



Certified Public Accountants  
and Financial Advisors

**Tenderloin Housing Clinic, Inc.**  
Financial Statements  
June 30, 2019

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Tenderloin Housing Clinic, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Tenderloin Housing Clinic, Inc., a non-profit organization, (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

### Auditor's 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 auditor's 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 Organization'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 Organization'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 the Organization as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Supplemental 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* (CFR) 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 December 19, 2019, on our consideration of the Organization'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

### **SQUAR MILNER LLP**

San Francisco, California  
December 19, 2019

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**TENDERLOIN HOUSING CLINIC, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2019**

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**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 5,903,133
Cash held for clients	4,477,459
Cash - tenant security deposits	38,553
Contracts and grants receivable	3,360,463
Pledges receivable - current portion - net	1,331,000
Other receivables	19,279
Prepaid expenses and other current assets	<u>891,547</u>

Total current assets 16,021,434

**Property and equipment - net**

8,716,720

**Other Assets**

Attorney fee receivable	3,516
Pledges receivable - long term portion - net	4,237,738
Deposits	<u>256,305</u>

Total assets \$ 29,235,713

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 1,216,310
Accrued payroll and payroll taxes	860,779
Accrued vacation	804,755
Other accrued liabilities	115,083
Tenant security deposits	37,987
Cash held for clients liability	<u>4,477,459</u>

Total current liabilities 7,512,373

**Long-term Liabilities**

Loans payable	<u>704,949</u>
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Total liabilities 8,217,322

**Net Assets**

Without donor restrictions	15,292,026
With donor restrictions	<u>5,726,365</u>

Total net assets 21,018,391

Total liabilities and net assets \$ 29,235,713

**TENDERLOIN HOUSING CLINIC, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2019**

<b>SUPPORT AND REVENUE</b>	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT</b>			
Government contracts and grants			
SRO Housing Program - Department of Homelessness & Supportive Housing (HSH)	\$ 26,635,600	\$ -	\$ 26,635,600
Continuum of Care - COC, funded by Department of Housing and Urban Development (HUD)	3,551,354	-	3,551,354
New Horizons - Adult Probation Department (APD)	1,487,069	-	1,487,069
Assistance for Ellis Act Evictions - Mayor's Office of Housing and Community Development (MOHCD)	1,082,120	-	1,082,120
Modified Payment Program - HSH	1,026,775	-	1,026,775
New Roads - APD	975,345	-	975,345
Veterans Affairs Supportive Housing (VASH)	696,563	-	696,563
Central City SRO Collaborative - Department of Building Inspection (DBI)	451,834	-	451,834
La Voz Latina - MOHCD	271,538	-	271,538
Code Enforcement and Outreach Program	231,829	-	231,829
Drug Court - Superior Court of San Francisco	128,565	-	128,565
Lower Polk Community Benefit District - MOHCD	56,251	-	56,251
Block Safety Grant - Office of Workforce and Development (OEWD)	50,000	-	50,000
San Francisco Rent Board Grant	20,000	-	20,000
Grant for Wraps - MOHCD	14,779	-	14,779
Total government contracts and grants	36,679,622	-	36,679,622
Other support			
Donations	146,628	5,726,365	5,872,993
Total support	36,826,250	5,726,365	42,552,615
<b>REVENUE</b>			
Hotel rental income	9,467,226	-	9,467,226
Attorney fees	523,769	-	523,769
Galvin Apartments rental income	421,624	-	421,624
Other rental and miscellaenous income	147,205	-	147,205
Reimbursed legal costs	123,225	-	123,225
Investment income	2,145	-	2,145
Total revenue	10,685,194	-	10,685,194
Total support and revenue	47,511,444	5,726,365	53,237,809
<b>EXPENSES</b>			
Program services	43,732,206	-	43,732,206
Management and general	3,222,280	-	3,222,280
Total expenses	46,954,486	-	46,954,486
<b>CHANGE IN NET ASSETS</b>	556,958	5,726,365	6,283,323
<b>NET ASSETS - beginning of year</b>	14,735,068	-	14,735,068
<b>NET ASSETS - end of year</b>	\$ 15,292,026	\$ 5,726,365	\$ 21,018,391

