

THE POVERELLO CENTER, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

May 31, 2017

Charles A. Krblich, P.A.
Certified Public Accountants

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7
SUPPLEMENTAL INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	18
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	19
OTHER AUDITOR'S REPORTS	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	21
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	26
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	27
MANAGEMENT'S VIEWS AND CORRECTIVE ACTION PLAN	29

Charles A. Krblich, P.A.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Poverello Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Poverello Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 The Poverello Center, Inc. as of May 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 December 19, 2017, on our consideration of The Poverello Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Poverello Center, Inc.'s internal control over financial reporting and compliance.



Fort Lauderdale, Florida
December 19, 2017

The Poverello Center, Inc.

STATEMENT OF FINANCIAL POSITION

May 31, 2017

ASSETS

Cash and cash equivalents	\$ 494,689
Investments	122,792
Grants receivable	212,692
Donations receivable	225,655
Inventories	74,347
Property and equipment, net	4,820,700
Other assets, deposits, etc.	<u>59,989</u>
Total Assets	\$ <u>6,010,864</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 294,067
Sales tax payable	4,693
Mortgage payable net of unamortized debt issuance costs	<u>2,167,006</u>
Total Liabilities	2,465,766

COMMITMENTS AND CONTINGENCIES

NET ASSETS

Unrestricted	3,522,493
Temporarily restricted	<u>22,605</u>
Total Net Assets	<u>3,545,098</u>
Total Liabilities and Net Assets	\$ <u>6,010,864</u>

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF ACTIVITIES

For the year ended May 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
PUBLIC SUPPORT				
Thrift Store	\$ 1,011,667	\$ -	\$ -	\$ 1,011,667
Contributions	257,129	-	-	257,129
Non-cash Contributions	772,124	-	-	772,124
Miscellaneous	11,444	-	-	11,444
Grant Support				
Governmental	938,926	189,512	-	1,128,438
Private	372,686	53,500	-	426,186
Net assets released from restriction	432,616	(432,616)	-	-
Total Public Support	3,796,592	(189,604)	-	3,606,988
REVENUES				
Interest and Dividend Income	1,874	-	-	1,874
Gain (loss) on investments	1,447	-	-	1,447
Total Revenues	3,321	-	-	3,321
TOTAL PUBLIC SUPPORT AND REVENUES	3,799,913	(189,604)	-	3,610,309
EXPENSES				
PROGRAM SERVICES				
Food Bank	2,319,110	-	-	2,319,110
Fitness Center	58,265	-	-	58,265
Total Program Services	2,377,375	-	-	2,377,375
SUPPORTING ACTIVITIES				
Management and General	621,727	-	-	621,727
Fundraising	134,035	-	-	134,035
Thrift Store	681,011	-	-	681,011
Total Supporting Activities	1,436,773	-	-	1,436,773
TOTAL EXPENSES	3,814,148	-	-	3,814,148
CHANGE IN NET ASSETS	(14,235)	(189,604)	-	(203,839)
NET ASSETS, beginning of year	3,536,728	212,209	-	3,748,937
NET ASSETS, end of year	\$ 3,522,493	\$ 22,605	\$ -	\$ 3,545,098

See accompanying notes to the financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended May 31, 2017

