

**HEALTH CARE FOR THE HOMELESS, INC.
FINANCIAL STATEMENTS
December 31, 2015 and 2014**

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FINANCIAL STATEMENTS
December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Health Care for the Homeless, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Health Care for the Homeless, Inc. (Organization), which comprise the Statements of Financial Position as of December 31, 2015 and 2014, 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 audits. We conducted our audits 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 audits 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 auditors consider 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 the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016 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 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. The 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.



ELLIN & TUCKER, CHARTERED
Certified Public Accountants

Baltimore, Maryland
May 24, 2016

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
<u>CURRENT ASSETS:</u>		
<u>Cash and Cash Equivalents:</u>		
General	\$ 5,037,206	\$ 2,386,540
Board Designated	135,022	135,022
Cash Limited for Use	<u>1,373,375</u>	<u>1,391,509</u>
Total Cash and Cash Equivalents	6,545,603	3,913,071
Accounts Receivable, Net of Allowance of \$187,847 in 2015 and \$100,000 in 2014	354,036	434,259
Grants and Other Receivables, Net of Allowance of \$0 in 2015 and \$467,281 in 2014	2,974,182	3,060,522
Investments, at Fair Value (Notes 2 and 3)	995,865	-
Prepaid Expenses	<u>154,184</u>	<u>160,216</u>
Total Current Assets	11,023,870	7,568,068
PROPERTY AND EQUIPMENT, NET (Note 4)	12,403,224	12,506,174
ASSET HELD FOR SALE	<u>901,000</u>	<u>901,000</u>
Total Assets	<u><u>\$ 24,328,094</u></u>	<u><u>\$ 20,975,242</u></u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ 1,549,535	\$ 946,939
Accrued Salaries and Benefits	781,661	613,569
Accrued Vacation	136,036	119,311
Deferred Revenue	<u>930,851</u>	<u>661,216</u>
Total Current Liabilities	<u>3,398,083</u>	<u>2,341,035</u>
COMMITMENTS AND CONTINGENCIES (Note 6)		
<u>NET ASSETS:</u>		
<u>Unrestricted:</u>		
Operating	7,698,905	5,127,323
Net Investment in Plant	12,723,827	13,214,382
Board Designated	<u>135,022</u>	<u>135,022</u>
Total Unrestricted	20,557,754	18,476,727
Temporarily Restricted (Note 9)	<u>372,257</u>	<u>157,480</u>
Total Net Assets	<u>20,930,011</u>	<u>18,634,207</u>
Total Liabilities and Net Assets	<u><u>\$ 24,328,094</u></u>	<u><u>\$ 20,975,242</u></u>

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	Unrestricted						
	Operating	Net Investment in Plant	Board Designated	Total Unrestricted	Temporarily Restricted	Total 2015	Total 2014
<u>SUPPORT AND REVENUE:</u>							
<u>Public Support:</u>							
Federal Grants	\$ 5,865,196	\$ -	\$ -	\$ 5,865,196	\$ -	\$ 5,865,196	\$ 5,349,212
State and City Grants and Contracts	1,551,949	-	-	1,551,949	267,523	1,819,472	1,183,335
Contributions	1,613,792	-	-	1,613,792	-	1,613,792	1,475,692
Net Assets Released from Restrictions	52,746	-	-	52,746	(52,746)	-	-
Total Public Support	9,083,683	-	-	9,083,683	214,777	9,298,460	8,008,239
Patient Service Revenue, Net of Contractual Allowances	8,849,441	-	-	8,849,441	-	8,849,441	8,250,561
<u>Other Support and Revenue:</u>							
Non-Government Grants	540,943	-	-	540,943	-	540,943	682,481
Pharmaceutical Rebates	2,607,028	-	-	2,607,028	-	2,607,028	1,023,519
Other Income	9,744	-	-	9,744	-	9,744	12,592
In-Kind Contributions	105,419	-	-	105,419	-	105,419	54,773
Total Other Support and Revenue	3,263,134	-	-	3,263,134	-	3,263,134	1,773,365
Provision for Bad Debts	(9,905)	-	-	(9,905)	-	(9,905)	(531,559)
Total Support and Revenue	21,186,353	-	-	21,186,353	214,777	21,401,130	17,500,606