**TENDERLOIN HOUSING CLINIC, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2019**

	Program Services						Total Program Services	Management and General	Total
	SRO Housing	Transitional Housing	Legal Assistance	Community Organizing and Outreach	Housing Service	Galvin Apartments			
Salaries and related costs	\$ 16,244,833	\$ 905,983	\$ 1,065,129	\$ 737,287	\$ 819,061	\$ 158,205	\$ 19,930,498	\$ 1,636,055	\$ 21,566,553
Hotel leases	13,158,701	622,149	-	-	-	-	13,780,850	-	13,780,850
Utilities	2,860,674	87,029	6,085	44,874	14,280	119,021	3,131,963	128,088	3,260,051
Repair and maintenance	2,460,109	68,526	6,735	26,741	12,821	78,416	2,653,348	237,472	2,890,820
Office	508,007	10,823	44,961	32,597	25,326	40,389	662,103	438,670	1,100,773
Subsidy payments	836,076	38,526	-	61,661	8,848	-	945,111	-	945,111
Rent	136,173	680,091	42,300	48,597	33,223	-	940,384	-	940,384
Depreciation and amortization	255,524	4,430	-	-	3,644	122,327	385,925	145,201	531,126
Subcontract, contractors and outside consultant	107,101	-	-	50,000	3,153	6,160	166,414	274,674	441,088
Insurance	258,011	14,103	7,268	13,048	723	9,032	302,185	46,959	349,144
Staff development and other cost:	97,594	4,697	41,510	4,862	4,944	25	153,632	151,549	305,181
Legal and accounting	114,542	-	-	-	-	1,125	115,667	125,142	240,809
Community engagement	117,894	14,685	-	46,995	-	275	179,849	21,829	201,678
Litigation expenses	-	-	173,637	-	-	-	173,637	-	173,637
Elevator maintenance	129,044	2,988	-	-	-	12,505	144,537	-	144,537
Bank and finance charges	26,178	-	-	-	37,671	-	63,849	2,775	66,624
Taxes	-	-	-	-	-	2,254	2,254	13,866	16,120
<b>Total expenses</b>	<b>\$ 37,310,461</b>	<b>\$ 2,454,030</b>	<b>\$ 1,387,625</b>	<b>\$ 1,066,662</b>	<b>\$ 963,694</b>	<b>\$ 549,734</b>	<b>\$ 43,732,206</b>	<b>\$ 3,222,280</b>	<b>\$ 46,954,486</b>

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**TENDERLOIN HOUSING CLINIC, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2019**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 6,283,323
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	531,126
Changes in operating assets and liabilities:	
Pledges receivable	(5,568,738)
Contracts and grants receivable	2,436,066
Cash held for clients	(1,066,853)
Other receivables	65,714
Prepaid expenses	(669,939)
Accounts payable	(368,781)
Client trust fund liability	1,066,853
Accrued payroll	163,206
Accrued vacation	361,024
Other current liabilities	20,944
<b>Net cash provided by operating activities</b>	<u>3,253,945</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of equipment and improvements	<u>(590,637)</u>
<b>Net cash used in investing activities</b>	<u>(590,637)</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 2,663,308

**CASH AND CASH EQUIVALENTS - beginning of year** 3,239,825

**CASH AND CASH EQUIVALENTS - end of year** \$ 5,903,133

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**1. DESCRIPTION OF ORGANIZATION**

Tenderloin Housing Clinic, Inc. (the "Organization") was incorporated on June 3, 1980, as a California nonprofit corporation. The Organization's primary purposes are to preserve, expand and stabilize low-income housing in the Tenderloin and surrounding communities of San Francisco, California, assist tenants to assert their legal rights, provide culturally competent support services, and create employment and leadership opportunities for formerly homeless tenants.

On January 1, 2004, the Clinic merged with City Housing, Inc. (CHI), the exclusive agent that operated and managed all the hotels now master-leased by the Organization. The Organization assumed all the assets and liabilities of CHI and was the surviving corporation.

