

MENTAL HEALTH SERVICES FOR HOMELESS PERSONS, INC.
(dba FrontLine Service)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mental Health Services For Homeless Persons, Inc.
Cleveland, Ohio

We have audited the accompanying financial statements of Mental Health Services for Homeless Persons, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 Mental Health Services for Homeless Persons, Inc. as of June 30, 2013 and 2012, and its activities, changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

Other Matter

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 the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 November 15, 2013, on our consideration of Mental Health Services for Homeless Persons, 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 Mental Health Services for Homeless Persons, Inc.'s internal control over financial reporting and compliance.



MEADEN & MOORE, LTD.
Certified Public Accountants

November 15, 2013
Cleveland, Ohio

STATEMENT OF FINANCIAL POSITION

Mental Health Services for Homeless Persons, Inc.

Year Ended June 30

| | 2013 | | |
|----------------------------------|----------------------|-----------------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total |
| ASSETS: | | | |
| Cash and cash equivalents | \$ 459,187 | \$ 84,588 | \$ 543,775 |
| Custodial cash | 617,676 | - | 617,676 |
| Accounts and grants receivable | 3,396,578 | - | 3,396,578 |
| Prepaid expenses | 29,128 | - | 29,128 |
| Property and equipment -net | 6,503,845 | - | 6,503,845 |
| Deposits | 3,000 | - | 3,000 |
| | <u>11,009,414</u> | <u>84,588</u> | <u>11,094,002</u> |
| Total Assets | <u>\$ 11,009,414</u> | <u>\$ 84,588</u> | <u>\$ 11,094,002</u> |
| LIABILITIES: | | | |
| Line-of-credit | \$ 800,000 | \$ - | \$ 800,000 |
| Accounts payable | 868,867 | - | 868,867 |
| Custodial accounts | 617,676 | - | 617,676 |
| Accrued expenses | 1,471,998 | - | 1,471,998 |
| Long-term debt | 2,801,559 | - | 2,801,559 |
| Interest rate swap liability | 103,659 | - | 103,659 |
| | <u>6,663,759</u> | <u>-</u> | <u>6,663,759</u> |
| Total Liabilities | <u>6,663,759</u> | <u>-</u> | <u>6,663,759</u> |
| NET ASSETS | <u>4,345,655</u> | <u>84,588</u> | <u>4,430,243</u> |
| Total Liabilities and Net Assets | <u>\$ 11,009,414</u> | <u>\$ 84,588</u> | <u>\$ 11,094,002</u> |

See accompanying notes.

2012

| Unrestricted | Temporarily Restricted | Total |
|---------------|---------------------------|---------------|
| \$ 370,320 | \$ 103,834 | \$ 474,154 |
| 599,170 | - | 599,170 |
| 2,805,690 | - | 2,805,690 |
| 18,145 | - | 18,145 |
| 6,526,353 | - | 6,526,353 |
| 15,700 | - | 15,700 |
| \$ 10,335,378 | \$ 103,834 | \$ 10,439,212 |
| | | |
| \$ 650,000 | \$ - | \$ 650,000 |
| 508,750 | - | 508,750 |
| 599,170 | - | 599,170 |
| 1,443,065 | - | 1,443,065 |
| 3,000,116 | - | 3,000,116 |
| 163,055 | - | 163,055 |
| 6,364,156 | - | 6,364,156 |
| 3,971,222 | 103,834 | 4,075,056 |
| \$ 10,335,378 | \$ 103,834 | \$ 10,439,212 |

STATEMENT OF CHANGES IN NET ASSETS

Mental Health Services for Homeless Persons, Inc.

Years Ended June 30, 2013 and 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|------------------------------|----------------------------|-----------------------------------|----------------------------|
| Net Assets - June 30, 2011 | \$ 3,989,472 | \$ 50,000 | \$ 4,039,472 |
| Changes in net assets - 2012 | <u>(18,250)</u> | <u>53,834</u> | <u>35,584</u> |
| Net Assets - June 30, 2012 | 3,971,222 | 103,834 | 4,075,056 |
| Changes in net assets - 2013 | <u>374,433</u> | <u>(19,246)</u> | <u>355,187</u> |
| Net Assets - June 30, 2013 | <u>\$ 4,345,655</u> | <u>\$ 84,588</u> | <u>\$ 4,430,243</u> |

See accompanying notes.

