

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

LYNCHBURG, VIRGINIA

FINANCIAL STATEMENTS

**FOR YEARS ENDED
DECEMBER 31, 2018 AND 2017**

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

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Presbyterian Homes and Family Services, Incorporated dba HumanKind ("HumanKind") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HumanKind as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2018, HumanKind adopted new accounting guidance, FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2019, on our consideration of HumanKind's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 HumanKind'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 HumanKind's internal control over financial reporting and compliance.

Robinson, Farned, Cox Associates

Charlottesville, Virginia

May 30, 2019

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind
Statements of Financial Position
At December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 2,061,576	\$ 602,787
Accounts receivable, net of allowance for uncollectible accounts of \$85,437 and \$95,032 in 2018 and 2017	682,627	649,444
Pledges receivable	53,137	46,848
Prepaid expenses	63,423	168,613
Bequests and gift annuities receivable	14,403	15,060
Beneficial interest in perpetual trusts	3,400,905	3,811,351
Investments	25,469,867	31,425,539
Movie investment	50,000	50,000
Land, buildings, and equipment, net of accumulated depreciation	9,796,928	11,300,672
Total assets	\$ 41,592,866	\$ 48,070,314
Liabilities and Net Assets		
Liabilities		
Accounts payable, trade	\$ 300,802	\$ 361,467
Accrued compensation and other expenses	344,921	351,155
Deferred revenue	240,763	112,920
Note payable	3,195,366	3,288,299
Total liabilities	\$ 4,081,852	\$ 4,113,841
Net Assets		
Without donor restrictions	\$ 28,091,770	\$ 34,067,254
With donor restrictions	9,419,244	9,889,219
Total net assets	\$ 37,511,014	\$ 43,956,473
Total liabilities and net assets	\$ 41,592,866	\$ 48,070,314

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
 dba HumanKind
 Statement of Activities
 Year Ended December 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions			
Bequests	\$ 190,194	\$ -	\$ 190,194
Individuals, churches, foundations and corporations	420,087	166,016	586,103
In-kind donations	-	117,230	117,230
Total contributions	\$ 610,281	\$ 283,246	\$ 893,527
Program related revenue			
Tuition and resident fees	\$ 472,560	\$ -	\$ 472,560
Medicaid	2,796,084	-	2,796,084
Grants	1,561,701	25,528	1,587,229
Product income	1,450	-	1,450
Other	972,482	-	972,482
Total program related revenue	\$ 5,804,277	\$ 25,528	\$ 5,829,805
Other revenue (loss)			
Investment return	\$ (1,726,642)	\$ (83,725)	\$ (1,810,367)
Distributions from perpetual trusts	167,108	43,204	210,312
Net unrealized losses, perpetual trusts	-	(410,447)	(410,447)
Net unrealized gain (loss), gift annuities	-	(657)	(657)
Gain (loss) on disposal of plant assets	(91,294)	-	(91,294)
Other	28,620	36,276	64,896
Total other revenue (loss)	\$ (1,622,208)	\$ (415,349)	\$ (2,037,557)
Net assets released from restrictions			
Satisfaction of restrictions	\$ 363,400	\$ (363,400)	\$ -
Total revenues, gains, and other support	\$ 5,155,750	\$ (469,975)	\$ 4,685,775
Expenses			
Supporting services			
Administrative services	\$ 1,967,933	\$ -	\$ 1,967,933
Development	851,738	-	851,738
Program services			
Community based services	4,693,765	-	4,693,765
Residential services	3,617,798	-	3,617,798
Total expenses	\$ 11,131,234	\$ -	\$ 11,131,234
Changes in net assets	\$ (5,975,484)	\$ (469,975)	\$ (6,445,459)
Net assets at beginning of year	34,067,254	9,889,219	43,956,473
Net assets at end of year	\$ 28,091,770	\$ 9,419,244	\$ 37,511,014

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
 dba HumanKind
 Statement of Activities
 Year Ended December 31, 2017