All the Organization's properties are in San Francisco, California and its principal activities are as follows:

*Single Room Occupancy (SRO) Housing:* This program provides supportive housing to homeless tenants through master lease agreements with residential hotels in San Francisco, California since May 1, 1999. The Organization provides comprehensive property management services for twenty master-leased hotels. The Organization's property management department manages tenants' leases and compliance with hotel leases and ensures the sanitation, safety, upkeep and code compliance of the hotels. The Organization offers voluntary comprehensive support services to tenants residing in these hotels. The support services offered by the Organization help residents maintain housing, enrich their self-respect, confidence and awareness, improve quality of life, minimize and/or resolve issues that may jeopardize their housing, build a strong sense of community and access information about other helpful services. The hotels' operating expenses, including lease payments, are funded by a combination of rent collections and service contracts with HSH, COC funding, and VASH funding.

*Transitional Housing:* This program includes the New Roads Subsidy Program (New Roads), New Horizons Transitional Housing Program (New Horizons), Collaborative Courts Program and Drug Court Program. Funding for this program is from contracts with the APD and Superior Court of California of the City and County of San Francisco. New Roads provides rental subsidies, financial assistance and/or supportive services to homeless individuals on probation in order to obtain and retain permanent housing. New Horizons provides up to 12 months of clean and sober transitional housing and housing planning assistance to individuals on probation at a master-leased SRO hotel. The Collaborative Courts and Drug Court Programs provide short-term stabilization housing and housing planning assistance to San Francisco Superior Court clients.

*Legal Assistance:* This program provides assistance and/or legal representation to long-term, senior, low-income and/or disabled tenants in San Francisco facing eviction from Ellis Act and Owner Move-In actions by landlords, as well as to tenants facing eviction in San Francisco under the Tenants Right to Counsel legislation. Funding for this program comes from a MOHCD contract and court-awarded legal fees associated with settled lawsuits. The program is primarily non-litigation representation (where no fees of any kind are charged or collected), with some nonrevenue and revenue generating litigation. The MOHCD contract funds the majority of this program. Most of the revenue generating cases are on a contingency fee basis.

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**1. DESCRIPTION OF ORGANIZATION** (continued)

*Community Organizing and Outreach:* This program includes the Central City SRO Collaborative (Collaborative), Code Enforcement Outreach Program (CEOP), La Voz Latina de la Ciudad Central (La Voz), and Residential Rent Stabilization & Arbitration Board Outreach (Rent Board). Funding for this program is from contracts and grants with the following City and County of San Francisco agencies: DBI, MOHCD, OWED, and the San Francisco Rent Board. The Collaborative, CEOP and Rent Board programs provide community outreach, counseling and tenant organizing to SRO and low-income residents of San Francisco. The Collaborative operates a tenant representative program at various SRO hotels to enhance stability in the hotels and address residential community concerns. Tenant representatives, with the help of the Organization's community organizers, conduct regular meetings and respond to tenant concerns. La Voz engages and educates Latino and immigrant families living in the Tenderloin community of San Francisco.

*Housing Service:* This program provides housing, rental and payment assistance where the Organization acts as a disbursing agent. Comprehensive case management is also offered to adult clients under HSH and the COC funding. These services target to low-income individuals, low-income families and homeless individuals who may be mentally ill, have chronic substance abuse problems, and/or be afflicted with disabling HIV, AIDS or related disorders.

*Galvin Apartments:* The Organization owns and manages a studio apartment building named in honor of Sister Bernie Galvin of Religious Witness with Homeless People (refer to Note 12).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the Organization's significant accounting policies:

***Basis of Accounting***

The Organization maintains its records using the accrual method of accounting in accordance with generally accepted accounting principles ("GAAP").

***Basis of Presentation***

The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

*Without donor restrictions*

Net assets that are not subject to donor-imposed stipulations.

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

***Basis of Presentation*** (continued)

*With donor restrictions*

Net assets received with donor stipulations that limit the use of the assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restriction.

***Cash and Cash Equivalents***

The Organization has defined cash and cash equivalents as petty cash, cash in bank and money market accounts.

***Concentrations of Credit Risk***

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

***Fair Value Measurements***

The Organization considers the use of market based information over entity specific information in valuing its marketable investment securities, using a three-level hierarchy for fair value measurements, based on nature of inputs used in the valuation of an asset or liability as of the measurement date.

