficiency.

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Compliance and Other Matters

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

Care for the Homeless and Affiliates' Responses to Findings

Care for the Homeless and Affiliates' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Care for the Homeless and Affiliates' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mitchell Titus, LLP

September 30, 2019



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Care for the Homeless and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Care for the Homeless and Affiliates' compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on Care for the Homeless and Affiliates' major federal program for the year ended December 31, 2018. Care for the Homeless and Affiliates' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Care for the Homeless and Affiliates' major federal program 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 (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Care for the Homeless and Affiliates' 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 the major federal program. However, our audit does not provide a legal determination of Care for the Homeless and Affiliates' compliance.

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Opinion on the Major Federal Program

In our opinion, Care for the Homeless and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001 for Allowable Costs/Cost Principles. Our opinion on the major federal program is not modified with respect to this matter.

Care for the Homeless and Affiliates' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Care for the Homeless and Affiliates' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Care for the Homeless and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Care for the Homeless and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Care for the Homeless and Affiliates' 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Care for the Homeless and Affiliates' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Care for the Homeless and Affiliates' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Mitchell Titus, LLP

September 30, 2019

CARE FOR THE HOMELESS AND AFFILIATES

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

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 2 CFR 200.516(a)? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care) – part of the Health Center Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee? Yes No

CARE FOR THE HOMELESS AND AFFILIATES

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

SECTION II—FINANCIAL STATEMENT FINDINGS

Finding 2018-001: Time and Effort Reporting (Significant Deficiency)

Criteria: U.S. GAAP requires not-for-profit organizations to accurately classify expenses in program and supporting services categories in the financial statements. In addition, the Uniform Guidance applicable to federal awards requires that certified records be maintained to reflect work performed and that the records be supported by a system of internal controls that provides reasonable assurance that charges are accurate, allowable and reasonable and properly allocated.

Condition and Context: During 2018, CFH allocated personnel expenses to various programs and funding sources using quarterly analyses that the finance department prepares based on discussions held with supervisors regarding how time is spent. The analyses are documented in spreadsheets that are not certified by supervisors or personnel with sufficient knowledge of how time and effort is expended. Personnel costs, including salaries, payroll taxes and benefits, represent approximately 46% of CFH's total expenses for the year ended December 31, 2018. Personnel costs represent approximately 71% of the total costs budgeted under CFH's major federal award program tested by the auditors under the Uniform Guidance for 2018.

Effect: The allocation of personnel expenses to grants and contracts, as well as across program and supporting services categories isn't adequately supported by time and effort analyses certified by employees, supervisors or other personnel with sufficient knowledge of how time and effort is expended.

Cause: CFH did not have a process in place to prepare and retain certified time and effort analyses during 2018.

Recommendation: CFH should consider requiring personnel working on multiple programs to submit signed time and effort reports or time studies indicating how efforts are expended. Alternatively, appropriate supervisors accountable for the review of time and effort should sign and certify the accuracy of time and effort reports. The reports should be done as frequently as possible (at least quarterly) to provide for contemporaneous documentation of the allocation of time and effort.

Views of responsible officials and planned corrective actions: As a result of the audit calendar for 2017, management was unable to develop and implement the policies, procedures and processes to address the time and effort finding until 2019. In addressing management's plan to improve the time and effort reporting, HRSA has agreed that implementation of the improved process during 2019 is acceptable from their perspective. HRSA has advised management that CFH's external auditor should incorporate language in the 2018 single audit report filing that reflects both the plan and the timing of the plan's implementation by management during 2019.

Upon learning of the deficiency in late 2018, management developed a policy within the first six months of 2019 requiring personnel to submit quarterly time and effort reports supporting how time is expended among grant and contract funding sources. Time and effort report forms are also required to be submitted when additional personnel time is being charged to a grant due to new hires or other changes in allocation of time. Under the policy, direct supervisors are required to review and formally approve and sign the time and effort reports. It is the

CARE FOR THE HOMELESS AND AFFILIATES

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

responsibility of the supervisor/manager to ensure that staff have completed and are in compliance with completing and submitting all time and effort materials in a timely manner. The employee's completed time and effort report will be reviewed and approved by the employee's immediate supervisor and submitted to Human Resources for processing and used by CFH Finance in developing cost allocations to the various grants/project to which the employee is assigned. Management initiated this process in June 2019.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2018-001: Time and Effort Reporting

Federal program information: U.S. Department of Health and Human Services – Health Resources and Services Administration, CFDA Number 93.224, Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care).

See Section II for a detailed description of Finding 2018-001, which also impacts CFH's major federal award program.