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions			
Bequests	\$ 475,597	\$ -	\$ 475,597
Individuals, churches, foundations and corporations	430,340	167,477	597,817
In-kind donations	-	109,375	109,375
Total contributions	\$ 905,937	\$ 276,852	\$ 1,182,789
Program related revenue			
Tuition and resident fees	\$ 510,624	\$ -	\$ 510,624
Medicaid	2,397,529	-	2,397,529
Grants	1,347,240	87,421	1,434,661
Product income	6,971	-	6,971
Other	920,021	-	920,021
Total program related revenue	\$ 5,182,385	\$ 87,421	\$ 5,269,806
Other revenue (loss)			
Investment return	\$ 4,950,722	\$ 65,900	\$ 5,016,622
Distributions from perpetual trusts	92,702	47,102	139,804
Net unrealized losses, perpetual trusts	-	355,367	355,367
Net unrealized gains (loss), gift annuities	-	1,399	1,399
Other	67,656	68,692	136,348
Total other revenue (loss)	\$ 5,111,080	\$ 538,460	\$ 5,649,540
Net assets released from restrictions			
Satisfaction of restrictions	\$ 460,585	\$ (460,585)	\$ -
Total revenues, gains, and other support	\$ 11,659,987	\$ 442,148	\$ 12,102,135
Expenses			
Supporting services			
Administrative services	\$ 1,982,601	\$ -	\$ 1,982,601
Development	885,304	-	885,304
Program services			
Community based services	4,351,011	-	4,351,011
Residential services	3,721,039	-	3,721,039
Total expenses	\$ 10,939,955	\$ -	\$ 10,939,955
Changes in net assets	\$ 720,032	\$ 442,148	\$ 1,162,180
Net assets at beginning of year	33,347,222	9,447,071	42,794,293
Net assets at end of year	\$ 34,067,254	\$ 9,889,219	\$ 43,956,473

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

dba HumanKind

Statement of Functional Expenses

Year Ended December 31, 2018

	Supporting Services		
	Administrative Services	Development	Total
Auto expenses	\$ 246	\$ 2,992	\$ 3,238
Bad debt expense	-	-	-
Board expenses	79,125	-	79,125
Direct mail appeals	-	7,710	7,710
Community relations	7,542	6,941	14,483
Computer expenses	267,793	-	267,793
Depreciation	37,511	-	37,511
Dues	2,569	1,224	3,793
Electricity and water	-	-	-
Employee insurance	133,758	62,374	196,132
Food purchases	-	-	-
Fuel	-	-	-
Household supplies	-	-	-
In-kind donations	-	54,787	54,787
Insurance	15,181	9,439	24,620
Interest expense	122,095	-	122,095
Investment expenses	89,013	-	89,013
Medicaid contract services	-	-	-
Medical attention and drugs	-	-	-
Miscellaneous	17,865	1,271	19,136
Office supplies	5,174	7,238	12,412
Payroll taxes	60,337	24,785	85,122
Peanut program	-	-	-
Pension	56,049	19,980	76,029
Postage	8,504	2,647	11,151
Printing	-	8,345	8,345
Professional fees	46,395	-	46,395
Professional resources	109,824	64,377	174,201
Promotion	-	213,147	213,147
Recreation	-	-	-
Rent	-	-	-
Repairs and maintenance	-	-	-
Salaries	851,985	324,923	1,176,908
School and education	-	-	-
Small equipment and tools	-	-	-
Staff training	33,832	21,089	54,921
Student/resident expenses	-	-	-
Telephone	12,153	16,279	28,432
Travel	10,982	2,190	13,172
Total	\$ 1,967,933	\$ 851,738	\$ 2,819,671

