THE POVERELLO CENTER, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

May 31, 2018

Charles A. Krblich, P.A.

Certified Public Accountants

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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, 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.

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.

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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, 2018, 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 September 27, 2018, 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 the effectiveness of The Poverello Center, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Poverello Center, Inc.'s internal control over financial reporting and compliance.

Charles A Kilkiel PA CPA

Fort Lauderdale, Florida
September 27, 2018

The Poverello Center, Inc.

STATEMENT OF FINANCIAL POSITION

May 31, 2018

ASSETS

Cash and cash equivalents	$	640,422
Investments		18,746
Grants receivable		171,203
Donations receivable		135,000
Prepaid coupons and vouchers		128,785
Inventories		93,051
Property and equipment, net		4,748,078
Other assets, deposits, etc.		80,237
Total Assets	$	6,015,522

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	$	136,570
Sales tax payable		4,033
Mortgage payable net of unamortized debt issuance costs		2,109,946
Total Liabilities		2,250,549
COMMITMENTS AND CONTINGENCIES		-
NET ASSETS		
Unrestricted		3,548,624
Temporarily restricted		216,349
Total Net Assets		3,764,973
Total Liabilities and Net Assets	$	6,015,522

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF ACTIVITIES

For the year ended May 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
PUBLIC SUPPORT				
Thrift Store	$ 985,574	$ -	$ -	$ 985,574
Contributions	418,422	-	-	418,422
Non-cash Contributions	1,266,648	136,350	-	1,402,998
Miscellaneous	765	-	-	765
Grant Support				
Governmental	881,350	-	-	881,350
Private	223,847	124,975	-	348,822
Net assets released from restriction	67,581	(67,581)	-	-
Total Public Support	3,844,187	193,744	-	4,037,931
REVENUES				
Interest and Dividend Income, net	1,210	-	-	1,210
Gain (loss) on investments	(1,610)	-	-	(1,610)
Total Revenues	(400)	-	-	(400)
TOTAL PUBLIC SUPPORT AND REVENUES	3,843,787	193,744	-	4,037,531
EXPENSES				
PROGRAM SERVICES				
Food Bank	2,625,590	-	-	2,625,590
Fitness Center	63,505	-	-	63,505
Total Program Services	2,689,095	-	-	2,689,095
SUPPORTING ACTIVITIES				
Management and General	310,279	-	-	310,279
Fundraising	110,484	-	-	110,484
Thrift Store	707,798	-	-	707,798
Total Supporting Activities	1,128,561	-	-	1,128,561
TOTAL EXPENSES	3,817,656	-	-	3,817,656
CHANGE IN NET ASSETS	26,131	193,744	-	219,875
NET ASSETS, beginning of year	3,522,493	22,605	-	3,545,098
NET ASSETS, end of year	$ 3,548,624	$ 216,349	$ -	$ 3,764,973