*Level 1* – inputs to the valuation methodology – quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* – inputs to the valuation methodology – quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.

*Level 3* – inputs to the valuation methodology – unobservable and significant to the fair value measurement.

An asset's or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

***Property and Equipment***

Equipment purchase costs in excess of \$1,000, with estimated useful lives in excess of one year, are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed on the straight-line method using estimated useful lives varying between three and forty years.

Leasehold improvements, in excess of \$1,000, are recorded at cost and are amortized using the straight-line method over the estimated useful lives of the respective assets, ranging from three to seven years, but not more than the remaining term of the respective lease.

Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred.

***Functional Allocation of Expenses***

Expenses are charged to programs and management and general services on the basis of periodic time and expense studies in addition to estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but which provide for the overall support and direction of the Organization.

***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 disclosures of contingent assets and liabilities (if any) at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

***Litigation Expenses***

Litigation expenses such as court costs, filing fees and courier charges are expensed when incurred because those expenses may not be recoverable.

***Revenue Recognition***

Attorney fees are recognized as revenue during the period in which a case is settled.

Hotel rental income is reported each month net of any vacancy loss.

Government contracts and grants revenue are recognized when earned.

Contributions and grants are recognized when the donor/grantor makes an unconditional promise to give to the Organization. Amounts that are restricted by the donor/grantor are reported as increases in net assets with donor restrictions. When a restriction expires, the balance is reclassified to net assets without donor restrictions.

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

***Revenue Recognition*** (continued)

Management reviews the collectability of contributions and pledges receivable and establishes reserves for uncollectible amounts when needed.

***Income Taxes***

The Organization is exempt from paying federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for such taxes in the accompanying financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

***New Accounting Pronouncements***

The Financial Accounting Standards Board, referred to as FASB, issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”) which supersedes existing revenue recognition guidance under current GAAP. This standard is a comprehensive new revenue recognition model that requires an entity to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In doing so, among other things, entities will generally need to use more judgment and make more estimates than under the current guidance. The standard permits the use of either the retrospective or cumulative effect transition method. The new standard will be effective for the Organization for the year ending June 30, 2020. The Organization has not determined the full effect of the standard on its financial statements and related notes to the financial statements.

The FASB also issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958), clarifying the scope and the accounting guidance for contributions received and contributions made including the criteria for evaluating whether contributions are conditional or unconditional. The new standard will be effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the impact on its financial statements.

***Subsequent Events***

Management has evaluated events and transactions for potential recognition or disclosure through December 19, 2019, which represents the date the financial statements were available to be issued.

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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### **3. NEW ACCOUNTING PRONOUNCEMENT**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The Organization has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of the Organization’s financial statements:

1. The unrestricted net asset class has been renamed net assets without donor restrictions.
2. The temporarily and permanently restricted net asset classes have been combined to a single net asset class called net assets with donor restrictions.
3. The notes to financial statements include a new disclosure about liquidity and availability of resources (refer to Note 4).

### **4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization has a goal to maintain financial assets to meet sixty days of normal operating expense, which is on average \$7,737,200. As part of its liquidity management, the Organization keeps cash in excess of daily requirements in checking accounts at various banking institutions.

Financial assets available for general expenditure without donor or other restrictions limiting their use within one year of the statement of financial position date, comprise of the following:

Financial assets (current) at June 30, 2019:	
Cash and cash equivalents	\$ 5,903,133
Contracts and grants receivable	3,360,463
Other receivables	19,279
Pledge receivable - current portion - net	<u>1,331,000</u>
Total financial assets	10,613,875
Donor restricted assets	<u>(157,627)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 10,456,248</u></u>

**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**5. PLEDGES RECEIVABLE**

Unconditional promises to give at June 30, 2019, consist of the following:

	<b>Current</b> <b>(due within 1 year)</b>	<b>Due in 2 to 5</b> <b>Years</b>	<b>Total</b>
With donor restrictions:			
Pledge receivable	\$ 1,331,000	\$ 4,669,000	\$ 6,000,000
Discount to net present value	<u>-</u>	<u>(431,262)</u>	<u>(431,262)</u>
	<u>\$ 1,331,000</u>	<u>\$ 4,237,738</u>	<u>\$ 5,568,738</u>

Pledges receivable are stated at their net present values. Management has discounted these promises to give to the anticipated net present value of the future cash flows using a discounted rate of 2.72% determined at the time of the pledge. The present value discount will be recognized in income as a contribution over the period from the date the promise is made to the date of collection.