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

Program Services			
Community Based Services	Residential Services	Total	Total Expenses
\$ 45,839	\$ 29,578	\$ 75,417	\$ 78,655
78,282	-	78,282	78,282
-	-	-	79,125
-	-	-	7,710
-	-	-	14,483
3,855	-	3,855	271,648
383,141	226,148	609,289	646,800
7,808	1,503	9,311	13,104
101,584	51,821	153,405	153,405
421,241	212,000	633,241	829,373
8,597	52,843	61,440	61,440
22,655	16,123	38,778	38,778
41,581	18,408	59,989	59,989
62,442	-	62,442	117,229
63,252	63,946	127,198	151,818
564	-	564	122,659
-	-	-	89,013
-	1,411,417	1,411,417	1,411,417
1,274	6,387	7,661	7,661
6,612	-	6,612	25,748
44,638	10,490	55,128	67,540
205,934	90,957	296,891	382,013
-	619	619	619
149,488	62,396	211,884	287,913
4,662	1,361	6,023	17,174
-	-	-	8,345
18,687	6,211	24,898	71,293
1,168	503	1,671	175,872
12,640	51	12,691	225,838
-	875	875	875
55,436	13,434	68,870	68,870
135,420	74,805	210,225	210,225
2,611,269	1,166,275	3,777,544	4,954,452
7,663	-	7,663	7,663
6,333	4,207	10,540	10,540
24,750	7,282	32,032	86,953
82,710	49,349	132,059	132,059
30,269	20,394	50,663	79,095
53,971	18,415	72,386	85,558
<u>\$ 4,693,765</u>	<u>\$ 3,617,798</u>	<u>\$ 8,311,563</u>	<u>\$ 11,131,234</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

dba HumanKind

Statement of Functional Expenses

Year Ended December 31, 2017

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

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

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (6,445,459)	\$ 1,162,180
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	646,800	682,072
(Gain) loss on disposal of plant assets	91,294	18,387
Realized and unrealized (gains) losses on investments	1,894,457	(4,949,443)
Income on investments	(84,090)	(67,179)
Contributions restricted for investment in permanent endowment	20,591	(42,250)
(Increase) decrease in operating assets:		
Accounts receivable, net	(33,183)	(133,174)
Pledges receivable	(6,289)	54,189
Prepaid expenses	105,190	84,054
Bequests and gift annuities receivable	657	(1,399)
Beneficial interest in perpetual trusts	410,446	(355,367)
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(60,665)	(118,371)
Accrued compensation and other expenses	(6,234)	108,835
Deferred revenue	127,843	74,013
Net cash provided by (used for) operating activities	\$ (3,338,642)	\$ (3,483,453)
Cash flows from investing activities		
Purchases of land, buildings, and equipment	\$ (549,203)	\$ (317,656)
Proceeds from sale of land, buildings, and equipment	1,314,853	-
Net change in investments	4,145,305	3,232,592
Net cash provided by (used for) investing activities	\$ 4,910,955	\$ 2,914,936
Cash flows from financing activities		
Contributions restricted for investment in permanent endowment	\$ (20,591)	\$ 42,250
Issuance of note payable	141,771	141,091
Principal retirement of note payable	(234,704)	(202,448)
Net cash provided by (used for) financing activities	\$ (113,524)	\$ (19,107)
Net increase (decrease) in cash and cash equivalents	\$ 1,458,789	\$ (587,624)
Cash and cash equivalents at beginning of year	602,787	1,190,411
Cash and cash equivalents at end of year	\$ 2,061,576	\$ 602,787
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 122,659	\$ 125,743

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba Humankind

Notes to Financial Statements
At December 31, 2018 and 2017

NOTE 1 – NATURE OF ORGANIZATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation:

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an board-designated endowment.

Net assets with donor restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

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

Contributions

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

Contributions of cash are reported as net assets with donor restrictions if they are received with donor stipulations which limit their use. When donor restrictions are satisfied, 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 restrictions. When donor restrictions are satisfied in the year the gift is recognized, the amounts are reported as net assets without donor restrictions.

Contributions of property and equipment are recorded as support at their estimated fair value. Such contributions are reported as net assets without donor restrictions unless the donor has restricted the contributed asset to a specific purpose. Assets contributed with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those contributed assets must be maintained, HumanKind reports expirations of donor restrictions when the contributed or acquired assets are placed in service as instructed by the donor. HumanKind reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Cash and Cash Equivalents

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

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

Land, Buildings, and Equipment

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

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

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values, as determined by quoted market prices, in the statements of financial position. Investments in private investment funds are reported at estimated fair value. Realized and unrealized gains and losses on investments are reflected in the statements of activities. Management believes the carrying value of real estate investments is not less than fair market value. Investment return that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires or is satisfied during the reporting period in which the investment return is recognized.

