

**PRESBYTERIAN HOMES AND
FAMILY SERVICES, INCORPORATED
dba HumanKind**

LYNCHBURG, VIRGINIA

FINANCIAL STATEMENTS

**FOR YEARS ENDED
DECEMBER 31, 2017 AND 2016**

**PRESBYTERIAN HOMES AND
FAMILY SERVICES, INCORPORATED
Db a HumanKind**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-9
Statements of Cash Flows	10
Notes to Financial Statements	11-22
Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23-24
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required the Uniform Guidance	25-26
Schedule of Expenditures of Federal Awards	27
Notes to Schedule of Expenditures of Federal Awards	28
Schedule of Findings and Questioned Costs	29
Schedule of Prior Year Findings and Questioned Costs	30

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Presbyterian Homes and Family Services, Incorporated dba HumanKind
Lynchburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Presbyterian Homes and Family Services, Incorporated dba HumanKind ("HumanKind") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HumanKind as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018, on our consideration of HumanKind's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HumanKind's internal control over financial reporting and compliance.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

May 30, 2018

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind
Statements of Financial Position
At December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 602,787	\$ 1,190,411
Accounts receivable, net of allowance for uncollectible accounts of \$95,032 and \$108,734 in 2017 and 2016	649,444	516,270
Pledges receivable	46,848	101,037
Prepaid expenses	168,613	252,667
Bequests and gift annuities receivable	15,060	13,661
Beneficial interest in perpetual trusts	3,811,351	3,455,984
Investments	31,425,539	29,641,509
Movie Investment	50,000	50,000
Land, buildings, and equipment, net of accumulated depreciation	<u>11,300,672</u>	<u>11,683,476</u>
Total assets	<u>\$ 48,070,314</u>	<u>\$ 46,905,015</u>
Liabilities and net assets		
Liabilities		
Accounts payable, trade	\$ 361,467	\$ 479,838
Accrued compensation and other expenses	351,155	242,320
Deferred revenue	<u>112,920</u>	<u>38,907</u>
Total current liabilities	\$ 825,542	\$ 761,065
Note payable	<u>\$ 3,288,299</u>	<u>\$ 3,349,657</u>
Total liabilities	<u>\$ 4,113,841</u>	<u>\$ 4,110,722</u>
Net Assets		
Unrestricted	\$ 34,067,254	\$ 33,347,222
Temporarily restricted	413,461	370,329
Permanently restricted	<u>9,475,758</u>	<u>9,076,742</u>
Total net assets	<u>\$ 43,956,473</u>	<u>\$ 42,794,293</u>
Total liabilities and net assets	<u>\$ 48,070,314</u>	<u>\$ 46,905,015</u>

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

dba HumanKind

Statement of Activities

Year Ended December 31, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions				
Bequests	\$ 475,597	\$ -	\$ -	\$ 475,597
Individuals, churches, foundations and corporations	430,340	125,227	42,250	597,817
In-kind donations	-	109,375	-	109,375
Total contributions	\$ 905,937	\$ 234,602	\$ 42,250	\$ 1,182,789
Program related revenue				
Tuition and resident fees	\$ 510,624	\$ -	\$ -	\$ 510,624
Medicaid	2,397,529	-	-	2,397,529
Grants	1,347,240	87,421	-	1,434,661
Product income	6,971	-	-	6,971
Other	920,021	-	-	920,021
Total program related revenue	\$ 5,182,385	\$ 87,421	\$ -	\$ 5,269,806
Other revenue (loss)				
Investment return	\$ 4,950,722	\$ 65,900	\$ -	\$ 5,016,622
Distributions from perpetual trusts	92,702	47,102	-	139,804
Net unrealized losses, perpetual trusts	-	-	355,367	355,367
Net unrealized gains (loss), gift annuities	-	-	1,399	1,399
Other	67,656	68,692	-	136,348
Total other revenue (loss)	\$ 5,111,080	\$ 181,694	\$ 356,766	\$ 5,649,540
Net assets released from restrictions				
Satisfaction of restrictions	\$ 460,585	\$ (460,585)	\$ -	\$ -
Total revenues, gains, and other support	\$ 11,659,987	\$ 43,132	\$ 399,016	\$ 12,102,135
Expenses				
Supporting services				
Administrative services	\$ 1,982,601	\$ -	\$ -	\$ 1,982,601
Development	885,304	-	-	885,304
Program services				
Community Based Services	4,351,011	-	-	4,351,011
Residential Services	3,721,039	-	-	3,721,039
Total expenses	\$ 10,939,955	\$ -	\$ -	\$ 10,939,955
Changes in net assets	\$ 720,032	\$ 43,132	\$ 399,016	\$ 1,162,180
Net assets at beginning of year	33,347,222	370,329	9,076,742	42,794,293
Net assets at end of year	\$ 34,067,254	\$ 413,461	\$ 9,475,758	\$ 43,956,473