**6. CASH HELD FOR CLIENTS**

Under the Housing Service program, the Organization acts as an agent for its clients in receiving checks and disbursing money for rent and other expenditures on their behalf. It does this as part of the cash management services provided by the Housing Services Program. All client funds are segregated and held separate from the Organization's funds. The Organization bears all expenses incurred to maintain any agency bank accounts. At June 30, 2019 the bank balance for these funds was \$781,468.

Under the Legal Assistance Program, the Organization maintains client trust bank accounts. During legal proceedings, clients often remit rents and landlords remit stipulated payments, which are deposited into the client trust bank account. The Organization pays rents and stipulated payments to parties based on the terms of the settlement agreement of the respective lawsuit. At June 30, 2019, the trust account balance was \$3,695,991.

**7. CONTRACTS AND GRANTS RECEIVABLE**

At June 30, 2019, contracts and grants receivable consists of the following:

HSH	\$ 2,868,078
APD	204,739
MOHCD	151,920
DBI	65,726
OWED	50,000
San Francisco Rent Board	<u>20,000</u>
	<u>\$ 3,360,463</u>

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**8. INVESTMENT IN LIMITED LIABILITY COMPANY**

The Organization invested \$100,000 in a limited liability company (the "LLC") representing a 2% interest in the LLC that operates a restaurant located in the Tenderloin neighborhood of San Francisco. That investment was evaluated for impairment because the financial information of the LLC disclosed recurring losses, negative equity of over \$1 million, and negative working capital of over \$1.6 million as of June 30, 2018. As a result of that evaluation, the Organization identified an impairment loss of \$100,000, and the investment was written down to \$0 value in 2018. During the year ended June 30, 2019, the LLC continued to have losses.

The Organization also has a one-year \$25,000 note receivable from the LLC. The note had a maturity date of February 2017, with interest at 3.25% per annum. No payments of principal or interest were received during the year ended June 30, 2019. Subsequent to the maturity date, the board of directors agreed to treat the note as due on demand, with the same interest rate. Due to the deterioration of the financial condition of the LLC, the Organization has fully reserved the note in the amount of \$25,000.

**9. PROPERTY AND EQUIPMENT**

At June 30, 2019, property and equipment consists of the following:

Land	\$ 1,614,975
Buildings	6,023,525
Building improvements	2,533,204
Developed software	811,394
Office furniture and equipment	214,718
Vehicles	<u>31,127</u>
	11,228,943
Less: accumulated depreciation	<u>(2,512,223)</u>
	<u>\$ 8,716,720</u>

Depreciation and amortization for the year ended June 30, 2019 was \$531,126.

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**10. COMMITMENTS**

The Organization has a five-year lease for office space on Ellis Street, with ten one-year renewal options. The initial monthly rent was \$1,500, increasing each year as provided for in the lease agreement. Rent expense for the year ended June 30, 2019 was \$19,380.

The Organization has a lease for office space on Turk Street, which is renewable on an annual basis up to 2026. The starting monthly rent was \$1,150 with an annual minimum increase of 2% but not to exceed 6%. Rent expense for the year ended June 30, 2019 was \$18,618.

In March 2006, the Organization entered into a five-year lease for a second office space on Turk Street, with two five-year renewal options, renewed in 2011 and 2016. The initial monthly rent was \$2,775 with annual increases of 4%. Rent expense for the year ended June 30, 2019 was \$48,968.

In July 2009, the Organization entered into a five-year lease for a third office space on Turk Street, with a five-year renewal option which was renewed in 2014. Subsequent to the expiration of the renewal option, the lease is on a month-to-month basis. The initial monthly rent was \$2,000, increasing each year based on the lease agreement. Rent expense for the year ended June 30, 2019 was \$26,022.