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

Accounts Receivable

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

Income Taxes

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

Contributed Services

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

Use of Estimates

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 3 – INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Temporary investments	\$ 422,382	\$ 180,180
Bonds	3,031,716	3,131,450
Corporate stocks, domestic	8,434,051	10,288,939
Corporate stocks, foreign	8,888,817	12,299,818
Private investment funds	<u>4,692,901</u>	<u>5,525,152</u>
Total	<u>\$ 25,469,867</u>	<u>\$ 31,425,539</u>

Investment return for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 203,926	\$ -	\$ 203,926
Realized and unrealized gains, net	(1,810,732)	(83,725)	(1,894,457)
Management fees	(119,836)	-	(119,836)
Total investment return (loss)	<u>\$ (1,726,642)</u>	<u>\$ (83,725)</u>	<u>\$ (1,810,367)</u>
	<u>2017</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 73,671	\$ 867	\$ 74,538
Realized and unrealized gains, net	4,884,281	65,162	4,949,443
Management fees	(7,230)	(129)	(7,359)
Total investment return (loss)	<u>\$ 4,950,722</u>	<u>\$ 65,900</u>	<u>\$ 5,016,622</u>

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 4 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS AND GIFT ANNUITIES

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

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

NOTE 5 – PLEDGES, BEQUESTS, AND GIFT ANNUITIES RECEIVABLE

Pledges and bequests receivable at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 54,218	\$ 47,630
Receivable in one to five years	14,403	15,060
Total pledges and bequests receivable	\$ 68,621	\$ 62,690
Less discounts to net present value	(571)	(538)
Less allowance for uncollectible	(510)	(244)
Net pledges and bequests receivable	<u>\$ 67,540</u>	<u>\$ 61,908</u>

Bequests receivable include gifts totaling \$14,403 and \$15,060 as of December 31, 2018 and 2017, respectively, which represent amounts receivable under gift annuity agreements which are administered by the Presbyterian Church (U.S.A.) Foundation (the "Foundation"). These agreements were established between the Foundation and the donor with HumanKind being named as the beneficiary. The Foundation is responsible for investing these funds and making required payments to annuitants. HumanKind has recorded as assets the net present value of the amounts expected to be received after all required payments to annuitants have been made. Pledges and bequests receivable in more than one year are discounted at 5%. Uncollectible pledges and bequests are expected to be 5% of the balance.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

	<u>2018</u>	<u>2017</u>
Subject to the passage of time:		
Pledges receivable	\$ 53,137	\$ 46,848
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Community trust endowment	\$ 10,264	\$ 10,662
Advanced education	169,023	180,924
Community scholarships	70,570	119,231
Early education	23,082	-
Pastoral counseling	9,949	-
College education	-	55,796
	<u>\$ 282,888</u>	<u>\$ 366,613</u>
Subject to NFP endowment spending policy and appropriation:		
Endowment funds required to be held in perpetuity by donor	\$ 5,667,911	\$ 5,649,347
Total Endowments	<u>\$ 5,950,799</u>	<u>\$ 6,015,960</u>
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trusts	\$ 3,400,905	\$ 3,811,351
Gift annuities receivable	14,403	15,060
	<u>\$ 3,415,308</u>	<u>\$ 3,826,411</u>
Grand Total	<u>\$ 9,419,244</u>	<u>\$ 9,889,219</u>

NOTE 7 – ACCOUNTS RECEIVABLE

Accounts receivable include \$288,483 and \$298,673 at December 31, 2018 and 2017, respectively, for services rendered under the Medicaid health insurance program in connection with the operation of adult group homes. All other accounts receivable are due primarily from governmental agencies, third-party payers, and individuals.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 8 – LAND, BUILDINGS, AND EQUIPMENT