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

dba HumanKind

Statement of Activities

Year Ended December 31, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions				
Bequests	\$ 273,832	\$ -	\$ -	\$ 273,832
Individuals, churches, foundations and corporations	386,795	230,439	152,016	769,250
In-kind donations	-	72,173	-	72,173
Total contributions	\$ 660,627	\$ 302,612	\$ 152,016	\$ 1,115,255
Program related revenue				
Tuition and resident fees	\$ 763,962	\$ -	\$ -	\$ 763,962
Medicaid	2,616,080	-	-	2,616,080
Grants	1,345,435	2,427	-	1,347,862
Product income	28,083	-	-	28,083
Other	871,045	-	-	871,045
Total program related revenue	\$ 5,624,605	\$ 2,427	\$ -	\$ 5,627,032
Other revenue (loss)				
Investment return	\$ 1,834,772	\$ 49,211	\$ -	\$ 1,883,983
Distributions from perpetual trusts	105,259	45,629	-	150,888
Net unrealized losses, perpetual trusts	-	-	(57,171)	(57,171)
Net unrealized gains (loss), gift annuities	-	439	-	439
Other	78,775	48,602	-	127,377
Total other revenue (loss)	\$ 2,018,806	\$ 143,881	\$ (57,171)	\$ 2,105,516
Net assets released from restrictions				
Satisfaction of restrictions	\$ 442,767	\$ (442,767)	\$ -	\$ -
Total revenues, gains, and other support	\$ 8,746,805	\$ 6,153	\$ 94,845	\$ 8,847,803
Expenses				
Supporting services				
Administrative services	\$ 1,826,877	\$ -	\$ -	\$ 1,826,877
Development	751,953	-	-	751,953
Program services				
Community Based Services	4,077,399	-	-	4,077,399
Residential Services	4,920,122	-	-	4,920,122
Total expenses	\$ 11,576,351	\$ -	\$ -	\$ 11,576,351
Changes in net assets	\$ (2,829,546)	\$ 6,153	\$ 94,845	\$ (2,728,548)
Net assets at beginning of year	36,176,768	364,176	8,981,897	45,522,841
Net assets at end of year	\$ 33,347,222	\$ 370,329	\$ 9,076,742	\$ 42,794,293

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

dba HumanKind

Statement of Functional Expenses

Year Ended December 31, 2017

	Supporting Services		
	Administrative		
	Services	Development	Total
Auto expenses	\$ 2,778	\$ 808	\$ 3,586
Bad debt expense	-	-	-
Board expenses	1,622	-	1,622
Direct mail appeals	-	73,235	73,235
Community relations	6,650	7,115	13,765
Computer expenses	234,189	-	234,189
Depreciation	46,566	-	46,566
Dues	2,784	1,414	4,198
Electricity and water	-	-	-
Employee insurance	123,588	78,459	202,047
Food purchases	-	-	-
Fuel	-	-	-
Horticulture program	-	-	-
Household supplies	-	-	-
In-kind donations	-	51,811	51,811
Insurance	14,555	10,101	24,656
Interest expense	125,743	-	125,743
Investment expenses	88,500	-	88,500
Medicaid contract services	-	-	-
Medical attention and drugs	-	-	-
Miscellaneous	21,507	307	21,814
Office supplies	7,497	8,278	15,775
Payroll taxes	67,397	23,277	90,674
Peanut program	-	-	-
Pension	59,086	9,821	68,907
Postage	6,629	4,848	11,477
Printing	-	25,356	25,356
Professional fees	41,685	-	41,685
Professional resources	108,588	38,772	147,360
Promotion	213	175,339	175,552
Recreation	-	-	-
Rent	-	-	-
Repairs and maintenance	-	-	-
Salaries	970,493	331,198	1,301,691
School and education	-	-	-
Small equipment and tools	-	-	-
Staff training	31,438	34,172	65,610
Student/resident expenses	-	-	-
Telephone	7,923	4,236	12,159
Travel	13,170	6,757	19,927
Total	\$ 1,982,601	\$ 885,304	\$ 2,867,905

The accompanying notes to financial statements are an integral part of this statement.