	Program Services			Supporting Activities				
	Food Bank	Fitness Center	Totals	Management and General	Fund-raising	Thrift Store	Totals	Total
	\$ 2,513	\$ -	\$ 2,513	\$ 6,933	\$ 13,183	\$ 3,319	\$ 23,435	\$ 25,948
Advertising/printing	-	-	-	563	-	-	563	563
Bank charges	3,617	-	3,617	2,172	4,219	18,277	24,668	28,285
Credit card fees	-	-	-	-	-	1,078	1,078	1,078
EBay transaction charges	-	-	-	-	-	90	90	13,796
Dues and subscriptions	90	-	90	9,068	4,548	878	3,034	5,862
Equipment and repairs	2,828	-	2,828	1,556	600	288	374	480
Fire alarm monitoring	106	-	106	86	-	-	-	1,314,076
Food	1,314,076	-	1,314,076	-	-	-	-	487,384
Food vouchers	487,384	-	487,384	-	-	-	-	50,772
Fundraising, direct expenses	-	-	-	-	50,772	-	-	31,219
Insurance	11,533	3,571	15,104	16,492	-	14,727	50,772	46,323
Interest	30,072	-	30,072	32,837	-	29,322	62,159	92,231
Internet	770	534	1,304	643	41	656	1,340	2,644
Legal and accounting	1,200	720	1,920	136,366	1,200	1,200	138,766	140,686
Licenses and fees	1,985	100	2,085	2,316	-	-	2,316	4,401
Miscellaneous	-	-	-	1,330	-	-	1,330	1,330
Office expense	3,830	1,113	4,943	12,877	132	666	13,675	18,618
Outside service	-	-	-	1,160	-	960	2,120	2,120
Pest control	515	-	515	497	-	680	1,177	1,692
Postage	23	-	23	428	300	-	728	751
Printing	2,352	53	2,405	1,698	757	1,453	3,908	6,313
Municipal taxes	606	188	794	866	-	773	1,639	2,433
Rents and leases	4,454	32,329	36,783	1,091	833	1,410	3,334	40,117
Repairs and maintenance	19,111	2,029	21,140	36,619	-	15,539	52,158	73,298
Salaries, taxes and benefits	345,323	7,182	352,505	242,232	56,637	481,801	780,670	1,133,175
Seminars and meetings	3,119	-	3,119	4,797	-	-	4,797	7,916
Shipping and freight	1,834	-	1,834	-	-	-	-	1,834
Supplies	10,567	562	11,129	10,003	410	12,285	22,698	33,827
Telephone	1,932	1,012	2,944	2,713	403	2,750	5,866	8,810
Trash removal	5,931	-	5,931	2,821	-	8,980	11,801	17,732
Transportation expenses	4,631	-	4,631	5,801	-	9,446	15,247	19,878
Volunteer relations	708	-	708	4,823	-	-	4,823	5,531
Utilities	24,903	7,710	32,613	35,611	-	31,799	67,410	100,023
Total expenses before depreciation	2,286,013	57,103	2,343,116	574,399	134,035	638,377	1,346,811	3,689,927
Depreciation of property and equipment	33,097	1,162	34,259	47,328	-	42,634	89,962	124,221
Total expenses	\$ 2,319,110	58,265	2,377,375	\$ 621,727	\$ 134,035	\$ 681,011	\$ 1,436,773	\$ 3,814,148

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF CASH FLOWS

For the year ended May 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (203,839)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	124,221
Amortization of debt issuance costs	4,619
Unrealized gain on investments	(1,447)
(Increase) decrease in:	
Grants receivable	(69,819)
Donations receivable	(150,553)
Inventories	(26,382)
Other assets, deposits, etc.	(16,813)
(Decrease) increase in:	
Accounts payable and accrued expenses	109,027
Sales tax payable	<u>2,554</u>
Net cash used in operating activities	<u>(228,432)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(849)
Proceeds from sale of investments	<u>2,087</u>
Net cash provided by investing activities	<u>1,238</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of mortgage payable	<u>(59,514)</u>
Net cash used in financing activities	<u>(59,514)</u>
Net decrease in cash and cash equivalents	(286,708)

Cash and cash equivalents at beginning of year	<u>781,397</u>
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Cash and cash equivalents at end of year	\$ <u><u>494,689</u></u>
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Supplemental disclosures of cash flow information

Interest expense paid in cash	\$ <u><u>87,689</u></u>
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Income taxes paid in cash	\$ <u><u>-</u></u>
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See accompanying notes to the financial statements.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Poverello Center, Inc. ("Poverello", "Center", or "Organization") is a Florida non-profit organization whose purpose is to service the nutritional needs of indigent persons with critical and chronic diseases, including HIV and/or Acquired Immune Deficiency Syndrome, and their dependents, as well as to provide financial assistance for basic living requirements in emergency situations.

The significant accounting policies are as follows:

Basis of Accounting and Reporting

The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Financial Statement Presentation

The Center prepares its financial statements in accordance with the Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC). The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction. Accordingly, for reporting purposes, net assets of the Organization and changes therein are classified as follows:

Unrestricted – Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.