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

	2018		
	Cost	Accumulated Depreciation	Book Value
Land and improvements	\$ 4,125,718	\$ 775,569	\$ 3,350,149
Buildings and improvements	11,375,216	5,739,624	5,635,592
Machinery and equipment	1,093,967	1,007,453	86,514
Automobiles	1,060,126	749,411	310,715
Furniture and fixtures	960,770	941,944	18,826
Intangibles	11,500	11,500	-
Construction in progress	395,132	-	395,132
	<u>\$ 19,022,429</u>	<u>\$ 9,225,501</u>	<u>\$ 9,796,928</u>
	2017		
	Cost	Accumulated Depreciation	Book Value
Land and improvements	\$ 4,951,459	\$ 1,130,857	\$ 3,820,602
Buildings and improvements	15,017,827	8,243,796	6,774,031
Machinery and equipment	1,509,975	1,374,015	135,960
Automobiles	1,225,618	883,460	342,158
Furniture and fixtures	1,386,080	1,306,252	79,828
Intangibles	11,500	11,500	-
Construction in progress	148,093	-	148,093
	<u>\$ 24,250,552</u>	<u>\$ 12,949,880</u>	<u>\$ 11,300,672</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
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Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 9 – RETIREMENT PLAN

HumanKind has a tax deferred annuity plan which covers substantially all full-time employees. The plan includes provisions for voluntary employee contributions and discretionary contributions by HumanKind. After twelve months of service, employees are eligible for discretionary contributions made by HumanKind. During the year ended December 31, 2018, HumanKind elected to contribute an amount equal to 4% of eligible payroll in addition to matching up to 4% voluntary employee contributions. During the year ended December 31, 2017, HumanKind elected to contribute an amount equal to 7% of eligible payroll. Contributions to the plan amounted to \$293,997 and \$294,773 in 2018 and 2017, respectively.

NOTE 10 – FUNCTIONAL ALLOCATION OF EXPENSES

Functional expenses are apportioned between program and supporting services based on personnel time and space utilized for the related activities. Some expense apportionments are estimates because of the overlap of activities and the difficulty of record keeping for usage. Specifically, identifiable expenses are directly allocated.

NOTE 11 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

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

NOTE 12 – RELATED PARTY

A member of the Board of Directors is an employee of a local insurance company which HumanKind uses as an agent for its employee benefits. The company receives a commission for the premiums HumanKind pays to Anthem, Guardian, Piedmont, and Reliance. Premiums paid to these companies during the years ended December 31, 2018 and 2017 totaled \$132,280 and \$162,872, respectively.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
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Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 13 – NOTES PAYABLE

Details of notes payable at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
In January 2011, HumanKind paid off the operating line of credit with a promissory note for \$4,312,430. This note is for a term of twenty years and bears interest for the first five years at 3.7%. Thereafter, it can bear interest at the Five Year Treasury Security Yield, as published in the Wall Street Journal, plus 4%. The interest rate will not go below 3.7% or above 7%. Principal and Interest are due in monthly payments of \$25,480 through January 21, 2016, then monthly payments of \$25,381 through January 21, 2031. The note is secured by investments owned by HumanKind.	\$ 2,975,323	\$ 3,165,910
Note payable to Bank for purchase of four vehicles. Principal and interest are due in monthly payments of \$1,459 through March 2022 Interest at 3.20%. Loan secured by vehicles.	52,617	68,142
Note payable to Bank for purchase of vehicle. Principal and interest are due in monthly payments of \$627 through February 2023 Interest at 4.75%. Loan secured by vehicles.	28,348	-
Note payable to Bank for purchase of vehicle. Principal and interest are due in monthly payments of \$627 through February 2023 Interest at 4.75%. Loan secured by vehicles.	28,359	-
Note payable to Bank for purchase of vehicle. Principal and interest are due in monthly payments of \$671 through October 2023 Interest at 5.99%. Loan secured by vehicles.	33,156	-
Note payable to Bank for purchase of vehicle. Principal and interest are due in monthly payments of \$351 through February 2023 Interest at 1.90%. Loan secured by vehicles.	16,854	-
Note payable to Bank for purchase of vehicle. Principal and interest are due in monthly payments of \$356 through July 2023 Interest at 1.90%. Loan secured by vehicles.	18,700	-
Note payable to Bank for purchase of four vehicles. Principal and interest are due in monthly payments of \$1,459 through March 2022 Interest at 3.20%. Loan secured by vehicles.	42,009	54,247
Total	<u>\$ 3,195,366</u>	<u>\$ 3,288,299</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
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Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 13 – NOTES PAYABLE: (CONTINUED)