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENT OF ACTIVITIES, CONTINUED
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	Unrestricted						
	Operating	Net Investment in Plant	Board Designated	Total Unrestricted	Temporarily Restricted	Total 2015	Total 2014
EXPENSES:							
Program Services	15,802,054	490,555	-	16,292,609	-	16,292,609	13,036,268
Management and General	1,882,067	-	-	1,882,067	-	1,882,067	2,118,071
Fundraising	930,650	-	-	930,650	-	930,650	701,739
Total Expenses	18,614,771	490,555	-	19,105,326	-	19,105,326	15,856,078
Change in Net Assets	2,571,582	(490,555)	-	2,081,027	214,777	2,295,804	1,644,528
NET ASSETS - BEGINNING OF YEAR	5,127,323	13,214,382	135,022	18,476,727	157,480	18,634,207	16,989,679
NET ASSETS - END OF YEAR	\$ 7,698,905	\$ 12,723,827	\$ 135,022	\$ 20,557,754	\$ 372,257	\$ 20,930,011	\$ 18,634,207

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	Unrestricted			Temporarily	
	Operating	Net Investment in Plant	Board Designated	Restricted	Total
<u>SUPPORT AND REVENUE:</u>					
<u>Public Support:</u>					
Federal Grants	\$ 5,349,212	\$ -	\$ -	\$ -	\$ 5,349,212
State and City Grants and Contracts	1,183,335	-	-	-	1,183,335
Contributions	1,428,842	-	-	46,850	1,475,692
Net Assets Released from Restrictions	44,470	-	-	(44,470)	-
Total Public Support	8,005,859	-	-	2,380	8,008,239
 Patient Service Revenue, Net of Contractual Allowances	 8,250,561	 -	 -	 -	 8,250,561
<u>Other Support and Revenue:</u>					
Non-Government Grants	682,481	-	-	-	682,481
Pharmaceutical Rebates	1,023,519	-	-	-	1,023,519
Other Income	12,592	-	-	-	12,592
In-Kind Contributions	54,773	-	-	-	54,773
Total Other Support and Revenue	1,773,365	-	-	-	1,773,365
 Provision for Bad Debts	 (531,559)	 -	 -	 -	 (531,559)
Total Support and Revenue	17,498,226	-	-	2,380	17,500,606

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENT OF ACTIVITIES, CONTINUED
For the Year Ended December 31, 2014

	Unrestricted			Temporarily	
	Operating	Net Investment in Plant	Board Designated	Restricted	Total
EXPENSES:					
Program Services	12,545,713	490,555	-	-	13,036,268
Management and General	2,118,071	-	-	-	2,118,071
Fundraising	701,739	-	-	-	701,739
Total Expenses	15,365,523	490,555	-	-	15,856,078
Change in Net Assets	2,132,703	(490,555)	-	2,380	1,644,528
NET ASSETS - BEGINNING OF YEAR	2,994,620	13,704,937	135,022	155,100	16,989,679
NET ASSETS - END OF YEAR	<u>\$ 5,127,323</u>	<u>\$ 13,214,382</u>	<u>\$ 135,022</u>	<u>\$ 157,480</u>	<u>\$ 18,634,207</u>

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

		Supporting Services				
	Program	Management		Total	Total	Total
	Services	and	Fundraising	Supporting	2015	2014
		General		Services		
Salaries and Related Expenses	\$ 10,334,070	\$ 1,485,526	\$ 661,964	\$ 2,147,490	\$ 12,481,560	\$ 10,262,017
Conferences and Meetings	72,837	45,236	148,221	193,457	266,294	228,411
Dues and Subscriptions	57,046	2,445	350	2,795	59,841	15,865
Equipment	328,894	119,994	39,398	159,392	488,286	227,786
Purchase of Service and Contracts	1,932,032	2,416	9,750	12,166	1,944,198	2,122,902
Insurance	131,845	26,902	4,255	31,157	163,002	133,252
In-Kind Expenses	105,419	-	-	-	105,419	54,773
Miscellaneous	45,674	4,780	16,443	21,223	66,897	47,766
Occupancy	616,278	74,564	11,774	86,338	702,616	560,680
Office Supplies	192,097	62,008	9,803	71,811	263,908	319,209
Postage and Shipping	14,725	1,481	3,307	4,788	19,513	20,321
Professional Fees	112,759	6,657	817	7,474	120,233	141,094
Program Service Supplies	1,644,286	29,354	21,343	50,697	1,694,983	929,515
Telephone	106,362	20,704	3,225	23,929	130,291	144,300
Total Expenses before Depreciation and Amortization Expense	15,694,324	1,882,067	930,650	2,812,717	18,507,041	15,207,891
Depreciation and Amortization Expense	598,285	-	-	-	598,285	648,187
Total Expenses	<u>\$ 16,292,609</u>	<u>\$ 1,882,067</u>	<u>\$ 930,650</u>	<u>\$ 2,812,717</u>	<u>\$ 19,105,326</u>	<u>\$ 15,856,078</u>