In May 2017, the Organization entered into a five-year lease for a fourth office space on Turk Street, with a five-year renewal option. The initial monthly rent was \$3,750, increasing each year based upon the lease agreement. Rent expense for the year ended June 30, 2019 was \$46,586.

In January 2018, the Organization entered into a lease to occupy up to fifteen guestrooms at a SRO hotel on Polk Street. The initial lease term was through November 30, 2018, with three one-year renewal options. In November 2018, the Organization entered into an amended lease to occupy twenty-two units at the SRO hotel. Monthly rent was \$1,100 per unit and total rent expense for the year ended June 30, 2019 was \$281,600.

In January 2019, the Organization entered into a one year lease agreement to occupy up to twenty-seven guestrooms at a SRO hotel on 6th Street, with two one-year renewal options. Monthly rent was \$1,000 per unit through December 2018, increasing to \$1,100 per unit beginning January 2019 and total rent expense for the year ended June 30, 2019 was \$334,200.

In November 2018, the Organization entered into a lease to occupy up to four guestrooms at a SRO hotel on Eddy Street, with a one-year renewal option. On June 27, 2019, the Organization notified the lessor that it would not exercise the renewal option, and extended the initial term of the lease to December 31, 2019. Monthly rent was \$1,500 per unit and total rent expense for the year ended June 30, 2019 was \$48,000.

The Organization leases a community room on Jones Street, which is renewed on an annual basis. Rent expense for the year ended June 30, 2019 was \$35,642.

**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**10. COMMITMENTS** (continued)

In May 2014, the Organization entered into a five-year lease for retail space on Eddy Street. The lease has four successive five-year renewal options and commenced March 1, 2015. In September 2014, the original lease was amended to include the adjacent retail space on Leavenworth Street and the adjoining basement area between the two locations. The commencement date for the Leavenworth Street space was January 2015 and includes four successive five-year renewal options. Also, in September 2014, the Organization entered into a five-year sublease agreement for both retail spaces and adjoining basement area with the LLC, a related party (refer to Note 8). Rental income for the year ended June 30, 2019 was \$18,562, net of rent expense of \$40,800.

The Organization also has various office equipment leases with expirations through November 2021. Equipment lease expense for the year ended June 30, 2019 was \$66,675.

At June 30, 2019, minimum lease payments under noncancelable leases are as follows:

<u>Year ending June 30,</u>	<u>Equipment</u>	<u>Property</u>	<u>Sublease Income</u>	<u>Total</u>
2020	\$ 43,898	\$ 183,560	\$ (9,934)	\$ 217,524
2021	24,060	112,664	-	136,724
2022	8,020	72,697	-	80,717
	<u>\$ 75,978</u>	<u>\$ 368,921</u>	<u>\$ (9,934)</u>	<u>\$ 434,965</u>

***Residential Hotels***

The Organization leases residential hotels from outside parties to provide housing to low-income and homeless people. These leases have an initial one-year term and consecutive one-year renewal terms at the Organization's option. The leases have different termination dates, depending upon the inception and length of the agreement.

**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**10. COMMITMENTS** (continued)

***Residential Hotels***

At June 30, 2019, the master leases are as follows:

<u>Name of Hotel</u>	<u>Commencement Date</u>	<u>Number of Units</u>	<u>Term (Including options to extend)</u>
Seneca Hotel	May 1, 1999	204	20 years, month to month
Mission Hotel	October 1, 1999	248	20 years
Jefferson Hotel	October 1, 1999	111	20 years
Vincent Hotel	May 22, 2000	103	20 years
Hartland Hotel	September 1, 2000	137	20 years
Royan Hotel	May 20, 2003	69	20 years
Caldrake Hotel	October 1, 2003	49	20 years
Allstar Hotel	August 1, 2004	87	20 years
Pierre Hotel	September 16, 2004	86	20 years
Raman Hotel	September 9, 2005	85	20 years
Boyd Hotel	February 13, 2006	82	20 years
Elk Hotel	August 1, 2006	88	20 years
Mayfair Hotel	July 1, 2010	78	20 years
Edgeworth Hotel	June 1, 2013	46	20 years
Baldwin Hotel	September 1, 2015	186	15 years
Drake Hotel	October 1, 2015	60	15 years
Union Hotel	February 1, 2016 renegotiated	60	15 years
Graystone Hotel	February 1, 2016 renegotiated	73	15 years
Crown Hotel	November 1, 2016	50	20 years
Winton Hotel	November 16, 2016	108	15 years
National Hotel	April 12, 2017	91	20 years

Subsequent to the expiration of the term, the leases for the Seneca Hotel, Mission Hotel, and Jefferson Hotel continued on a monthly basis.