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended May 31, 2018

	Program Services			Supporting Activities				
	Food Bank	Fitness Center	Totals	Management and General	Fund-raising	Thrift Store	Totals	Total
Advertising/printing	$ 631	$ 467	$ 1,098	$ 843	$ 6,071	$ 2,070	$ 8,984	$ 10,082
Bank charges	-	-	-	857	4	348	1,209	1,209
Credit card fees	177	-	177	330	2,267	11,589	14,186	14,363
EBay transaction charges	-	-	-	-	-	3,223	3,223	3,223
Dues and subscriptions	-	-	-	6,562	998	113	7,673	7,673
Equipment and repairs	8,019	204	8,223	128	-	1,411	1,539	9,762
Fire alarm monitoring	-	-	-	100	-	200	300	300
Food	1,724,657	-	1,724,657	-	-	-	-	1,724,657
Food vouchers and coupons	165,325	-	165,325	-	-	-	-	165,325
Fundraising, direct expenses	-	-	-	-	27,715	-	27,715	27,715
Insurance	19,367	3,307	22,674	8,030	-	16,532	24,562	47,236
Interest	36,026	-	36,026	18,012	-	36,026	54,038	90,064
Internet	1,015	290	1,305	1,254	259	745	2,258	3,563
Legal and accounting	4,350	2,320	6,670	19,422	4,210	4,350	27,982	34,652
Licenses and fees	5,936	400	6,336	1,122	-	252	1,374	7,710
Miscellaneous	354	25	379	2,963	104	896	3,963	4,342
Office expense	4,534	745	5,279	4,290	225	551	5,066	10,345
Outside service	820	210	1,030	930	150	3,790	4,870	5,900
Pest control	1,144	-	1,144	431	-	740	1,171	2,315
Postage	-	-	-	1,163	-	-	1,163	1,163
Printing	2,815	476	3,291	1,182	822	554	2,558	5,849
Municipal taxes	1,019	-	1,019	510	-	1,019	1,529	2,548
Rents and leases	4,724	33,468	38,192	1,292	900	3,769	5,961	44,153
Repairs and maintenance	31,947	2,224	34,171	5,605	-	19,105	24,710	58,881
Safety supplies and equipment	266	53	319	107	-	318	425	744
Salaries, taxes and benefits	451,296	7,136	458,432	173,583	56,596	477,100	707,279	1,165,711
Seminars and meetings	201	-	201	97	112	-	209	410
Shipping and freight	2,154	-	2,154	-	-	560	560	2,714
Software	186	-	186	2,050	4,644	92	6,786	6,972
Supplies	44,934	2,303	47,237	5,883	3,905	11,400	21,188	68,425
Telephone	1,790	1,053	2,843	1,063	1,067	2,074	4,204	7,047
Trash removal	5,910	-	5,910	1,403	172	7,983	9,558	15,468
Transportation expenses	8,081	530	8,611	1,556	66	11,785	13,407	22,018
Travel and meals	4,924	-	4,924	6,370	197	255	6,822	11,746
Volunteer relations	-	-	-	5,000	-	-	5,000	5,000
Utilities	42,813	7,133	49,946	13,455	-	38,990	52,445	102,391
Total expenses before depreciation	2,575,415	62,344	2,637,759	285,593	110,484	657,840	1,053,917	3,691,676
Depreciation of property and equipment	50,175	1,161	51,336	24,686	-	49,958	74,644	125,980
Total expenses	$ 2,625,590	63,505	2,689,095	$ 310,279	$ 110,484	$ 707,798	1,128,561	$ 3,817,656

See accompanying notes to the financial statements.

The Poverello Center, Inc.

STATEMENT OF CASH FLOWS

For the year ended May 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 219,875
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	125,980
Amortization of debt issuance costs	4,619
Unrealized loss on investments	1,610
(Increase) decrease in:	
Grants receivable	41,489
Donations receivable	90,655
Prepaid coupons and vouchers	(128,785)
Inventories	(18,704)
Other assets, deposits, etc.	(20,249)
(Decrease) increase in:	
Accounts payable and accrued expenses	(157,497)
Sales tax payable	(660)
Net cash provided by operating activities	158,333
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(53,358)
Maturity of certificate of deposit	102,436
Net cash provided by investing activities	49,078
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of mortgage payable	(61,678)
Net cash used in financing activities	(61,678)
Net increase in cash and cash equivalents	145,733
Cash and cash equivalents at beginning of year	494,689
Cash and cash equivalents at end of year	$ 640,422
Supplemental disclosures of cash flow information	
Interest expense paid in cash	$ 85,525
Income taxes paid in cash	$ -

See accompanying notes to the financial statements.

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 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

NOTE A – CONTINUED

Financial Statement Presentation – continued

unexpended grant funds. See Note I.

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, 2018, 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 organizations, 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 services, if any, are treated as restricted funds.

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 for, 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.

Long-lived assets held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

The following useful lives are used in determining depreciation:

	Estimated Useful Life
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.

NOTE A – CONTINUED

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, 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 interest expense on the statement of functional expenses. Accounting principles generally accepted in the United States of America require that the effective yield method to be used to amortize debt issuance costs; however, the effect of using the straight line method is not materially different from the results that would have been obtained under the effective yield method. 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 2015-2017. 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.

NOTE A – CONTINUED

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, 2018, advertising expense was $10,082.

Date of Management Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 27, 2018. 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, 2018, inventories were composed of the following:

Food	$	17,327
Thrift Store		33,014
Thrift Store – on-line		41,485
Supplies		1,225
Total inventories	$	93,051

NOTE C – INVESTMENTS

At May 31, 2018, the value of the Center's investments was as follows:

U.S. Equities, at fair value	$	16,788
Fixed Income, at fair value		1,958
	$	18,746

The following schedule summarizes the Center's investment return for the year ended May 31, 2018:

NOTE C – CONTINUED

Interest and dividends	$	1,277
Unrealized losses		(1,610)
Investment expense		(67)
Total investment return	$	(400)

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment at May 31, 2018 consisted of the following:

Land, buildings and improvements	$	5,600,020
Furniture, fixtures and equipment		208,760
Vehicles		93,276
		5,902,056
Less accumulated depreciation		1,153,978
Property and equipment, net	$	4,748,078

Depreciation expense for the year ended May 31, 2018 was $125,980.