STATEMENT OF ACTIVITIES

Mental Health Services for Homeless Persons, Inc.

Year Ended June 30

| | 2013 | | |
|---|---------------------|-----------------------------------|-------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| SUPPORT AND REVENUE: | | | |
| Contributions and grants | \$ 627,465 | \$ 38,910 | \$ 666,375 |
| Government grants | 16,123,335 | - | 16,123,335 |
| Medicaid | 1,747,107 | - | 1,747,107 |
| In-kind rent | 192,000 | - | 192,000 |
| Program fees | 1,483,526 | - | 1,483,526 |
| Investment income | - | - | - |
| Other income | 110,575 | - | 110,575 |
| | <u>20,284,008</u> | <u>38,910</u> | <u>20,322,918</u> |
| Total Support and Revenue | 20,284,008 | 38,910 | 20,322,918 |
| Net Assets Released from Restrictions: | | | |
| Satisfaction of program restrictions | 58,156 | (58,156) | - |
| | <u>20,342,164</u> | <u>(19,246)</u> | <u>20,322,918</u> |
| EXPENSES: | | | |
| Program Services: | | | |
| Outreach | 2,519,187 | - | 2,519,187 |
| Shelter | 2,883,860 | - | 2,883,860 |
| Community Support | 2,369,064 | - | 2,369,064 |
| Housing | 6,064,547 | - | 6,064,547 |
| Crisis | 4,779,721 | - | 4,779,721 |
| | <u>18,616,379</u> | <u>-</u> | <u>18,616,379</u> |
| Total Program Services | 18,616,379 | - | 18,616,379 |
| General and administrative (includes market valuation adjustment of interest swap of (\$59,396) in 2013 and \$10,394 in 2012) | 1,156,093 | - | 1,156,093 |
| Fundraising and development | 195,259 | - | 195,259 |
| | <u>19,967,731</u> | <u>-</u> | <u>19,967,731</u> |
| Total Expenses | 19,967,731 | - | 19,967,731 |
| Change in Net Assets | \$ 374,433 | \$ (19,246) | \$ 355,187 |

See accompanying notes.

2012

| Unrestricted | Temporarily Restricted | Total |
|--------------------|---------------------------|------------------|
| \$ 446,070 | \$ 103,834 | \$ 549,904 |
| 14,202,453 | - | 14,202,453 |
| 1,799,876 | - | 1,799,876 |
| 192,000 | - | 192,000 |
| 1,197,234 | - | 1,197,234 |
| 861 | - | 861 |
| 34,968 | - | 34,968 |
| 17,873,462 | 103,834 | 17,977,296 |
| 50,000 | (50,000) | - |
| 17,923,462 | 53,834 | 17,977,296 |
| 1,860,848 | - | 1,860,848 |
| 2,874,848 | - | 2,874,848 |
| 2,248,180 | - | 2,248,180 |
| 5,687,267 | - | 5,687,267 |
| 3,772,176 | - | 3,772,176 |
| 16,443,319 | - | 16,443,319 |
| 1,386,446 | - | 1,386,446 |
| 111,947 | - | 111,947 |
| 17,941,712 | - | 17,941,712 |
| <u>\$ (18,250)</u> | <u>\$ 53,834</u> | <u>\$ 35,584</u> |

STATEMENT OF FUNCTIONAL EXPENSES

Mental Health Services for Homeless Persons, Inc.