Temporarily Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations that can be fulfilled by either passage of time or by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets consist of

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE A – CONTINUED

Financial Statement Presentation – continued

unexpended grant funds. See Note H.

Permanently Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations that are neither fulfilled with the passage of time nor otherwise removed by actions of the Organization. At May 31, 2017, the Organization had no permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Public Support, Revenue, and Operations

Agencies and organization, volunteers, businesses, the general community, and others contribute substantial amounts of materials and services toward the fulfilling of the programs administered by Poverello. To the extent that contributions of materials are made under the control of Poverello, are objectively measurable, and represent program or support expenditures which would otherwise be incurred by Poverello personnel, they are reflected in both public support and program expense in the accompanying financial statements at their fair market value. Contributions received in the form of cash are primarily used for the purchase of food, while donations of furniture, clothes, and other goods are used to raise funds by selling them in the thrift store. Contributions, designated by donors for use primarily for client assistance, if any are treated as restricted funds.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE A – CONTINUED

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Those marketable securities and investments received as gifts or donations are recorded at their fair market value on the date received.

Property and Equipment and Depreciation

Property and equipment are recorded at cost or at estimated fair market value at the date of the gift, if donated. Depreciation is provided, using the straight-line method over the estimated useful life of the related asset. Management has a policy to capitalize items in excess of \$1,000.

The following useful lives are used in determining depreciation:

	<u>Estimated Useful Life</u>
Furniture	7 years
Equipment	5 years
Vehicles	5 years
Leasehold improvements	27.5 years
Real property	39 years

Functional Expenses

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash on deposit, cash on hand, money market funds and certificates of deposit with original maturities of less than three months, if any, to be cash equivalents.

Fair value of financial instruments

Financial instruments are composed of cash, cash equivalents, certificates of deposit, investments, pledges receivable, accounts receivable, accounts payable and other accrued expenses. Cash, cash equivalents, certificates of deposit, pledges receivable,

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE A – CONTINUED

Fair value of financial instruments – continued

accounts receivable, accounts payable and other accrued expenses are carried at cost which approximates fair value due to their short-term nature.

Amortization of Debt Issuance Costs

Amortization is computed for financial statement purposes on a straight-line basis and is included in financial expenses on the statement of activities. See note on Recently Issued Accounting Standards. Loan origination fees are being amortized over the 10-year term of the mortgage loan.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Income Taxes

Income taxes are not provided for in the financial statements since The Poverello Center, Inc. is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. Poverello is not classified as a private foundation.

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2014-2016. The Organization evaluates all significant tax positions as required by generally accepted accounting principles in the United States. The Organization believes their estimates are appropriate based on current facts and circumstances. The Organization's policy on statement of activities classification of interest and penalties related to income tax obligations, if any, is to include such items as part of interest expense and miscellaneous expense, respectively.

Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2015-03 (ASU 2015-03), Interest-Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. The amendments in this update require that

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE A – CONTINUED

Recently Issued Accounting Standards – continued

debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization of debt issuance costs is included in interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015. The effect on the financial statements of the adoption of ASU 2015-03 is that unamortized loan costs, which previously would have been included in other assets on the statement of financial position, are now shown as a reduction in the carrying amount of the related debt. Amortization of the loan cost is included in interest expense on the statement of functional expenses rather than in amortization expense.

Presentation of Sales Tax

The Organization collects sales tax on its thrift store sales and remits these amounts to the applicable taxing authority. The Organization's accounting policy is to exclude these taxes from revenues and expenses.

Advertising Costs

The Organization expenses the costs of advertising as incurred. For the year ended May 31, 2017, advertising expense was \$25,948.

Date of Management Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 19, 2017. That date is the date the financial statements were available to be issued.