Program Services			
Community Based Services	Residential Services	Total	Total Expenses
\$ 39,382	\$ 33,215	\$ 72,597	\$ 76,183
28,145	-	28,145	28,145
-	-	-	1,622
-	-	-	73,235
-	-	-	13,765
1,163	-	1,163	235,352
384,674	250,832	635,506	682,072
8,414	300	8,714	12,912
100,959	46,655	147,614	147,614
465,631	301,509	767,140	969,187
12,701	58,413	71,114	71,114
23,074	16,608	39,682	39,682
-	-	-	-
70,833	18,992	89,825	89,825
57,565	-	57,565	109,376
74,662	69,055	143,717	168,373
-	-	-	125,743
-	-	-	88,500
-	830,179	830,179	830,179
1,004	6,418	7,422	7,422
6,912	3,648	10,560	32,374
41,347	19,016	60,363	76,138
166,796	119,989	286,785	377,459
-	7,230	7,230	7,230
136,496	118,537	255,033	323,940
3,506	1,472	4,978	16,455
-	-	-	25,356
11,793	5,537	17,330	59,015
305	-	305	147,665
11,977	-	11,977	187,529
-	2,093	2,093	2,093
59,880	9,666	69,546	69,546
215,301	113,670	328,971	328,971
2,302,731	1,549,964	3,852,695	5,154,386
8,708	-	8,708	8,708
1,873	7,832	9,705	9,705
33,217	9,719	42,936	108,546
15,351	67,937	83,288	83,288
38,381	28,803	67,184	79,343
28,230	23,750	51,980	71,907
<u>\$ 4,351,011</u>	<u>\$ 3,721,039</u>	<u>\$ 8,072,050</u>	<u>\$ 10,939,955</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

dba HumanKind

Statement of Functional Expenses

Year Ended December 31, 2016

	Supporting Services		
	Administrative Services	Development	Total
Auto expenses	\$ 5,168	\$ 1,293	\$ 6,461
Bad debt expense	-	-	-
Board expenses	1,935	-	1,935
Direct mail appeals	-	9,315	9,315
Community relations	11,965	3,938	15,903
Computer expenses	186,816	-	186,816
Depreciation	55,787	-	55,787
Dues	2,507	1,704	4,211
Electricity and water	-	-	-
Employee insurance	107,499	55,099	162,598
Food purchases	-	-	-
Fuel	-	-	-
Horticulture program	-	-	-
Household supplies	-	-	-
In-kind donations	-	31,453	31,453
Insurance	14,460	10,139	24,599
Interest expense	130,788	-	130,788
Investment expenses	98,000	-	98,000
Medicaid contract services	-	-	-
Medical attention and drugs	-	-	-
Miscellaneous	9,761	143	9,904
Office supplies	9,312	4,241	13,553
Payroll taxes	65,439	25,520	90,959
Peanut program	-	-	-
Pension	66,059	16,729	82,788
Postage	6,140	2,572	8,712
Printing	-	6,720	6,720
Professional fees	43,029	-	43,029
Professional resources	64,035	19,197	83,232
Promotion	26	191,465	191,491
Recreation	-	-	-
Rent	-	-	-
Repairs and maintenance	-	-	-
Salaries	917,712	331,426	1,249,138
School and education	-	-	-
Small equipment and tools	-	-	-
Staff training	7,337	32,204	39,541
Student/resident expenses	-	-	-
Telephone	10,239	4,426	14,665
Travel	12,863	4,369	17,232
Total	\$ 1,826,877	\$ 751,953	\$ 2,578,830

The accompanying notes to financial statements are an integral part of this statement.