Year Ended June 30

2013

| | <u>Outreach</u> | <u>Shelter</u> | <u>Community Support</u> | <u>Housing</u> | <u>Crisis</u> | <u>Total Program</u> | <u>General & Administrative</u> | <u>Fundraising & Development</u> | <u>Total</u> |
|------------------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|----------------------|-------------------------------------|--------------------------------------|----------------------|
| Personnel costs | \$ 1,579,747 | \$ 2,152,246 | \$ 1,902,934 | \$ 4,041,198 | \$ 4,058,195 | \$ 13,734,320 | \$ 273,031 | \$ 109,785 | \$ 14,117,136 |
| Professional and contract services | 404,919 | 394,401 | 120,950 | 1,151,652 | 276,081 | 2,348,003 | 281,340 | - | 2,629,343 |
| Program costs | 307,865 | 194,540 | 66,106 | 252,147 | 40,608 | 861,266 | 1,889 | 81,216 | 944,371 |
| Occupancy | 152,761 | 126,061 | 146,300 | 479,029 | 259,118 | 1,163,269 | 234,017 | 4,258 | 1,401,544 |
| Office expenses | 23,096 | 12,709 | 22,183 | 28,119 | 67,952 | 154,059 | 72,998 | - | 227,057 |
| Staff development | 49,213 | 3,903 | 105,438 | 106,852 | 72,614 | 338,020 | 52,317 | - | 390,337 |
| Interest rate swap valuation | - | - | - | - | - | - | (59,396) | - | (59,396) |
| Other expense | 1,586 | - | 5,153 | 5,550 | 5,153 | 17,442 | 299,897 | - | 317,339 |
| Total Expense | \$ 2,519,187 | \$ 2,883,860 | \$ 2,369,064 | \$ 6,064,547 | \$ 4,779,721 | \$ 18,616,379 | \$ 1,156,093 | \$ 195,259 | \$ 19,967,731 |

2012

| | <u>Outreach</u> | <u>Shelter</u> | <u>Community Support</u> | <u>Housing</u> | <u>Crisis</u> | <u>Total Program</u> | <u>General & Administrative</u> | <u>Fundraising & Development</u> | <u>Total</u> |
|------------------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|----------------------|-------------------------------------|--------------------------------------|----------------------|
| Personnel costs | \$ 1,414,990 | \$ 2,282,467 | \$ 1,916,553 | \$ 3,665,644 | \$ 3,307,095 | \$ 12,586,749 | \$ 445,607 | \$ 38,230 | \$ 13,070,586 |
| Professional and contract services | 219,491 | 317,267 | 60,756 | 526,554 | 99,662 | 1,223,730 | 219,880 | 23,018 | 1,466,628 |
| Program costs | 62,935 | 211,888 | 32,819 | 295,869 | 18,551 | 622,062 | 73,716 | - | 695,778 |
| Occupancy | 105,024 | 47,551 | 130,041 | 1,083,387 | 232,070 | 1,598,073 | 234,316 | - | 1,832,389 |
| Office expenses | 5,827 | 3,464 | 8,162 | 10,792 | 13,739 | 41,984 | 213,645 | - | 255,629 |
| Staff development | 51,675 | 11,147 | 94,402 | 90,526 | 96,250 | 344,000 | (12,132) | - | 331,868 |
| Interest rate swap valuation | - | - | - | - | - | - | 10,394 | - | 10,394 |
| Other expense | 906 | 1,064 | 5,447 | 14,495 | 4,809 | 26,721 | 201,020 | 50,699 | 278,440 |
| Total Expense | \$ 1,860,848 | \$ 2,874,848 | \$ 2,248,180 | \$ 5,687,267 | \$ 3,772,176 | \$ 16,443,319 | \$ 1,386,446 | \$ 111,947 | \$ 17,941,712 |

See accompanying notes.