NOTE B – INVENTORIES

Inventories are stated at the lower of cost or market, except donated inventory items, which are stated at market value. At May 31, 2017, inventories were composed of the following:

Food	\$ 12,172
Food vouchers on hand	32,175
Thrift Store	<u>30,000</u>
Total inventories	\$ <u>74,347</u>

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE C – INVESTMENTS

At May 31, 2017, the value of the Center's investments was as follows:

Certificate of deposit, at cost plus interest	\$102,436
U.S. Equities, at fair value	18,442
Fixed Income, at fair value	1,914
	<u>\$122,792</u>

The following schedule summarizes the Center's investment return for the year ended May 31, 2017:

Interest and dividends	\$ 1,874
Unrealized gains	1,447
Total investment return	<u>\$ 3,321</u>

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment at May 31, 2017 consisted of the following:

Land, buildings and improvements	\$ 5,600,020
Furniture, fixtures and equipment	155,401
Vehicles	93,276
	<u>5,848,697</u>
Less accumulated depreciation	1,027,997
Property and equipment, net	<u>\$ 4,820,700</u>

Depreciation expense for the year ended May 31, 2017 was \$124,221.

NOTE E – OTHER ASSETS

At May 31, 2017 other assets, deposits, etc. consisted of the following:

Prepaid insurance	\$ 35,062
Prepaid rent	7,206
Deposits on leased space, utilities, and others	17,721
Total other assets, deposits, etc.	<u>\$ 59,989</u>

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE F – DONATED SERVICES AND FOOD

The Organization receives a significant amount of donated services from unpaid volunteers who assist in the food bank, thrift store, office, fundraising, and special projects. No amounts have been recognized in the Statement of Activities because the criteria for recognition have not been satisfied. The Poverello Center, Inc. estimates that it receives in excess of 62,000 volunteer hours per year. Included in the Statement of Activities are non-cash contributions for donated food, totaling \$772,124, which were valued at their estimated fair value at the date of contribution.

NOTE G – MORTGAGE PAYABLE

The Center has a mortgage note payable to a bank collateralized by the building. The mortgage is payable in monthly installments \$12,267, including principal and interest, at 3.87 percent, until December 19, 2019. Commencing on January 20, 2020 until and including the maturity date, December 19, 2024, the interest rate will be a fixed per annum rate equal to the bank choice of index plus two hundred twenty-five basis points. Any outstanding balance is due on the maturity date.

The scheduled principal payments under arrangements existing at May 31, 2017 are:

2018	\$ 63,218
2019	65,709
2020	68,297
2021	70,988
2022	73,784
Thereafter	<u>1,860,035</u>
Total	<u>2,202,031</u>
Less unamortized debt issuance costs	<u>35,025</u>
	<u>\$2,167,006</u>

Interest expense incurred for the year ended May 31, 2017 is \$92,231. Interest expense includes amortization of debt issuance costs of \$4,619. At May 31, 2017 the Center had violated the debt service coverage ratio covenant. The Center has received a waiver of this event for the current year. The financial statements do not include any adjustments related to the event of default or that would result from the Center's inability to cure such default in the future.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

As of May 31, 2017, the Center had temporarily restricted net assets of \$22,605 restricted for the purchase of food for the food bank.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE I – GRANTS FROM GOVERNMENT AGENCIES

The Organization receives approximately thirty-one percent of its support from the federal government. The funds are received through Broward County, Human Services Department which administers programs under Part A of the Ryan White HIV/AIDS Treatment Modernization Act, as amended and re-authorized in 2006.

Program Title	Accrued Revenue 6/1/2016	Cash Receipts	Accrued Revenue 5/31/17	Total Revenue
Broward County Ryan White Part A				
2015-16 Funding	\$(127,692)	\$127,692	-	\$ -
2016-17 Funding	(15,181)	930,927	-	915,746
2017-18 Funding	-	-	212,692	212,692
Totals	<u>\$(142,873)</u>	<u>\$1,058,619</u>	<u>\$212,692</u>	<u>\$1,128,438</u>

NOTE J – PENSION PLAN

The Organization provides a 401(k) defined contribution pension plan for all of its employees who meet the age and years of service eligibility. The Organization contributes an amount equal to the first three percent of the employee's elective deferral and fifty percent of the elective deferral between three and five percent of the employee's compensation. Included in compensation and related expenses is the employer's matching contribution expense for the year ending May 31, 2017, of \$17,541.

NOTE K – FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as the price that would be received upon the sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. U.S. GAAP specifies a hierarchy of inputs to valuation techniques, which categorizes inputs to fair value measurements that reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

- Level 1 – Unadjusted quoted market prices for identical assets and liabilities in an active market.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE K – CONTINUED

- Level 2 – Inputs other than quoted prices in active markets that are directly or indirectly observable.
- Level 3 – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurement.