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2014

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and Related Expenses	\$ 8,158,091	\$ 1,646,518	\$ 457,408	\$ 2,103,926	\$ 10,262,017
Conferences and Meetings	21,210	54,107	153,094	207,201	228,411
Dues and Subscriptions	4,040	11,546	279	11,825	15,865
Equipment	148,087	50,159	29,540	79,699	227,786
Purchase of Service and Contracts	2,085,983	36,919	-	36,919	2,122,902
Insurance	72,840	55,159	5,253	60,412	133,252
In-Kind Expenses	54,773	-	-	-	54,773
Miscellaneous	26,585	10,166	11,015	21,181	47,766
Occupancy	399,790	146,960	13,930	160,890	560,680
Office Supplies	234,559	62,298	22,352	84,650	319,209
Postage and Shipping	12,786	1,593	5,942	7,535	20,321
Professional Fees	119,714	20,034	1,346	21,380	141,094
Program Service Supplies	906,275	21,660	1,580	23,240	929,515
Telephone	143,348	952	-	952	144,300
 Total Expenses before Depreciation and Amortization Expense	 12,388,081	 2,118,071	 701,739	 2,819,810	 15,207,891
 Depreciation and Amortization Expense	 648,187	 -	 -	 -	 648,187
 Total Expenses	 <u>\$ 13,036,268</u>	 <u>\$ 2,118,071</u>	 <u>\$ 701,739</u>	 <u>\$ 2,819,810</u>	 <u>\$ 15,856,078</u>

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 2,295,804	\$ 1,644,528
<u>Adjustments to Reconcile Change in Net Assets to</u>		
<u>Net Cash Provided by Operating Activities:</u>		
Depreciation	598,285	648,187
Realized and Unrealized Loss on Investments	4,135	-
<u>Net Changes in:</u>		
Accounts Receivable	80,223	(44,424)
Grants and Other Receivables	(1,507)	(566,715)
Promises to Give	-	5,100
Allowance for Doubtful Accounts	87,847	-
Prepaid Expenses	6,032	155,208
Accounts Payable and Accrued Expenses	602,596	(226,433)
Accrued Salaries and Benefits	168,092	(82,676)
Accrued Vacation	16,725	25,273
Deferred Revenue	<u>269,635</u>	<u>287,471</u>
Net Cash Provided by Operating Activities	<u>4,127,867</u>	<u>1,845,519</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Property and Equipment	(495,335)	(249,418)
Purchase of Investments	<u>(1,000,000)</u>	<u>-</u>
Net Cash Used in Investing Activities	<u>(1,495,335)</u>	<u>(249,418)</u>
Net Change in Cash and Cash Equivalents	2,632,532	1,596,101
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,913,071</u>	<u>2,316,970</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$6,545,603</u></u>	<u><u>\$3,913,071</u></u>

(See Independent Auditors' Report and Accompanying Notes)

HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Health Care for the Homeless, Inc. (Organization) is a not-for-profit organization that provides health-related services, education, and advocacy to reduce the incidence and burdens of homelessness. Headquartered in Baltimore, the Organization delivers adult and pediatric medical care, mental health services, social services and case management, addiction treatment, dental care, outreach, housing, and access to employment for thousands of Marylanders annually at a variety of treatment sites throughout Maryland. The Organization is accredited for ambulatory and behavioral health by the Joint Commission.

The Organization receives a major portion of its funding from grants from the Department of Health and Human Services, State of Maryland and Federal government.

Accounting Standards Codification

All references in the financial statements to the Codification refer to the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board. The Codification is the single source of authoritative GAAP in the United States.

Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. Under the accrual basis of accounting, support and revenue are recorded when earned and expenses are recorded when incurred. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed restrictions.

- Operating – Represents the portion of expendable net assets that are available for support of operations.
- Net Investment in Plant – Represents the cost of property, less related depreciation.
- Board Designated – Represents amounts invested in short-term investments and designated by the Board of Directors to provide for an operating expense contingency fund.

(See Independent Auditors' Report)

HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions. Such restrictions expire either by the passage of time or actions of the Organization. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions. Such restrictions neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization. As of December 31, 2015 and 2014, the Organization had no permanently restricted net assets.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted revenue.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through May 24, 2016, the date the financial statements were available to be issued.

Cash and Cash Equivalents

The Organization maintains its cash in bank deposit and brokerage accounts which, at times, may exceed federally insured limits. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents. The Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

Investments

Investments are reported at fair value. Changes in unrealized gains and losses are recognized on the Statements of Activities. See Note 3 for a discussion of fair value measurements.