STATEMENT OF CASH FLOWS

Mental Health Services For Homeless Persons, Inc.

| | Year Ended June 30 | |
|---|----------------------|---------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from support and revenue | \$ 19,732,030 | \$ 17,295,643 |
| Interest received | - | 861 |
| Cash paid to suppliers and employees | (19,205,335) | (17,080,500) |
| Interest paid | (185,199) | (191,653) |
| Net Cash Provided by Operating Activities | 341,496 | 24,351 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (223,318) | (182,748) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of long-term debt | (198,557) | (209,358) |
| Net borrowing on line-of-credit | 150,000 | - |
| Net Cash Used in Financing Activities | (48,557) | (209,358) |
| Increase (Decrease) in Cash and Cash Equivalents | 69,621 | (367,755) |
| Cash and Cash Equivalents - Beginning of the Year | 474,154 | 841,909 |
| Cash and Cash Equivalents - End of the Year | \$ 543,775 | \$ 474,154 |

See accompanying notes.

| | Year Ended June 30 | |
|--|-----------------------|----------------------|
| | <u>2013</u> | <u>2012</u> |
| RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Change in Net Assets | \$ 355,187 | \$ 35,584 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 245,826 | 246,720 |
| Change in interest rate swap liability | (59,396) | 10,394 |
| Increase (Decrease) in Cash from Changes in: | | |
| Accounts receivable | (590,888) | (680,792) |
| Prepaid expenses | (10,983) | 8,952 |
| Deposits | 12,700 | 18,822 |
| Accounts payable | 360,117 | 223,915 |
| Accrued expenses | <u>28,933</u> | <u>160,756</u> |
| Total Adjustments | <u>(13,691)</u> | <u>(11,233)</u> |
| Net Cash Provided by Operating Activities | <u>\$ 341,496</u> | <u>\$ 24,351</u> |

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

1 Summary of Significant Accounting Policies

Nature of the Organization:

The Organization is incorporated in the State of Ohio as a not-for-profit organization. Effective July 1, 2013, the Organization began doing business as FrontLine Services. The Organization provides mental health services to persons with severe mental disabilities who are homeless or at immediate risk to becoming homeless.

Program Descriptions:

Outreach - seek out homeless, mentally ill persons in the community and attempt to engage in a manner that motivates them to accept services that will lead them out of homelessness. Services are provided throughout Cuyahoga County in shelters, hunger centers and on the streets.

Shelter - provides emergency shelters for women and disabled men. The women's emergency shelter operates one hundred and thirty-four beds for women who cannot access other programs and services in the community. The men's emergency shelter operates fifty beds for disabled men who need specialized services.

Community Support - provides a case management approach to managing the care of mentally ill, homeless persons so that they can live in a community setting.

Housing - provides four housing programs located throughout the county for individuals who need more intensive support.

Crisis - includes both an adult and child mobile crisis team that responds to psychiatric crises in the community, at hospitals and in schools. The crisis program also operates the 24-hour crisis hotline. In addition, the agency is the primary provider for the countywide Children Who Witness Violence program that responds to children who have been involved in a domestic violence situation.

Use of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

1 Summary of Significant Accounting Policies, Continued

Classification of Net Assets:

Contributions are classified as unrestricted, temporarily restricted and permanently restricted based on donor specifications. Assets, liabilities, revenues and gains are presented under these classifications. Designations by the Board, while separately stated, are considered unrestricted.

Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

At times during the year, the Organization maintained funds on deposit at its banks in excess of FDIC insurance limits.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect. Management provides for uncollectible amounts based on its assessment of the current status of the individual accounts. Accounts receivable are net of allowance for doubtful accounts of \$0 (2013 and 2012).

Revenue Recognition:

Program fees are recognized over the periods to which they relate. Fees billed in advance are recorded as deferred revenue.

Contributions and grants are recognized when awarded as unrestricted, temporarily restricted or permanently restricted in accordance with donor specifications. When a restriction expires through accomplishment of purpose or passage of time, the restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Donated Services:

The Organization received donated services (general assistance, fundraising events, telephone answering, etc) which do not meet the criteria for recognition or cannot be objectively measured. These donations, while not recognized in the financial statements, provide valuable resources to the Organization.