Program Services			
Community Based Services	Residential Services	Total	Total Expenses
\$ 41,674	\$ 81,490	\$ 123,164	\$ 129,625
28,154	-	28,154	28,154
-	-	-	1,935
-	-	-	9,315
-	-	-	15,903
1,118	-	1,118	187,934
375,302	254,898	630,200	685,987
7,576	722	8,298	12,509
103,584	70,072	173,656	173,656
415,783	531,694	947,477	1,110,075
11,457	126,917	138,374	138,374
24,325	20,491	44,816	44,816
-	416	416	416
48,769	30,186	78,955	78,955
50,720	-	50,720	82,173
64,311	84,303	148,614	173,213
-	-	-	130,788
-	-	-	98,000
-	628,004	628,004	628,004
629	7,635	8,264	8,264
8,777	6,611	15,388	25,292
41,957	27,997	69,954	83,507
151,749	182,086	333,835	424,794
-	27,120	27,120	27,120
115,011	154,390	269,401	352,189
3,569	2,524	6,093	14,805
26	-	26	6,746
12,454	4,740	17,194	60,223
332	414	746	83,978
5,894	52	5,946	197,437
-	18,689	18,689	18,689
44,800	-	44,800	44,800
276,302	68,531	344,833	344,833
2,115,666	2,428,623	4,544,289	5,793,427
12,113	-	12,113	12,113
4,666	10,431	15,097	15,097
23,273	15,877	39,150	78,691
22,200	73,601	95,801	95,801
28,249	37,522	65,771	80,436
36,959	24,086	61,045	78,277
<u>\$ 4,077,399</u>	<u>\$ 4,920,122</u>	<u>\$ 8,997,521</u>	<u>\$ 11,576,351</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 1,162,180	\$ (2,728,548)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	682,072	685,988
(Gain) loss on disposal of plant assets	18,387	(6,589)
Realized and unrealized (gains) losses on investments	(4,949,443)	(1,731,755)
Income on investments	(67,179)	(152,228)
Contributions restricted for investment in permanent endowment	(42,250)	(152,016)
(Increase) decrease in operating assets:		
Accounts receivable, net	(133,174)	(101,638)
Pledges receivable	54,189	31,465
Prepaid expenses	84,054	(23,841)
Bequests and gift annuities receivable	(1,399)	(439)
Beneficial interest in perpetual trusts	(355,367)	57,171
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(118,371)	144,462
Accrued compensation and other expenses	108,835	(7,679)
Deferred revenue	74,013	-
Net cash used for operating activities	<u>\$ (3,483,453)</u>	<u>\$ (3,985,647)</u>
Cash flows from investing activities		
Purchases of land, buildings, and equipment	\$ (317,656)	\$ (281,940)
Proceeds from sale of land, buildings, and equipment	-	12,954
Investment in movie	-	(50,000)
Net change in investments	<u>3,232,592</u>	<u>3,708,239</u>
Net cash provided by investing activities	<u>\$ 2,914,936</u>	<u>\$ 3,389,253</u>
Cash flows from financing activities		
Contributions restricted for investment in permanent endowment	\$ 42,250	\$ 152,016
Issuance of note payable	141,091	-
Principal retirement of note payable	<u>(202,448)</u>	<u>(176,974)</u>
Net cash provided by (used for) financing activities	<u>\$ (19,107)</u>	<u>\$ (24,958)</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (587,624)</u>	<u>\$ (621,352)</u>
Cash and cash equivalents at beginning of year	<u>1,190,411</u>	<u>1,811,763</u>
Cash and cash equivalents at end of year	<u><u>\$ 602,787</u></u>	<u><u>\$ 1,190,411</u></u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 125,743</u>	<u>\$ 130,788</u>

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba Humankind

Notes to Financial Statements
At December 31, 2017 and 2016

NOTE 1 – NATURE OF ORGANIZATION

The financial statements of Presbyterian Homes and Family Services, Incorporated dba HumanKind ("HumanKind") have been prepared on the accrual basis. HumanKind provides high-quality prevention, education, economic empowerment, mental health, and residential services to individuals, families, and communities. Various services are provided in many cities and counties across Virginia with offices or residential facilities located in Fredericksburg, Lexington, Lynchburg, Richmond, South Hill, Stuarts Draft, and Zuni, Virginia. Accounting policies considered to be significant are described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

HumanKind is required to report information regarding its financial position and activities according to three classes of net assets based on the existence or absence of donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. At December 31, 2017, the Organization had \$34,067,254 of unrestricted net assets.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2017, the Organization had \$413,461 of temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed or other legal restrictions requiring that all principal be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned for either general or donor-specific purposes. At December 31, 2017, the Organization had \$9,475,758 of permanently restricted net assets.

Contributions

Unconditional promises to give are recorded in the period in which the promise is received and allowances are provided for promises estimated to be uncollectible. Promises to give are received from a broad base of individuals, churches, corporations, and foundations. Pledges and bequests expected to be received after one year have been discounted at 5%. Management records bequests receivable at a conservative estimate of asset value.

Contributions of cash are reported as temporarily restricted support if they are received with donor stipulations which limit their use. When donor restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When donor restrictions are satisfied in the year the gift is recognized, the amounts are reported as unrestricted contributions.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Contributions: (Continued)

Contributions of property and equipment are recorded as support at their estimated fair value. Such contributions are reported as unrestricted support unless the donor has restricted the contributed asset to a specific purpose. Assets contributed with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those contributed assets must be maintained, HumanKind reports expirations of donor restrictions when the contributed or acquired assets are placed in service as instructed by the donor. HumanKind reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Cash and cash equivalents

HumanKind considers cash and cash equivalents to include cash on hand and temporary investments purchased with an original maturity of three months or less.

HumanKind has been designated as representative payee for a number of residents receiving benefits from the Social Security Administration ("SSA"). In accordance with SSA guidelines, HumanKind maintains a separate bank account for funds received on behalf of these residents.

Land, buildings, and equipment

Land, buildings, and equipment are stated at cost. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight line basis. Betterments and major renewals which extend the lives of properties are capitalized and maintenance, repairs, and minor renewals are expensed as costs are incurred. Acquisitions of buildings and equipment in excess of \$2,500 are capitalized.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values, as determined by quoted market prices, in the statements of financial position. Investments in private investment funds are reported at estimated fair value. Realized and unrealized gains and losses on investments are reflected in the statements of activities. Management believes the carrying value of real estate investments is not less than fair market value. Investment return that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires or is satisfied during the reporting period in which the investment return is recognized.