CARE FOR THE HOMELESS AND AFFILIATES

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS

Finding 2017-001: Financial Statement Close Process and the Accounting Function (Material Weakness)

CFH's fiscal year 2018 financial statement close process reflected significant improvements versus the prior year. CFH's finance department developed and utilized both monthly and year-end closing checklists to facilitate the completeness and accuracy of the closing process. The more robust monthly closing process that management rolled out during the second half of 2018 reduced the extent of work necessary for the fiscal year 2018 year-end closing process. Monthly closing processes are now being completed by approximately one month after each month-end. The fiscal year 2018 closing process was completed in March 2019, which is a significant improvement in the timeliness versus the prior year. There were no audit adjustments proposed during the course of the fiscal 2018 audit, which also reflects the accuracy of the year-end closing process. Management also upgraded the accounting system to MIP Advance, which resulted in efficiencies in uploading certain data to the system versus manual data entries. This matter has been addressed.

Finding 2017-002: Grant and Contract Reconciliations (Material Weakness)

Management completed all grant and contract reconciliations and billings on a timely basis prior to and during the year-end fiscal year 2018 closing process, including necessary final closeout reconciliations required by funders. No issues regarding delayed reconciliations were observed during the fiscal year 2018 audit process. This matter has been addressed.

Finding 2017-003: Time and Effort Reporting (Significant Deficiency)

There was no change in CFH's process during 2018, so this matter remains a significant deficiency in internal controls for 2018 (see finding 2018-001 in the accompanying schedule of findings and questioned costs for the year ended December 31, 2018). In 2019, management developed a policy requiring personnel to submit quarterly time and effort reports supporting how time is expended among grant and contract funding sources. Time and effort report forms are also required to be submitted when additional personnel time is being charged to a grant due to new hires or other changes in the allocation of time. Under the policy, direct supervisors are required to review and formally approve and sign the time and effort reports. Management rolled out the process in June 2019.

Finding 2017-004: Bank Reconciliations (Significant Deficiency)

There were delays in the completion of certain monthly bank reconciliations through August 2018. With the hire of a Junior Accountant in August 2018, the process improved. The August 2018 bank reconciliations were completed by mid-October 2018. After August 2018, monthly bank reconciliations are being completed and reviewed by the Accounting Manager or Controller within one month and this matter has therefore been addressed.

CARE FOR THE HOMELESS AND AFFILIATES

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2018

FEDERAL AWARD FINDINGS

Finding 2017-003: Time and Effort Reporting

See the Financial Statement Findings section of the Summary Schedule of Prior Audit Findings for a detailed description of this finding, which also impacts CFH's major federal award program.

Finding 2017-005: Subrecipient Monitoring

CFH now has a process to obtain and review the results of single audits for its one not-for-profit subrecipient under the major federal award program (CFDA 93.224). Management documents the review of the report and any relevant considerations. This matter has been addressed.

Finding 2017-006: Equipment Management

CFH now has a process in place to perform and document physical inventories of equipment purchased with Federal funds. CFH performed physical inventories at all relevant locations during 2018. The physical inventory results are reconciled with CFH's equipment records.

Finding 2017-007: Late Single Audit Filing for 2017

CFH's data collection form and reporting package for the year ended December 31, 2017 were not submitted within nine months after the end of the audit period and were therefore past due. The data collection form and reporting package for the year ended December 31, 2018 are being submitted on a timely basis.



CARE FOR THE HOMELESS AND AFFILIATES
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Corrective Action Plan

For the Year Ended December 31, 2018

(Unaudited)

U.S. Department of Health and Human Services – Health Resources and Services Administration, CFDA Number 93.224, Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care)

Contact responsible for all corrective actions: William Herl, Chief Financial Officer

Finding 2018-001: Time and Effort Reporting

As a result of the audit calendar for 2017, management was unable to develop and implement the policies, procedures and processes to address the time and effort finding until 2019. In addressing management's plan to improve the time and effort reporting, HRSA has agreed that implementation of the improved process during 2019 is acceptable from their perspective. HRSA has advised management that CFH's external auditor should incorporate language in the 2018 single audit report filing that reflects both the plan and the timing of the plan's implementation by management during 2019.

Upon learning of the deficiency in late 2018, management developed a policy within the first six months of 2019 requiring personnel to submit quarterly time and effort reports supporting how time is expended among grant and contract funding sources. Time and effort report forms are also required to be submitted when additional personnel time is being charged to a grant due to new hires or other changes in allocation of time. Under the policy, direct supervisors are required to review and formally approve and sign the time and effort reports. It is the responsibility of the supervisor/manager to ensure that staff have completed and are in compliance with completing and submitting all time and effort materials in a timely manner. The employee's completed time and effort report will be reviewed and approved by the employee's immediate supervisor and submitted to Human Resources for processing and used by CFH Finance in developing cost allocations to the various grants/project to which the employee is assigned. Management started piloting the time & effort process in June 2019.

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