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

1 Summary of Significant Accounting Policies, Continued

Property and Equipment:

Property and equipment purchased by the Organization are carried at cost. Donated property and equipment are recorded at estimated fair value at the date of donation. Expenditures for maintenance and repairs are expensed as incurred. Additions and betterments are capitalized. The cost and related accumulated depreciation of properties sold or otherwise disposed of are removed from the accounts and any gain or loss is reflected in the current year's activities.

| | <u>2013</u> | <u>2012</u> |
|----------------------------------|---------------------|---------------------|
| Land, buildings and improvements | \$ 7,140,827 | \$ 7,131,600 |
| Equipment | 1,105,042 | 1,045,348 |
| Office furniture | 751,408 | 743,920 |
| Vehicles | 28,176 | 28,176 |
| Construction in progress | <u>146,909</u> | <u>-</u> |
| | 9,172,362 | 8,949,044 |
| Less accumulated depreciation | <u>(2,668,517)</u> | <u>(2,422,691)</u> |
| | <u>\$ 6,503,845</u> | <u>\$ 6,526,353</u> |
| Depreciation Expense | <u>\$ 245,826</u> | <u>\$ 246,720</u> |

The Organization primarily follows the straight-line method of depreciation utilizing the following lives:

| <u>Class</u> | <u>Years</u> |
|------------------------|--------------|
| Buildings | 40 - 50 |
| Leasehold improvements | 7 - 20 |
| Equipment, etc. | 5 - 7 |
| Office furniture | 5 - 10 |
| Vehicles | 3 - 5 |

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

1 Summary of Significant Accounting Policies, Continued

Functional Expense Allocations:

Expenses are charged to functional areas based on specific identification when possible. Expenses that cannot be specifically identified to a function are allocated to the functional areas based on factors such as direct relationship of expense, time spent by employees and square footage of space used for various programs.

Fair Value of Financial Instruments:

Accounting for "Financial Instruments" requires the Organization to disclose estimated fair values of financial instruments. Financial instruments held by the Organization include, among others, accounts receivable, accounts payable, and long-term debt. The carrying amounts reported in the statement of financial position for assets and liabilities qualifying as financial instruments is a reasonable estimate of fair value.

Income Taxes:

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and operates as a public charity.

Accounting for Uncertainty in Income Taxes:

The provisions of "Accounting for Uncertainty in Income Taxes" prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization recognizes interest and penalties accrued, if any, related to unrecognized tax uncertainties in income tax expense.

The Organization files income tax returns in the United States and is subject to income tax examinations for its US. federal income taxes for the preceding three fiscal years and, in general, is subject to state and local income tax examinations for the preceding three to four years.

As a result of the implementation of this standard, the Organization determined that there are no material uncertain tax positions.

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

1 Summary of Significant Accounting Policies, Continued

Subsequent Events:

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements.

Subsequent events have been evaluated through November 15, 2013, which is the date the financial statements were available to be issued.

2 Fair Value Measurements

As defined in FASB ASC 820, "Fair Value Measurements", fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the examination of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- * Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- * Level 2: Inputs to the valuation methodology include:
 - * Quoted prices for similar assets or liabilities in active markets;
 - * Quoted prices for identical or similar assets or liabilities in inactive markets;
 - * Inputs other than quoted prices that are observable for the asset or liability;
 - * Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- * Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

2 Fair Value Measurements, Continued

Following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Interest Rate Swap Liability:

The swap liability value is derived from proprietary models based upon prevailing market interest rates.

The following table presents the financial instruments carried at fair value, on a recurring basis, as of June 30, 2013, by valuation hierarchy (as described above).

| | Quoted Prices in Active Markets (Level 1) | Models with Significant Observable Market Parameters (Level 2) | Models with Significant Unobservable Market Parameters (Level 3) | Total Carrying Value in the Statement of Financial Position |
|--------------------------------|--|---|---|--|
| Interest rate swap - Liability | <u>\$ -</u> | <u>\$ 103,659</u> | <u>\$ -</u> | <u>\$ 103,659</u> |

The following table presents the financial instruments carried at fair value, on a recurring basis, as of June 30, 2012, by valuation hierarchy (as described above).

| | Quoted Market Prices in Active Markets (Level 1) | Models with Significant Observable Market Parameters (Level 2) | Models with Significant Unobservable Market Parameters (Level 3) | Total Carrying Value in the Statement of Financial Position |
|--------------------------------|---|---|---|--|
| Interest rate swap - Liability | <u>\$ -</u> | <u>\$ 163,055</u> | <u>\$ -</u> | <u>\$ 163,055</u> |

3 Custodial Account

The Organization maintains custodial accounts for persons who participate in the Representative Payee program funded through the U.S. Department of Housing and Urban Development. Cash in the custodial bank account is restricted for this purpose and, accordingly, has been excluded from cash in the Statement of Cash Flows.