HumanKind has a spending policy, based on the total return concept that governs the rate at which funds are transferred from the Endowment Fund to the operating budget. The spending policy, in general, allows for spending at a specified percentage of average investment market value for the previous twelve quarters. The spending rate is determined annually by the Programs and Resources Committee and voted upon by the Board of Directors as part of the budgeting process.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Accounts receivable

Accounts receivable consist of amounts due from Medicaid, governmental agencies, third-party payers, and individuals for program service fees and are stated at invoiced amount less an allowance for uncollectible accounts. Management's determination of the allowance for uncollectible accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio.

Income Taxes

HumanKind is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. In addition, HumanKind has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Contributed services

HumanKind receives services from a variety of unpaid volunteers. Contributed services are recognized in the financial statements only if they create or enhance nonfinancial assets or if they require specialized skills and would typically need to be purchased if not received by contribution.

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.

NOTE 3 – INVESTMENTS

Investments are presented in the financial statements at fair value and are comprised of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Temporary investments	\$ 180,180	\$ (1,222,360)
Bonds	3,131,450	3,349,484
Corporate stocks, domestic	10,288,939	8,465,000
Corporate stocks, foreign	12,299,818	11,376,000
Real Assets	-	-
Private investment funds	<u>5,525,152</u>	<u>7,673,385</u>
Total	<u>\$ 31,425,539</u>	<u>\$ 29,641,509</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 3 – INVESTMENTS: (CONTINUED)

Investment return for the years ended December 31, 2017 and 2016 consisted of the following:

	2017		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 73,671	\$ 867	\$ 74,538
Realized and unrealized gains, net	4,884,281	65,162	4,949,443
Management fees	(7,230)	(129)	(7,359)
Total investment return (loss)	<u>\$ 4,950,722</u>	<u>\$ 65,900</u>	<u>\$ 5,016,622</u>
	2016		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 186,799	\$ 4,059	\$ 190,858
Realized and unrealized gains, net	1,685,778	45,977	1,731,755
Management fees	(37,805)	(825)	(38,630)
Total investment return (loss)	<u>\$ 1,834,772</u>	<u>\$ 49,211</u>	<u>\$ 1,883,983</u>

HumanKind has investments with eight fund managers which invest in private investment funds as part of HumanKind's asset allocation. The investment in private investment funds is an alternative investment strategy with the purpose of increasing the diversification of HumanKind's holdings and is consistent with HumanKind's overall investment objectives. The private investment funds are not traded on any organized exchange, and accordingly, investments in such funds may not be as liquid as investments in marketable equity or debt securities. The private investment funds may invest in other private investment funds, equity or debt securities which may or may not have readily available fair values, and foreign exchange or commodity forward contracts.

NOTE 4 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS AND GIFT ANNUITIES

HumanKind is the beneficiary of various trusts created by donors, the assets of which are not in the possession of HumanKind. HumanKind has enforceable rights and claims to these assets, including the right to the income earned by the trust assets. Net realized and unrealized gains and losses related to the beneficial interests are reported as changes in permanently restricted net assets. HumanKind's beneficial interests in these trusts are carried at the fair value of the trust assets held for HumanKind's benefit.

The gift annuities provide the annuitants with income for life, after which the designated remaining funds will be distributed to HumanKind as directed by the donor. The amount of gift annuities is reported at present value net of the amounts that are expected to be paid to the donors during their lifetime. The gift annuities are discounted at 6%. These actuarially determined amounts fluctuate over time according to the life expectancies of the donors.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 5 – PLEDGES, BEQUESTS, AND GIFT ANNUITIES RECEIVABLE

Pledges and bequests receivable at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 47,630	\$ 104,981
Receivable in one to five years	15,060	17,140
Total pledges and bequests receivable	\$ 62,690	\$ 122,121
Less discounts to net present value	(538)	(4,651)
Less allowance for uncollectible	(244)	(2,772)
Net pledges and bequests receivable	<u>\$ 61,908</u>	<u>\$ 114,698</u>

Bequests receivable include gifts totaling \$15,060 and \$13,661 as of December 31, 2017 and 2016, respectively, which represent amounts receivable under gift annuity agreements which are administered by the Presbyterian Church (U.S.A.) Foundation (the "Foundation"). These agreements were established between the Foundation and the donor with HumanKind being named as the beneficiary. The Foundation is responsible for investing these funds and making required payments to annuitants. HumanKind has recorded as assets the net present value of the amounts expected to be received after all required payments to annuitants have been made. Pledges and bequests receivable in more than one year are discounted at 5%. Uncollectible pledges and bequests are expected to be 5% of the balance.