NOTE E – OTHER ASSETS

At May 31, 2018 other assets, deposits, etc. consisted of the following:

Prepaid expenses, principally insurance	$	52,525
Prepaid rent		9,991
Deposits on leased space, utilities, and others		17,721
Total other assets, deposits, etc.	$	80,237

NOTE F – DONATED SERVICES AND GOODS

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 $1,222,149, and donated thrift store inventory, totaling $44,499, which were valued at their estimated fair value at the date of contribution. In addition, the Organization received a grant of food coupons with a total value of $136,350.

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, 2018 are:

2019	$	65,535
2020		68,116
2021		70,800
2022		73,589
2023		76,488
Thereafter		1,785,824
Total		2,140,352
Less unamortized debt issuance costs		30,406
	$	2,109,946

Interest expense incurred for the year ended May 31, 2018 is $90,064. Interest expense includes amortization of debt issuance costs of $4,619.

NOTE H – GRANTS FROM GOVERNMENT AGENCIES

The Organization receives approximately twenty-two 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 and a grant from AIDS United.

Program Title	Accrued Revenue 6/1/2017	Cash Receipts	Accrued Revenue 5/31/18	Total Revenue
Broward County				
Ryan White Part A				
2016-17 Funding	$ (212,692)	$ 929,099	$ -	$ 716,407
2017-18 Funding	-	-	140,402	140,402
AIDS United	-	-	24,541	24,541
Totals	$ (212,692)	$ 929,099	$ 164,943	$ 881,350

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

As of May 31, 2018, the Center had temporarily restricted net assets of $216,349. Of this amount $34,265 is restricted for the purchase of food for the food bank, $128,130 represents un-distributed food coupons and $53,954 for a food bank nutritionist.

NOTE J – PENSION PLAN

The Organization provides a 401(k) defined contribution pension plan to employees who successfully complete ninety days of employment. The Organization contributes a matching amount equaling up to four percent of the employee's salary, matching the employee's elective contribution. Included in compensation and related expenses is the employer's matching contribution expense for the year ending May 31, 2018, of $23,483.

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.
- 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.

NOTE K – CONTINUED

The carrying values of cash and cash equivalents, 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 $18,746 are calculated at quoted market prices in active markets as of May 31, 2018, which is a Level 1 measurement. There are no changes in methods or assumptions during the year ended May 31, 2018, 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, 2018, the Organization had approximately $312,000 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, 2018, four food vendors accounted for seventy-five percent of all food purchases and eleven percent of total expenditures.

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 received payment of $390 per month through the end of the lease in December 2017. Rent expense for the year ended May 31, 2018, net of $2,375 received from the sublease was $44,153. Future minimum equipment rental payments for the years ended May 31, are as follows:

2019	$ 39,814
2020	$ 24,291

NOTE L – CONTINUED

Lease agreements – continued

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 thirty days after the landlord delivers the "notice to commence rent" 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, 2018.

Legal Matters

The Center, from time to time, is engaged in legal proceedings incidental to its normal business activities. At this time the Center is not engaged in any such proceedings.

SUPPLEMENTAL INFORMATION

The Poverello Center, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended May 31, 2018

Federal Grantor/Pass Through Grantor/ Program Title or Cluster Title	Federal CFDA Number	Pass Through Entity Identification Number	Total Federal Expenditures
Department of Health and Human Services			
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	$ 856,809
Passed through AIDS United			
HIV Emergency Relief Project Grants	93.914	U69HA31067	24,541
Total HIV Emergency Relief Project Grants, Total Department of Health and Human Services and Total Expenditures of Federal Awards			$ 881,350

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, 2018

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, 2018. 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 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, 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 September 27, 2018.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies

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in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, Finding 2018-01.

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 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
September 27, 2018

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, 2018. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

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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 programs for the year ended May 31, 2018.

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.