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

4 Line-of-credit

The Organization renewed their line-of-credit which allows for borrowings up to \$1,250,000. The line now matures on July 5, 2014 and is secured by substantially all of the Organization's assets. The line-of-credit bears interest at prime (3.75% at year-end).

Amounts outstanding under this agreement were \$800,000 and \$650,000 at June 30, 2013 and 2012, respectively.

5 Notes Payable

| | <u>Current Portion</u> | <u>Total</u> | |
|---|----------------------------|---------------------|---------------------|
| | <u>2013</u> | <u>2013</u> | <u>2012</u> |
| Notes Payable: | | | |
| Term note due in monthly installments, beginning June 2009, ranging from \$6,600 to \$8,600, plus interest at LIBOR + 2.5% (2.69% at year end) with a balloon payment for the remaining balance due February 2015. This term note has an interest rate swap associated with it (see below). | \$ 98,800 | \$ 2,403,200 | \$ 2,489,400 |
| Term note due in 41 monthly installments of \$10,214 plus interest at LIBOR + 2.5% (2.69% at year end) with a minimum rate of 3.75% through February 2015 and a balloon payment of \$194,073 due February 2015. | <u>122,572</u> | <u>398,359</u> | <u>510,716</u> |
| | <u>\$ 221,372</u> | <u>\$ 2,801,559</u> | <u>\$ 3,000,116</u> |

Maturities of long-term debt are as follows:

| | <u>Year Ending</u> | |
|-------|--------------------|---------------------|
| | 2014 | \$ 221,372 |
| | 2015 | <u>2,580,187</u> |
| Total | | <u>\$ 2,801,559</u> |

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

5 Notes Payable, Continued

Interest expense on the above notes payable was \$185,199 (2013) and \$191,653 (2012).

Interest Rate Swap:

| | <u>2013</u> | <u>2012</u> |
|--------------------------|--------------|--------------|
| Notional Amount | \$ 2,396,200 | \$ 2,490,200 |
| Rate | 2.98% | 2.98% |
| Expiration date | 2/1/2015 | 2/1/2015 |
| Market value (liability) | \$ (103,659) | \$ (163,055) |

6 Operating Leases

The Organization has multiple lease agreements involving facilities, including sites which are donated to the Organization. In addition, the Organization maintains operating leases for various office equipment. The leases expire periodically through the year 2017.

The Organization has a lease through 2012 with rent of \$1 per year. The value of rent over the amount paid is recorded as a donation and rent expense of \$192,000 (2013) and \$192,000 (2012).

Rent expense was \$270,853 (2013) and \$332,326 (2012).

Minimum lease payments due under the operating lease obligations are due as follows:

| | <u>Real Estate</u> | <u>Equipment & Vehicles</u> | <u>Total</u> |
|-------|--------------------|-------------------------------------|-------------------|
| 2014 | \$ 108,025 | \$ 43,044 | \$ 151,069 |
| 2015 | 90,025 | 18,475 | 108,500 |
| 2016 | 72,025 | 864 | 72,889 |
| 2017 | 6,002 | - | 6,002 |
| Total | <u>\$ 276,077</u> | <u>\$ 62,383</u> | <u>\$ 338,460</u> |

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

7 Temporarily Restricted Net Assets

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Organization. Temporarily restricted gifts, grants and bequests are recorded as an addition to temporarily restricted net assets in the period received. Resources restricted by donors or grantors for specific operating purposes are reported in unrestricted revenue and other support to the extent expended within the period.