NOTE 6 – RESTRICTIONS ON NET ASSETS

Unrestricted net assets include \$121,975 and \$89,909 in Board designated amounts as of December 31, 2017 and 2016, respectively.

Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2017</u>	<u>2016</u>
Community trust endowment	\$ 10,662	\$ 10,662
Pledges receivable	46,848	77,978
Advanced education	180,924	96,793
Community scholarships	119,231	89,101
College education	55,796	95,795
Total	<u>\$ 413,461</u>	<u>\$ 370,329</u>

Permanently restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Permanently restricted endowment funds	\$ 5,649,347	\$ 5,584,538
Beneficial interest in perpetual trusts	3,811,351	3,455,984
Pledges receivable	-	22,559
Gift annuities receivable	15,060	13,661
Total	<u>\$ 9,475,758</u>	<u>\$ 9,076,742</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 7 – ACCOUNTS RECEIVABLE

Accounts receivable include \$298,673 and \$208,389 at December 31, 2017 and 2016, respectively, for services rendered under the Medicaid health insurance program in connection with the operation of adult group homes. All other accounts receivable are due primarily from governmental agencies, third-party payers, and individuals.

NOTE 8 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following as of December 31:

	2017		
	Cost	Accumulated Depreciation	Book Value
Land and improvements	\$ 4,951,459	\$ 1,130,857	\$ 3,820,602
Buildings and improvements	15,017,827	8,243,796	6,774,031
Machinery and equipment	1,509,975	1,374,015	135,960
Automobiles	1,225,618	883,460	342,158
Furniture and fixtures	1,386,080	1,306,252	79,828
Intangibles	11,500	11,500	0
Construction in progress	148,093	-	148,093
	<u>\$ 24,250,552</u>	<u>\$ 12,949,880</u>	<u>\$ 11,300,672</u>
	2016		
	Cost	Accumulated Depreciation	Book Value
Land and improvements	\$ 4,864,009	\$ 1,072,749	\$ 3,791,260
Buildings and improvements	14,990,752	7,873,908	7,116,844
Machinery and equipment	1,595,170	1,326,571	268,599
Automobiles	1,480,397	1,205,823	274,574
Furniture and fixtures	1,437,910	1,301,838	136,072
Intangibles	11,500	7,667	3,833
Construction in progress	92,294	-	92,294
	<u>\$ 24,472,032</u>	<u>\$ 12,788,556</u>	<u>\$ 11,683,476</u>

NOTE 9 – RETIREMENT PLAN

HumanKind has a tax deferred annuity plan which covers substantially all full-time employees. The plan includes provisions for voluntary employee contributions and discretionary contributions by HumanKind. After twelve months of service, employees are eligible for discretionary contributions made by HumanKind. During the year ended December 31, 2017, HumanKind elected to contribute an amount equal to 4% of eligible payroll in addition to matching up to 4% voluntary employee contributions. During the year ended December 31, 2016, HumanKind elected to contribute an amount equal to 7% of eligible payroll. Contributions to the plan amounted to \$294,773 and \$352,189 in 2017 and 2016, respectively.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 10 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 11 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

HumanKind maintains cash balances at financial institutions located within its market area. The amount at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time, the balances maintained at one or more institutions may exceed the maximum amount insured by the FDIC.

NOTE 12 – RELATED PARTY

A member of the Board of Directors is an employee of a local insurance company which HumanKind uses as an agent for its employee benefits. The company receives a commission for the premiums HumanKind pays to Anthem, Guardian, Piedmont, and Reliance. Premiums paid to these companies during the years ended December 31, 2017 and 2016 totaled \$162,872 and \$292,574, respectively.

NOTE 13 – NOTES PAYABLE

Details of notes payable at December 31, 2017 and 2016 are as follows:

	2017	2016
In January 2011, HumanKind paid off the operating line of credit with a promissory note for \$4,312,430. This note is for a term of twenty years and bears interest for the first five years at 3.7%. Thereafter, it can bear interest at the Five Year Treasury Security Yield, as published in the Wall Street Journal, plus 4%. The interest rate will not go below 3.7% or above 7%. Principal and Interest are due in monthly payments of \$25,480 through January 21, 2016, then monthly payments of \$25,381 through January 21, 2031. The note is secured by investments owned by HumanKind.	\$ 3,165,910	\$ 3,349,657
Note payable to Bank for purchase of four vehicles. Principal and interest are due in monthly payments of \$1,459 through March 2022 Interest at 3.20%. Loan secured by vehicles.	68,142	-
Note payable to Bank for purchase of four vehicles. Principal and interest are due in monthly payments of \$1,459 through March 2022 Interest at 3.20%. Loan secured by vehicles.	54,247	
Total	\$ 3,288,299	\$ 3,349,657