U.S. GAAP requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level with which the fair value measurement is categorized is based on the lowest input that is significant to the fair value measurement.

The carrying values of cash and cash equivalents, certificates of deposit, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate their fair values due to the short maturity of these financial instruments. The fair values of equity securities and fixed income securities totaling \$20,356 are calculated at quoted market prices in active markets as of May 31, 2017, which is a Level 1 measurement. There are no changes in methods or assumptions during the year ended May 31, 2017, and there are no transfers between Levels.

NOTE L – COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk are primarily cash and cash equivalents. The Organization invests its excess cash in deposits with major financial institutions and the carrying value approximates fair value. Deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At May 31, 2017, the Organization had approximately \$337,000 in excess of federally insured amounts (FDIC). The Poverello Center, Inc. has not experienced losses related to these investments.

Receivables are primarily from governmental institutions arising from cost reimbursement contracts. The Organization believes it is not exposed to any significant credit risk related to these receivables.

During the year ended May 31, 2017, three food vendors accounted for eighty-nine percent of all food purchases and thirteen percent of total expenditures.

The Poverello Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

May 31, 2017

NOTE L – CONTINUED

Lease agreements

The Poverello Center leases its gym facility located in Wilton Manors, Florida, as well as certain equipment. In February 2017 the Center sub-let equipment and is receiving payment of \$390 per month through the end of the lease in December 2017. Rent expense for the year ended May 31, 2017, net of \$1,170 received from the sublease was \$40,117. Future minimum equipment rental payments, net of sublease payments, for the years ended May 31, are as follows:

2018	\$ 39,414
2019	\$ 38,924
2020	\$ 23,772

In January 2015, the Center entered into a seven year lease for a facility to open a second thrift store with a rent commencement date sixty days after the date the landlord delivers the premises to the Center. The opening of the store has been delayed due to municipal code restrictions and the Center has not taken delivery of the premises. Annual rent under the terms of the lease, when rent commences are as follows:

Year 1	\$ 86,592
Year 2	\$ 90,200
Year 3	\$ 93,808
Year 4	\$ 97,416
Year 5	\$ 101,024
Thereafter	\$ 202,048

There was no rent expense associated with this lease for the year ended May 31, 2017.

Legal Matters

The Center is engaged in legal proceedings incidental to its normal business activities. In the opinion of management, none of these proceedings are material in relation to the Center's financial position.

SUPPLEMENTAL INFORMATION

The Poverello Center, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended May 31, 2017

<u>Federal Grantor/Pass Through Grantor/ Program Title or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identification Number</u>	<u>Total Federal Expenditures</u>
<u>Department of Health and Human Services</u>			
Passed through Broward County, Florida Human Services Department			
HIV Emergency Relief Project Grants - Ryan White Part A	93.914	17-CP-HCS-8120-RW-01	\$ <u>1,300,130</u>
Total Department of Health and Human Services			<u>1,300,130</u>
Total Expenditures of Federal Awards			\$ <u>1,300,130</u>

The accompanying notes are an integral part of this schedule.

The Poverello Center, Inc.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended May 31, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Poverello Center, Inc. under programs of the federal government for the year ended May 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Poverello Center, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Poverello Center, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

The Poverello Center, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER AUDITOR'S REPORTS

Charles A. Krblich, P.A.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
The Poverello Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Poverello Center, Inc. (a nonprofit organization), which comprise the statement of financial position as May 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Poverello Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Poverello Center, Inc.'s internal control. Accordingly, we do not express an opinion of the effectiveness of The Poverello Center, Inc.'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying

schedule of findings and questioned costs that we consider to be a material weakness, Finding 2017-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Poverello Center, Inc.'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*.

The Poverello Center, Inc.'s Response to Findings

The Poverello Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Poverello Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Fort Lauderdale, Florida
December 19, 2017

Charles A. Krblich, P.A.

Certified Public Accountants

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

Board of Directors
The Poverello Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited The Poverello Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Poverello Center, Inc. major federal programs for the year ended May 31, 2017. The Poverello Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of the 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.

A handwritten signature in blue ink that reads "Charles A. Kuhlert PACBA". The signature is written in a cursive style with a horizontal line underneath the name.