Temporarily restricted net assets consist of the following:

| | 2013 | | | |
|------------------------------------|---------------------------------|--|---|------------------------------|
| | Beginning Net Assets | Contributions and Investment Income | Net Assets Released from Restriction | Ending Net Assets |
| O'Neil Foundation | \$ 10,000 | \$ - | \$ (10,000) | \$ - |
| Enterprise Community Partners | 48,000 | - | (28,156) | 19,844 |
| Corporation for Supportive Housing | - | 38,910 | - | 38,910 |
| Sara Williams Parish Foundation | 20,000 | - | (20,000) | - |
| Sisters of Charity Foundation | 25,834 | - | - | 25,834 |
| | <u>\$ 103,834</u> | <u>\$ 38,910</u> | <u>\$ (58,156)</u> | <u>\$ 84,588</u> |
| | 2012 | | | |
| | Beginning Net Assets | Contributions and Investment Income | Net Assets Released from Restriction | Ending Net Assets |
| O'Neil Foundation | \$ - | \$ 10,000 | \$ - | \$ 10,000 |
| Enterprise Community Partners | - | 48,000 | - | 48,000 |
| Sara Williams Parish Foundation | - | 20,000 | - | 20,000 |
| Sisters of Charity Foundation | 50,000 | 25,834 | (50,000) | 25,834 |
| | <u>\$ 50,000</u> | <u>\$ 103,834</u> | <u>\$ (50,000)</u> | <u>\$ 103,834</u> |

NOTES TO FINANCIAL STATEMENTS

Mental Health Services for Homeless Persons, Inc.

8 Retirement Plan

The Organization has a 403(b) Deferred Compensation Plan covering substantially all employees. Organization contributions to the Plan are at the discretion of the Organization. The Organization currently contributes an amount equal to 2.5% of each employee's compensation.

Organization contributions to this Plan amounted to \$147,486 (2013) and \$134,504 (2012).

9 Concentration of Employees

Approximately 68% of the Organizations employees are covered under one contract. This contract expires on June 30, 2014.

10 Litigation

In the ordinary course of business, the Organization is involved in litigation and other potential legal claims. The Organization carries insurance for these types of matters and in management's opinion the resolution of these matters will not have a material adverse effect on the financial condition or results of operations in the Organization.

Mental Health Services for Homeless Persons, Inc.

OMB CIRCULAR A-133 AUDIT REQUIREMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mental Health Services for Homeless Persons, Inc.

For the Year Ended June 30, 2013

| Federal Grantor/Pass-through Grantor/ Program or Cluster Title | CFDA # | Pass-through entity identifying # | Federal Expenditures |
|---|----------|---|-------------------------|
| U.S. Department of Housing and Urban Development (HUD)/ | | | |
| Cuyahoga County Supportive Housing Program | | | |
| Safe Haven I | * 14.235 | | \$ 259,427 |
| Safe Haven III | * 14.235 | | 458,839 |
| Drop-In Center | * 14.235 | | 228,279 |
| South Pointe/Edgewood | * 14.235 | | 901,631 |
| Outreach/Payee | * 14.235 | | 434,975 |
| Ohio Freight | * 14.235 | | 127,771 |
| Downtown Superior Apartments | * 14.235 | | 147,605 |
| Young Adult Permanent | * 14.235 | | 73,092 |
| Community Women's Shelter | * 14.235 | | 14,582 |
| Liberty Commons | * 14.235 | | 546,266 |
| Permanent Housing Program | * 14.235 | | 736,469 |
| Permanent Housing Disabled Persons | * 14.235 | | 287,697 |
| Greenbridge | * 14.235 | | 462,619 |
| Total CFDA #14.235 | | N/A | <u>4,679,252</u> |
| Cuyahoga County Commissioners | | | |
| Central Intake | 14.231 | N/A | 356,386 |
| City of Cleveland Dept of Community Development | | | |
| Emergency Shelter Grant Program | | | |
| Emergency Housing | 14.231 | N/A | 183,509 |
| Emergency Housing Women's Shelter | 14.231 | N/A | 366,859 |
| Total CFDA #14.231 | | | <u>550,368</u> |
| Total HUD | | | 5,586,006 |
| U.S. Department of Health and Human Services (HHS)/ | | | |
| Cuyahoga County Community Mental Health Board | | | |
| Medical Assistance Program | | | |
| PATH | * 93.150 | N/A | 506,986 |
| Cuyahoga Community Practice Center | | | |
| Substance Abuse and Mental Health Services Administration | 93.243 | N/A | <u>939,518</u> |
| Total HHS | | | 1,446,504 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mental Health Services for Homeless Persons, Inc.