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 13 – NOTES PAYABLE: (CONTINUED)

Annual payments of principal and interest are as follows:

Year	Principal	Interest
2018	\$ 218,078	116,372
2019	225,865	108,586
2020	233,938	100,513
2021	242,311	92,143
2022	229,938	83,613
2023-2027	1,236,245	286,635
2028-2032	901,924	93,556
Totals	\$ 3,288,299	\$ 881,418

NOTE 14 – ENDOWMENT

HumanKind's endowment (Investment Pool) consists of approximately 12 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

HumanKind has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HumanKind classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 14 - ENDOWMENT: (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 366,613	\$ 5,649,347	\$ 6,015,960
Board-designated endowment funds	25,409,579	-	-	25,409,579
Total Funds	<u>\$ 25,409,579</u>	<u>\$ 366,613</u>	<u>\$ 5,649,347</u>	<u>\$ 31,425,539</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 292,351	\$ 5,548,338	\$ 5,840,689
Board-designated endowment funds	23,800,820	-	-	23,800,820
Total Funds	<u>\$ 23,800,820</u>	<u>\$ 292,351</u>	<u>\$ 5,548,338</u>	<u>\$ 29,641,509</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 23,800,820	\$ 292,351	\$ 5,548,338	\$ 29,641,509
Investment return:				
Net appreciation (realized and unrealized)	\$ 4,884,281	\$ 65,162	\$ -	\$ 4,949,443
Dividend income	73,671	867	-	74,538
Management fees	(7,230)	(129)	-	(7,359)
Total investment return	<u>\$ 4,950,722</u>	<u>\$ 65,900</u>	<u>\$ -</u>	<u>\$ 5,016,622</u>
Contributions	<u>\$ 438,765</u>	<u>\$ -</u>	<u>\$ 101,009</u>	<u>\$ 539,774</u>
Appropriation of endowment assets for expenditure	<u>\$ (3,780,728)</u>	<u>\$ 8,362</u>	<u>\$ -</u>	<u>\$ (3,772,366)</u>
Endowment net assets, end of year	<u>\$ 25,409,579</u>	<u>\$ 366,613</u>	<u>\$ 5,649,347</u>	<u>\$ 31,425,539</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 25,778,571	\$ 275,660	\$ 5,411,534	\$ 31,465,765
Investment return:				
Net appreciation (realized and unrealized)	\$ 1,685,778	\$ 45,977	\$ -	\$ 1,731,755
Dividend income	186,799	4,059	-	190,858
Management fees	(37,805)	(825)	-	(38,630)
Total investment return	<u>\$ 1,834,772</u>	<u>\$ 49,211</u>	<u>\$ -</u>	<u>\$ 1,883,983</u>
Contributions	<u>\$ 277,963</u>	<u>\$ 12,708</u>	<u>\$ 136,804</u>	<u>\$ 427,475</u>
Appropriation of endowment assets for expenditure	<u>\$ (4,090,486)</u>	<u>\$ (45,228)</u>	<u>\$ -</u>	<u>\$ (4,135,714)</u>
Endowment net assets, end of year	<u>\$ 23,800,820</u>	<u>\$ 292,351</u>	<u>\$ 5,548,338</u>	<u>\$ 29,641,509</u>

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 14 - ENDOWMENT: (CONTINUED)

Return Objectives and Risk Parameters

HumanKind has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to accommodate investment styles and strategies that are considered reasonable and prudent, while providing long-term growth.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, HumanKind relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HumanKind targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

HumanKind has a spending policy, based on the total return concept that governs the rate at which funds are transferred from the Endowment Fund to the operating budget. The spending policy, in general, allows for spending at a specified percentage of average investment market value for the previous twelve quarters. The spending rate is determined annually by the Programs and Resources Committee and voted upon by the Board of Directors as part of the budgeting process.

NOTE 15 - INVESTMENTS FAIR VALUE MEASUREMENTS

Fair value for investments are determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 15 - INVESTMENTS FAIR VALUE MEASUREMENTS: (CONTINUED)

HumanKind has investments with six fund managers which invest in private investment funds as part of HumanKind's asset allocation. The investment in private investment funds is an alternative investment strategy with the purpose of increasing the diversification of HumanKind's holdings and is consistent with HumanKind's overall investment objectives. The private investment funds are not traded on any organized exchange, and accordingly, investments in such funds may not be as liquid as investments in marketable equity or debt securities. The private investment funds may invest in other private investment funds, equity or debt securities which may or may not have readily available fair values, and foreign exchange or commodity forward contracts. Investments in private investment funds are reported at estimated fair value provided by fund managers. The framework permits to measure the fair value of its funds investments as it pro-rata interest in the net asset value (NAV) of such investment funds as reported by the fund management, if the NAV is prepared on a fair value basis as of December 31, 2017.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