The Organization intends to opt into all extension options of all leases in effect as of June 30, 2019. Minimum future rental payments including the extension option portion of these leases are as follows:

<u>Year ending June 30,</u>	
2020	\$ 11,291,717
2021	9,610,452
2022	9,710,218
2023	9,838,697
2024	9,475,562
Thereafter	<u>52,374,670</u>
	<u><u>\$ 102,301,316</u></u>

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**10. COMMITMENTS** (continued)

The Organization receives a substantial amount of its support from federal and local government agencies. A single agency accounts for 58% of total revenue and accounts for 85% of total receivables. A significant reduction in the level of this support could have a material adverse effect on the Organization's programs and activities.

**11. LOANS PAYABLE**

***Hartland Hotel CDBG Loan***

The Organization entered into a loan agreement for \$317,100 with MOHCD to fund rehabilitation of the Hartland Hotel. This loan is interest-free and the principal is due twenty years from the date of the agreement, January 3, 2002. The loan requires Hartland Hotel to comply with specified affordability and leasing restrictions until August 31, 2020. All principal and accrued interest will be forgiven at maturity, provided the Organization remains in compliance with specified terms of the agreement.

If, with the City's prior written consent at any time while the affordability restrictions are still in effect: (i) the Organization consents to the lessor's sale of the property; or (ii) the Organization or its assignee fails to exercise the purchase option (as defined in the lease) for the property, then the lessor may terminate the affordability restrictions by payment of a release fee in an amount equal to the then remaining balance of the loan which is calculated on the basis of a 5% reduction of the original principal balance on each anniversary of the loan closing date.

***Mission Hotel CDBG Loan***

The Organization entered into a loan agreement for \$387,849 with MOHCD to fund part of the rehabilitation of the Mission Hotel. This loan is interest-free and the principal is due fifteen years from the date of the deed, December 2, 2005. However, all principal and interest will be forgiven at maturity, provided the Organization remains in compliance with specified terms of the agreement. The agreement requires Mission Hotel to comply with stated affordability and leasing restrictions.

If, with the City's prior written consent at any time while the affordability restrictions are still in effect: (i) the Organization consents to the lessor's sale of the property; or (ii) the Organization or its assignee fails to exercise the purchase option (as defined in the lease) for the property, then the lessor may terminate the affordability restrictions by payment of a release fee in an amount equal to the then remaining balance of the loan which is calculated on the basis of a 5% reduction of the original principal balance on each anniversary of the loan closing date.

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**12. GALVIN APARTMENTS**

The Organization manages a 56-unit studio apartment building located on Brannan Street (the Galvin Apartments). It rents the studio apartments in accordance with below-market-rate housing policies as established by MOHCD, which caters to low-income individuals. Rental revenue from the building pays for the expenses associated with managing and operating the property. The Organization received the Galvin Apartments in September 2007 without paying consideration.

**13. CONTINGENCIES**

The Organization receives monies from several grant/contract programs that are operated by various government agencies. Those programs are subject to financial and compliance audits by the grantors/agencies or their representatives, to ensure compliance with conditions and restrictions of the agreements.

The Organization is involved in litigation and claims arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Organization.