Fort Lauderdale, Florida
September 27, 2018

The Poverello Center, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended May 31, 2018

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 __x__ no
- Significant deficiency(ies) identified? __x__ yes _____ none reported

Noncompliance material to financial statements noted? ______ yes __x__ no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ______ yes __x__ no
- Significant deficiency(ies) identified? ______ yes __x__ 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 __x__ 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 __x__ no

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2018-01 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. The errors appear to be the result of a failure to reconcile certain accounts on a periodic basis. Prior year accruals of receivables were not reversed, there were duplicate entries in cash and payroll expenses were not recorded to the proper expense accounts.

- Context: The Poverello Center, Inc. during the year converted from keeping their books on the cash basis to accrual basis. They hired a new outside accounting firm to assist with the financial reconciliation and closing process. It appears that the closing procedures and flow of information to the outside firm are not fully established.

- 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 and the outside accounting firm have not fully identified all information necessary for a period close and the procedures necessary for communicating the necessary information for a complete and accurate reconciliation of financial information.

- 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 communicating the information and data required to perform these reconciliations. They should include procedures for identifying non-routine transactions. 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, 2018

PRIOR-YEAR FINDINGS – FINANCIAL STATEMENTS

Finding 2017-01 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 changed their outside bookkeeping firm and began keeping the books on the accrual basis and working more closely with the outside firm to make improvements. Though progress was made in this area several material entries were necessary for fiscal year 2018. See current year finding 2018-01.

Poverello

September 27, 2018

To Whom it May Concern:

The Poverello Center for the year ended May 31, 2018 underwent several important improvements. For the first time, the organization implemented an inventory system (required for further growth), took regular inventory in both the thrift store and the food pantry, began programming which required contracting (sales of our Medically Tailored Groceries to other private and tax supported entities), invoicing, pricing strategies and implemented monthly closing procedures within the context of accrual-based accounting for the first time in our 30-year history. All of these changes were accomplished without the benefit of a full time accountant or bookkeeper.

Attached is the 2017-2018 closing checklist and the revised 2018-2019 closing checklist as indicated by the auditors as a needed improvement.

In addition, we will seek capacity building assistance to improve our accounting for non-routine transactions and postings, given that within the current non-profit environment, there are likely to be increasingly complex transactions that are require us to transact in new ways to grow and adapt to the ever-changing service needs within South Florida.

1. Tracking and posting donated food/supplies -
2. Tracking and posting in QuickBooks the invoices for pledges/donations/grants/bequests we will implement written procedures distributed within the company to the different department heads that may deal with some of these so that those Excel template AR can be shared with the accountant for easy posting during the month
3. Tracking Capital purchases, such as laptops and equipment. The Generator was posted, the Apple laptop got missed. these type purchases we will scrutinize to ensure that they don't get posted to QB incorrectly.
4. In implementing the direct link between ADP and QuickBooks, a system to ensure the information about payroll postings is completed sent to the accountant can alleviate the duplicate entries.

Respectfully,

Thomas S. Pietrogallo, MSW/LCSW, MBA
Chief Executive Officer

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Month End Closing Procedures as at 05/31/2018

Post JE's for prepaid exp for month
- Prepaid Rent
- Prepaid Insurance
- Loan Closing Cost - BankUnited

Reconcile to Fixed Assets Schedule
- Building 2056 N Dixie Hwy
- Equipment-Thrift Store
- Equipment - Fitness Center
- Equipment - Kitchen
- Truck - Thrift Store
- Furniture-Thrift
- Land- 2056 N Dixie Hwy
- Accumulated depreciation
- Building Improvements

Must reconcile to schedule created each month and JE posted
- Salaries
- Taxes-Payroll
- Employee benefits - Auto
- Employee Benefits - Insurance
- Employee Benefits-pension
- Employee benefits-401(k)
- Insurance Workers Comp

Accrue monthly for expenses such as:
- Interest expense
- Accounting fees
- Taxes-Real Estate
- Rent & Leases
- Legal & Attorneys fees
- Sales not received in bank/not posted to QB
- Online store sales not received in bank/not posted to QB

Post monthly inventory (as per reports) for:
- Food bank
- PO Supplements
- Supplies
- Online store inventory
- Thrift store
- Prepaid vouchers

Prepaid coupons
Income from investments

CHANGES MADE TO CLOSING PROCEDURES AFTER AUDIT RESULTS:

To accurately post receivables, grants, bequests in the period received
Posting pledges/AR in Quickbooks in period received and mirroring any excel invoices sent to donors
To review file of new assets for any additions to assets/equipment
To record donated food accurately - create a file to track donated food to post correctly at month end
Post expenses in period per bill, not when received
Add Payroll through autolink with ADP/QB as completed each pay period