HumanKind is providing the following information related to its investments:

Fair Value Measurements at Reporting Date Using				
	12/31/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Temporary investments	\$ 180,180	\$ 434,180	\$ (254,000)	\$ -
Bonds	3,131,450	3,131,450	-	-
Corporate stocks, domestic	10,288,939	1,236,939	9,052,000	-
Corporate stocks, foreign	12,299,818	1,264,480	11,035,338	-
Private investment funds	5,525,152	11,555	5,513,597	-
Total	\$ 31,425,539	\$ 6,078,604	\$ 25,346,935	\$ -

Fair Value Measurements at Reporting Date Using				
	12/31/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Temporary investments	\$ (1,222,360)	\$ 151,899	\$ (1,374,259)	\$ -
Bonds	3,349,484	3,349,484	-	-
Corporate stocks, domestic	8,465,000	1,090,000	7,375,000	-
Corporate stocks, foreign	11,376,000	1,094,000	10,282,000	-
Private investment funds	7,673,385	168,920	7,504,465	-
Total	\$ 29,641,509	\$ 5,854,303	\$ 23,787,206	\$ -

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2017 and 2016 (Continued)

NOTE 16 - SUBSEQUENT EVENTS

In preparing these financial statements, management of HumanKind, Inc. has evaluated events and transactions for potential recognition or disclosure through May 30, 2018, the date the financial statements were issued.

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' 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*

The Board of Directors
Presbyterian Homes and Family Services, Incorporated dba HumanKind
Lynchburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Presbyterian Homes and Family Services, Incorporated dba HumanKind ("HumanKind") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

May 30, 2018

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors
Presbyterian Homes and Family Services, Incorporated dba HumanKind
Lynchburg, Virginia

Report on Compliance for Each Major Federal Program

We have audited Presbyterian Homes and Family Services, Incorporated dba HumanKind's (a nonprofit organization) compliance with the types of compliance requirements described in *the OMB Compliance Supplement* that could have a direct and material effect on each of HumanKind's major federal programs for the year ended December 31, 2017. HumanKind's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of HumanKind's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence HumanKind's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HumanKind's compliance.

Opinion on Each Major Federal Program

In our opinion, HumanKind complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of HumanKind 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 HumanKind's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HumanKind's internal control over compliance.

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

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

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

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

May 30, 2018

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Federal Transit Administration			
Pass-Through Payments:			
Greater Richmond Transit Company:			
Job Access and Reverse Commute Program	20.516	N/A	\$ <u>49,856</u>
Department of Health and Human Services:			
Pass-Through Payments:			
Virginia Department of Social Services:			
Promoting Safe and Stable Families	93.556	N/A	\$ 20,773
Child Care & Development Block Grant	93.575	N/A	18,607
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Programs	93.505	N/A	256,165
Temporary Assistance to Needy Families	93.558	SVC-07-070-02	<u>496,390</u>
Total department of health and human services			\$ <u>791,935</u>
Department of Housing and Urban Development:			
Pass-Through Payments:			
Lynchburg Redevelopment and Housing Authority:			
Continuum of Care Program	14.267	N/A	\$ 58,400
LISC:			
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	N/A	74,350
County of Henrico:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	<u>19,227</u>
Total department of housing and urban development			\$ <u>151,977</u>
Department of Labor:			
Pass-Through Payments:			
Virginia Region 2000 WIOA:			
WIOA Adult Program	17.258	N/A	\$ <u>118,527</u>
Total Expenditures of Federal Awards			\$ <u><u>1,112,295</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Presbyterian Homes and Family Services, Inc. dba HumanKind under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Presbyterian Homes and Family Services, Inc. dba HumanKind, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Presbyterian Homes and Family Services, Inc. dba HumanKind.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3 - De Minimis Cost Rate

The Organization did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note 4 - Subrecipients

No awards were passed through to subrecipients.

Note 5 - Relationship to Financial Statements

Federal expenditures and revenues are reported in the Organization's financial statements as follows:

Per the financial statements:

Grants	\$ 1,434,661
Less: Non-federal grants	<u>(322,366)</u>
 Total federal expenditures per the Schedule of Expenditures of Federal Awards	 \$ <u><u>1,112,295</u></u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

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?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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 Section 200.516(a)	No
Identification of major programs:	
CFDA #	Name of Federal Program or Cluster
93.558	Temporary Assistance to Needy Families
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind
Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2017

There were no findings or questioned costs in the prior year.