**14. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at June 30, 2019 have the following purpose and time restrictions:

Bristol hotel operations	\$ 5,568,738
General purpose	<u>157,627</u>
	<u>\$ 5,726,365</u>

**15. RETIREMENT PLAN**

The Organization sponsors an employee retirement benefit plan known as the THC 403(b) Plan (the "Plan"). Upon hire, all active employees are eligible to make elective deferrals before and/or after taxes, up to limits set by the Internal Revenue Service. The Organization at its discretion may make an annual contribution to the Plan accounts of all eligible employees. Eligible employees for the non-elective discretionary annual contribution must be 18 year old, employed on the last day of the Plan Year and worked 975 hours during the Plan Year. The non-elective discretionary annual contribution is calculated as the total non-elective contribution divided by total number of participants eligible for the non-elective contribution. For the Plan Year ended June 30, 2019, the non-elective discretionary annual contribution of \$1,577 was made to each of the 269 eligible participants for a total contribution of \$424,331.

**SUPPLEMENTAL INFORMATION**

**TENDERLOIN HOUSING CLINIC, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2019**

<b>Federal Grantor Pass-through Grantor Program Title</b>	<b>Federal CFDA</b>	<b>Pass-through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<u>Pass-through Awards</u>			
Department of Housing and Urban Development (Pass-through from the City and County of San Francisco)			
<b>CDBG - Entitlement Grants Cluster</b>			
Community Development Block Grant	14.218	N/A	\$ 758,203
Community Development Block Grant (loan)	14.218	N/A	317,100
Community Development Block Grant (loan)	14.218	N/A	<u>387,849</u>
			1,463,152
Continuum of Care Funding	14.238	N/A	3,551,354
Total CDBG - Entitlement Grants Cluster			<u>5,014,506</u>
<b>Housing Voucher Cluster</b>			
Veterans Affairs Supporting Housing (VASH)	14.871	VASHPBV008 and VASHPBV009	<u>696,563</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,711,069</u></u>

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**TENDERLOIN HOUSING CLINIC, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2019**

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**1. BASIS OF PRESENTATION**

The accompanying schedule of federal awards (the Schedule) includes the federal award activity of Tenderloin Housing Clinic, Inc. under programs of the federal government for the year ended June 30, 2019 and is presented on the accrual basis of accounting. 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). Because the Schedule presents only a selected portion of operations of Tenderloin Housing Clinic, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Tenderloin Housing Clinic, Inc.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The Organization has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**3. COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) LOANS**

Federal awards received under the CDBG loan program are for periods of 15 to 20 years. These loans are secured by deeds of trust. The loan obligations will be waived at the end of the loan terms provided that the Organization remains in compliance with specified terms and agreements in the loan documents. The amounts of the CDBG loans represent the balances outstanding at June 30, 2019.

**INDEPENDENT AUDITOR’S 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  
Tenderloin Housing Clinic, Inc.

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 Tenderloin Housing Clinic, Inc. (a non-profit organization) (the “Organization”), which comprise the statement of financial position as of June 30, 2019, 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 December 19, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization’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 the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 Organization’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 the Organization'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.

## **SQUAR MILNER LLP**

San Francisco, California  
December 19, 2019

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

Board of Directors  
Tenderloin Housing Clinic, Inc.

### **Report on Compliance for Each Major Federal Program**

We have audited Tenderloin Housing Clinic, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Tenderloin Housing Clinic, Inc.'s major federal programs for the year ended June 30, 2019. Tenderloin Housing Clinic, Inc.'s major federal programs are 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 each of Tenderloin Housing Clinic, Inc.'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 about Tenderloin Housing Clinic, Inc.'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 Tenderloin Housing Clinic, Inc.'s compliance.



### **Opinion on Each Major Federal Program**

In our opinion, Tenderloin Housing Clinic, Inc. 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 June 30, 2019.

### **Report on Internal Control Over Compliance**

Management of Tenderloin Housing Clinic, Inc. 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 Tenderloin Housing Clinic, Inc.'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 Tenderloin Housing Clinic, Inc.'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.

**SQUAR MILNER LLP**

San Francisco, California  
December 19, 2019

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**TENDERLOIN HOUSING CLINIC, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2019**

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**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Tenderloin Housing Clinic, Inc. (the "Organization") were prepared in accordance with GAAP.
2. No material weaknesses or significant deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Organization expresses an unmodified opinion.
6. There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The programs tested as a major programs were:

<u>CDFA Number</u>	<u>Program Title</u>
14.218	Community Development Block Grant
14.238	Continuum of Care Funding

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Organization qualified as a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None