Annual payments of principal and interest are as follows:

Year	Principal	Interest
2019	\$ 252,584	\$ 113,461
2020	261,804	104,242
2021	271,379	94,668
2022	259,934	84,877
2023	240,761	75,510
2024-2028	1,282,770	240,110
2029-2032	626,134	26,101
Totals	\$ 3,195,366	\$ 738,969

NOTE 14 – ENDOWMENT

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

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

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
 dba HumanKind

Notes to Financial Statements
 At December 31, 2018 and 2017 (Continued)

NOTE 14 - ENDOWMENT: (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Endowment funds required to be held in perpetuity by donor	\$ -	\$ 5,667,911	\$ 5,667,911
Subject to appropriation and expenditure when a specified event occurs	-	282,888	282,888
Board-designated endowment funds	<u>19,519,068</u>	<u>-</u>	<u>19,519,068</u>
Total Funds	<u>\$ 19,519,068</u>	<u>\$ 5,950,799</u>	<u>\$ 25,469,867</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Endowment funds required to be held in perpetuity by donor	\$ -	\$ 5,649,347	\$ 5,649,347
Subject to appropriation and expenditure when a specified event occurs	-	366,613	366,613
Board-designated endowment funds	<u>25,409,579</u>	<u>-</u>	<u>25,409,579</u>
Total Funds	<u>\$ 25,409,579</u>	<u>\$ 6,015,960</u>	<u>\$ 31,425,539</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 14 - ENDOWMENT: (CONTINUED)

Changes in Endowment Net Assets for the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 25,409,579	\$ 6,015,960	\$ 31,425,539
Investment return:			
Net appreciation (realized and unrealized)	\$ (1,810,732)	\$ (83,725)	\$ (1,894,457)
Dividend income	203,926	-	203,926
Management fees	(119,836)	-	(119,836)
Total investment return	\$ (1,726,642)	\$ (83,725)	\$ (1,810,367)
Contributions	\$ -	\$ 20,591	\$ 20,591
Appropriation of endowment assets for expenditure	\$ (4,163,869)	\$ (2,027)	\$ (4,165,896)
Endowment net assets, end of year	\$ 19,519,068	\$ 5,950,799	\$ 25,469,867

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 23,800,820	\$ 5,840,689	\$ 29,641,509
Investment return:			
Net appreciation (realized and unrealized)	\$ 4,884,281	\$ 65,162	\$ 4,949,443
Dividend income	73,671	867	74,538
Management fees	(7,230)	(129)	(7,359)
Total investment return	\$ 4,950,722	\$ 65,900	\$ 5,016,622
Contributions	\$ 438,765	\$ 101,009	\$ 539,774
Appropriation of endowment assets for expenditure	\$ (3,780,728)	\$ 8,362	\$ (3,772,366)
Endowment net assets, end of year	\$ 25,409,579	\$ 6,015,960	\$ 31,425,539

Return Objectives and Risk Parameters

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

NOTE 14 - ENDOWMENT: (CONTINUED)

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

NOTE 15 - INVESTMENTS FAIR VALUE MEASUREMENTS

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

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

HumanKind has investments with six fund managers which invest in private investment funds as part of HumanKind's asset allocation. The investment in private investment funds is an alternative investment strategy with the purpose of increasing the diversification of HumanKind's holdings and is consistent with HumanKind's overall investment objectives. The private investment funds are not traded on any organized

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 15 - INVESTMENTS FAIR VALUE MEASUREMENTS: (CONTINUED)

exchange, and accordingly, investments in such funds may not be as liquid as investments in marketable equity or debt securities. The private investment funds may invest in other private investment funds, equity or debt securities which may or may not have readily available fair values, and foreign exchange or commodity forward contracts. Investments in private investment funds are reported at estimated fair value provided by fund managers. The framework permits to measure the fair value of its funds investments as it pro-rata interest in the net asset value (NAV) of such investment funds as reported by the fund management, if the NAV is prepared on a fair value basis as of December 31, 2018.