Fort Lauderdale, Florida
December 19, 2017

The Poverello Center, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended May 31, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP, unmodified:

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major federal programs, unmodified:

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

☐ yes ☒ no

Identification of Major Federal Programs

Name of Federal Program or Cluster

CFDA
Number

HIV Emergency Relief Project Grants -
Ryan White Part A

93.914

Dollar threshold used to distinguish Types A and Type B programs: \$750,000.

Auditee qualified as low-risk auditee?

☐ yes ☒ no

The Poverello Center, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended May 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2017-01 Financial Closing and Reporting

- Criteria: Financial statements should be prepared in accordance with generally accepted accounting principles.
- Condition: A number of adjustments were required in order for the financial statements to be in accordance with generally accepted accounting principles. Some of the prior year audit adjustments were not recorded in the general ledger and the procedures for the conversion from cash to accrual were inconsistent. In addition there were two liability accounts that were not reconciled and required material adjustments. This was a finding last year and the Center hired an outside bookkeeping firm to provide the expertise that staff was lacking. The outside firm has failed to address these issues.
- Context: The Poverello Center, Inc. keeps their books on the cash basis during the year and adjusts to accrual basis at year end. Some subsidiary ledgers and schedules necessary for conversion to accrual were provided by the outside bookkeeper or Poverello staff but others were not prepared and had to be developed during the audit.
- Effect: The financial statements as presented were not in accordance with generally accepted accounting principles and required a significant number of material adjustments.
- Cause: The Center does not have comprehensive procedures for the year end closing process and the effort to address the problem by hiring an outside firm was unsuccessful.
- Recommendation: The Center should develop period closing procedures, such as a check list, detailing all subsidiary ledgers or schedules that need to be prepared. The procedures should address identifying, capturing and recording non-routine transactions and should include steps to record audit adjustments. They should communicate their expectations to the outside bookkeeping firm and work with them to accomplish these goals.
- Views of responsible officials and planned corrective actions: See management's response and corrective action plan, attached.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

The Poverello Center, Inc.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended May 31, 2017

PRIOR-YEAR FINDINGS – FINANCIAL STATEMENTS

Finding 2016-01 Financial Closing and Reporting

- Condition: A number of adjustments were required in order for the financial statements to be in accordance with generally accepted accounting principles. The prior year audit adjustments were not recorded in the general ledger and the procedures for the conversion from cash to accrual were inconsistent.
- Recommendation: The Center should develop period closing procedures, such as a check list, detailing all subsidiary ledgers or schedules that need to be prepared. The procedures should address identifying, capturing and recording non-routine transactions and should include steps to record audit adjustments.
- Current Status: To address this issue the Center hired an outside bookkeeping firm to provide the expertise that the staff was lacking. The trial balance presented for fiscal year 2017 contained many of the same errors and omissions. See current year finding 2017-01.



Father William F. Collins, OFM
Founder (1931-2017)

Board of Directors:

Jodi Reichman
Chair

Mitch Bloom
Vice Chair

Dr. Réquel Lopes
Treasurer

JoAnn McCann
Secretary

Ericha Lichter
Director

Jay Feldman
Director

Jason Brown
Director

Clark Wycoff
Director

Chief Executive Officer:
Thomas S Pietrogallo

December 19, 2017

Charles A. Krblich, P.A.
1119 SE Third Avenue
Fort Lauderdale, FL 33316

Re: Findings – Financial Statement Audit 2016-2017

Mr. Krblich:

The Poverello Center Inc. keeps books throughout the year on a cash basis and has plans to convert all entries to an accrual basis for the 2017-2018 fiscal year. The hiring of CPA during the fiscal year 2016-2017 was to address the significant deficiency in the prior year. Instead of getting better, there were additional problems that developed. As a result, the CPA firm was changed following the end of 2016-2017 fiscal year.

The new firm immediately corrected the ledgers and are working more closely with management on implementing periodic reporting and closing procedures. The processes for month end, quarterly and year end closing of the books are a major part of the corrective action being addressed by administration and comply with auditor's recommendations.

Respectfully Submitted,

Thomas S. Pietrogallo, MSW/LCSW, MBA