Revenue Recognition

Restricted and unrestricted grants and contributions are recorded when the donor makes a promise to give to the Organization that is, in substance, unconditional.

(See Independent Auditors' Report)

HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Amounts received under grant agreements are deferred and recognized as revenue when the services are performed. Contributions of assets other than cash, if received, are recorded at fair value.

Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor imposed restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Patient Service Revenue

Patient service revenue is recognized at the time of service. Patients covered under the Section 330 Federal Grant Program receive deeply discounted services, and these discounts are taken at the time of billing. All other contractual adjustments are estimated based on historical percentages by payor and adjusted to the actual amount at the time of cash receipt. The Organization is reimbursed for the cost of providing services by the Medicare program based on the Medicare cost reimbursement principles in effect, and such reimbursements are subject to audit and retroactive adjustment by Medicare.

A provision for estimated Medicare settlements is provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded as adjustments to revenue in the Statements of Activities and changes in net assets in the year of settlement.

Accounts Receivable

Accounts receivable are carried on the basis of total client charges. The allowances include estimates for both accounts which may be uncollectible and third-party contractual and discount arrangements. Management determines the allowance for uncollectible accounts by identifying estimated third-party contractual discounts and allowances and using estimates of collections based on past experience. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The Organization had meaningful use funds receivable of \$182,750 as of December 31, 2014. The full amount receivable at December 31, 2014 was received in 2015. There was no meaningful use funds receivable at December 31, 2015.

Grants and Other Receivables

The Organization records grants and other receivables at cost less an allowance for doubtful accounts, which is based on management's assessment of uncollectible amounts of grants and other receivables.

(See Independent Auditors' Report)

HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair value at the date of the donation. Expenditures for property and equipment in excess of \$5,000 are capitalized. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets.

As of December 31, 2015, the Park Avenue building is unoccupied by the Organization and being actively marketed for sale. The cost of this building is recorded as an asset held for sale on the Statements of Financial Position. The Organization has executed a signed contract with a buyer to purchase the building at a price of \$901,000, with an expected closing date of May 31, 2016.

Charity Care

The Organization is a provider defined by Section 330 of the Public Health Services Act. The Organization provides care to patients with discounts based on patient family size and income in accordance with federal poverty guidelines. The Organization is open to all patients regardless of their ability to pay. The amount not recovered is not reported as revenue as it is not expected to be paid. The Organization maintains records to identify and monitor the level of charity care it provides.

The Codification prescribes that cost be used as the measurement basis for charity care disclosure purposes and identified as the direct and indirect costs of providing charity care. The amount of charity care provided during the years ended December 31, 2015 and 2014 was \$974,882 and \$677,637, respectively, and was estimated by allocating total patient service expenses incurred by the Organization using the ratio of uninsured patient service charges to total patient service charges. The increase is principally attributable to an increase in client encounters, as well as the organization's continued expansion of non-billable services (case management, enrollment assistance, outreach, etc.).

Patient Receivables

Patient receivables are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. The difference between the standard rates (or the discounted rates if negotiated) and the amounts

(See Independent Auditors' Report)

HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined the Organization is not a private foundation within the meaning of Section 509(a) of the Code.

The Organization follows the provisions of Accounting for Uncertainty in Income Taxes under the Income Taxes Topic of the Codification. The Codification requires the evaluation of tax positions, which include maintaining its tax-exempt status and the taxability of any unrelated business income, and does not allow recognition of tax positions which do not meet a “more-likely-than-not” threshold of being sustained by the applicable tax authority. Management does not believe it has taken any tax positions that would not meet this threshold.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimates of actual time or resources devoted to each program.

2. INVESTMENTS

Investments at December 31, 2015 consisted of the following:

	<u>Fair Value</u>	<u>Cost</u>
Cash Equivalents	\$ 52,569	\$ 52,569
Mutual Funds	368,440	371,386
<u>Fixed Income:</u>		
U.S. Treasuries	188,641	189,097
Corporate Bonds	223,918	225,396
Municipal Bonds	82,487	82,715
Asset Backed Securities	79,810	80,001
	<u>\$ 995,865</u>	<u>\$ 1,001,164</u>

(See Independent Auditors' Report)

HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Investment loss for the year ended December 31, 2015 was comprised of the following:

Dividends and Interest	\$ 2,304
Unrealized Loss	<u>(6,439)</u>
	<u><u>\$ (4,135)</u></u>

3. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the Codification establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments and other financial instruments at fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Below is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Organization at year end. NAV is based on the value of the underlying assets owned by the funds, minus its liabilities, and then divided by the number of shares outstanding. NAV is a quoted price in an active market.