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

HumanKind is providing the following information related to its investments:

	Fair Value Measurements at Reporting Date Using			
	12/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Temporary investments	\$ 422,382	\$ 202,382	\$ 220,000	\$ -
Bonds	3,031,716	3,031,716	-	-
Corporate stocks, domestic	8,434,051	959,051	7,475,000	-
Corporate stocks, foreign	8,888,817	676,000	8,212,817	-
Private investment funds	4,692,901	2,953	4,689,948	-
Total	\$ 25,469,867	\$ 4,872,102	\$ 20,597,765	\$ -

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Notes to Financial Statements
At December 31, 2018 and 2017 (Continued)

NOTE 16 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 2,061,576	\$ 602,787
Accounts receivable, net of allowance for uncollectible accounts of \$85,437 and \$95,032 in 2018 and 2017	682,627	649,444
Pledges receivable, due within one year	54,218	47,630
Unrestricted investments	<u>19,519,068</u>	<u>25,409,579</u>
Total	<u>\$ 22,317,489</u>	<u>\$ 26,709,440</u>

NOTE 17 - ADOPTION OF ACCOUNTING PRONOUNCEMENT

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Innisfree has changed the presentation of its financial statements accordingly. The new ASU changes the following aspects of Innisfree's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been reduced to a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been changed to net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources.

Adoption of the ASU did not result in any reclassifications or restatements to net assets.

NOTE 18 - DATE OF MANAGEMENT'S REVIEW

In preparing these financial statements, management of HumanKind, Inc. has evaluated events and transactions for potential recognition or disclosure through May 30, 2019, the date the financial statements were issued.

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Presbyterian Homes and Family Services, Incorporated dba HumanKind ("HumanKind") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the HumanKind'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 HumanKind's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

May 30, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited Presbyterian Homes and Family Services, Incorporated dba HumanKind's (a nonprofit organization) compliance with the types of compliance requirements described in *the OMB Compliance Supplement* that could have a direct and material effect on each of HumanKind's major federal programs for the year ended December 31, 2018. HumanKind's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
May 30, 2019

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass-Through Payments:			
Virginia Department of Social Services:			
Promoting Safe and Stable Families	93.556	Not Available	\$ 17,773
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Programs	93.505	Not Available	272,679
Temporary Assistance to Needy Families	93.558	SVC-07-070-02	<u>435,108</u>
Total Department of Health and Human Services			<u>\$ 725,560</u>
Department of Housing and Urban Development:			
Pass-Through Payments:			
Lynchburg Redevelopment and Housing Authority:			
Continuum of Care Program	14.267	Not Available	\$ 60,000
LISC:			
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	Not Available	<u>85,927</u>
Total Department of Housing and Urban Development			<u>\$ 145,927</u>
Total Expenditures of Federal Awards			<u><u>\$ 871,487</u></u>

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

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Presbyterian Homes and Family Services, Inc. dba HumanKind under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Presbyterian Homes and Family Services, Inc. dba HumanKind, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Presbyterian Homes and Family Services, Inc. dba HumanKind.

Note 2 - Summary of Significant Accounting Policies

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

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

Note 3 - De Minimis Cost Rate

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

Note 4 - Subrecipients

No awards were passed through to subrecipients.

Note 5 - Relationship to Financial Statements

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

Per the financial statements:

Grants	\$	1,587,229
Less: Non-federal grants		<u>(715,742)</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$	<u><u>871,487</u></u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
 dba HumanKind
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.558	Temporary Assistance to Needy Families
93.505	Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Programs

Dollar threshold used to distinguish between Type A and Type B programs?	\$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED
dba HumanKind
Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2018

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