Fixed Income: Valued based on yields currently available or comparable securities of issuers with similar credit ratings.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Mutual Funds:</u>			
Intermediate-Term Bond Funds	\$368,440	\$ -	\$368,440
<u>Fixed Income:</u>			
U.S. Treasuries	-	188,641	188,641
Corporate Bonds	-	223,918	223,918
Municipal Bonds	-	82,487	82,487
Asset Backed Securities	-	79,810	79,810
	<u>\$368,440</u>	<u>\$574,856</u>	<u>\$943,296</u>
Investments, at Fair Value	<u>\$368,440</u>	<u>\$574,856</u>	<u>\$943,296</u>

Short-term investments are excluded from the fair value hierarchy as cash equivalents are generally measured at cost. As such, short-term investments of \$52,569 in the Organization's investment portfolio at December 31, 2015, have been excluded from this table.

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HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 1	\$ 1
Building and Improvements	13,324,260	12,743,752
Equipment	1,775,188	1,684,847
Furniture and Fixtures	598,969	598,969
Construction in Progress	-	175,514
	<u>15,698,418</u>	<u>15,203,083</u>
Less: Accumulated Depreciation	<u>3,295,194</u>	<u>2,696,909</u>
Total	<u><u>\$ 12,403,224</u></u>	<u><u>\$ 12,506,174</u></u>

5. LINE OF CREDIT

The Organization has a revolving line of credit, which provides for borrowings of up to \$1,000,000, with interest at daily LIBOR plus 1.25% and is payable monthly in arrears. The line is collateralized by the assets of the Organization. At December 31, 2015 and 2014, no amounts were outstanding under the line of credit.

6. COMMITMENTS AND CONTINGENCIES

Most grants and cost-reimbursable contracts specify the types of expenditures for which the grant or contract funds may be used. Certain expenses of these funds are subject to audit by the grantors and, to the extent an audit determines any expenses were disallowed, the amount is subject to refund to the grantor. Management does not believe any refund, if required, would be material. A reduction in funding level could have a significant impact on the Organization.

Operating Leases

The Organization leases space in Bon Secours Hospital for its West Baltimore operations. The lease requires monthly rental payments through November 2018.

Minimum future payments under operating leases as of December 31, 2015 are as follows:

Year Ending December 31,	2016	\$ 22,357
	2017	22,915
	2018	21,486

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HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

The Organization has the option to renew the lease for an additional 3-year term with rent increases of 2.5% per year.

Rent expense was \$1,859 for the year ended December 31, 2015.

7. CONTRACTED SERVICES

The Organization entered into agreements with several providers to provide health care services to the homeless. The providers contracted by the Organization were paid \$1,772,505 and \$1,967,319 for services provided for the years ended December 31, 2015 and 2014, respectively.

8. RETIREMENT PLAN

The Organization maintains a defined contribution retirement plan (Plan). Each employee is eligible to participate on the anniversary date of the Plan following one year of service and a minimum of 1,000 hours of service. The Organization's annual contribution to the Plan is 5% of the participating employee's base salary. The Organization's expenses related to the Plan for the years ended December 31, 2015 and 2014 were \$505,312 and \$463,692, respectively.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Mobile Van	\$ 118,110	\$ 157,480
Third Floor Building Expansion	<u>254,147</u>	<u>-</u>
Total	<u><u>\$ 372,257</u></u>	<u><u>\$ 157,480</u></u>

10. CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES

The Organization receives revenue from Medicare, Medicaid, and other third-party payors. The health care industry is experiencing the effects of the Federal and state governments' trend toward cost containment, as government and other third-party payors seek to impose lower reimbursement and utilization rates and negotiate reduced payment schedules with providers. These cost containment measures, combined with increasing influence of managed care payors and competition for patients, could result in reduced rates of reimbursement for services provided by the Organization.

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HEALTH CARE FOR THE HOMELESS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

It is not possible to fully quantify the effect of recent legislation, interpretation or administration of such legislation, or any other government initiatives of the Organization's business. Accordingly, there can be no assurance that any future health care legislation will not adversely affect the Organization's business. There can be no assurance that payments under government and third-party payor programs will be timely, remain at levels comparable to present levels, or, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Organization's financial condition and results of activities may be affected by the reimbursement process, which in the Organization's industry is complex and can involve lengthy delays between the time that revenue is recognized and reimbursement amounts are settled.

Malpractice Risk

The Organization is deemed an employee of the Federal government for purposes of malpractice protection and is thus covered under the Federal Tort Claims Act (FTCA). The FTCA provides malpractice coverage to eligible Public Health Service-supported programs and applies to the Organization and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the United States Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

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