For the Year Ended June 30, 2013

| Federal Grantor/Pass-through Grantor/ Program or Cluster Title | CFDA # | Pass-through entity identifying # | Federal Expenditures |
|---|----------|---|----------------------------|
| <i>Continued from previous page</i> | | | |
| U.S. Department of Homeland Security FEMA | 97.024 | N/A | 33,833 |
| U.S. Department of Veterans Affairs Supportive Services for Veteran Families Program | * 64.033 | N/A | 1,212,091 |
| U.S. Department of Justice Violent Loss Response | 16.582 | N/A | <u>59,286</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 8,337,720</u> |

* Major Program Tested

See accompanying notes.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mental Health Services for Homeless Persons, Inc.

For the Year Ended June 30, 2013

1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the Federal grant activity of Mental Health Services For Homeless Persons, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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

To the Board of Trustees of
Mental Health Services for Homeless Persons, Inc.
Cleveland, Ohio

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 Mental Health Services for Homeless Persons, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of changes in net assets, 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 November 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mental Health Services for Homeless Persons, Inc.'s internal control over financial reporting (internal control) to determine the auditing 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 Mental Health Services for Homeless Persons, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs (2010-01), that we consider to be a significant deficiency in internal control over financial reporting. A significant 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mental Health Services for Homeless Persons, Inc.'s financial statements are free of 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 that are required to be reported under Government Auditing Standards.

Purpose of this Report

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



MEADEN & MOORE, LTD.
Certified Public Accountants

November 15, 2013
Cleveland, Ohio



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees of
Mental Health Services For Homeless Persons, Inc.
Cleveland, Ohio

Report on Compliance for Each Major Federal Program

We have audited Mental Health Services for Homeless Persons, Inc.'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Mental Health Services for Homeless Persons, Inc.'s major federal programs for the year ended June 30, 2013. Mental Health Services for Homeless Persons, 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mental Health Services for Homeless Persons, 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Mental Health Services for Homeless Persons, 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 Mental Health Services for Homeless Persons, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Mental Health Services For Homeless Persons, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED**

Report on Internal Control Over Compliance

Management of Mental Health Services for Homeless Persons, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mental Health Services for Homeless Persons, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Mental Health Service for Homeless Persons, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



MEADEN & MOORE, LTD.
Certified Public Accountants

November 15, 2013
Cleveland, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Mental Health Services for Homeless Persons, Inc.

June 30, 2013

Summary of Audit Results:

- 1 The auditor's report expresses an unmodified opinion on the financial statements of Mental Health Services for Homeless Persons, Inc..
- 2 A significant deficiency was disclosed during the audit of the financial statements (2010-01).
- 3 No instances of noncompliance material to the financial statements of Mental Health Services for Homeless Persons, Inc. were disclosed during the audit.
- 4 No significant deficiencies were disclosed during the audit of internal control over major federal award programs.
- 5 The auditor's report on compliance for the major federal award programs for Mental Health Services for Homeless Persons, Inc. expresses an unmodified opinion on all major federal programs.
- 6 The audit did not disclose any audit findings relative to the major federal award programs for Mental Health Services for Homeless Persons, Inc. which are required to be reported by Section 510(a) of OMB Circular A-133.
- 7 The programs tested as major programs included:
 - Cuyahoga County Supportive Housing Program CFDA #14.235
 - Cuyahoga County Community Health Board Medical Assistance Program CFDA #93.150
 - U.S. Department of Veterans Affairs Supportive Services for Veteran Families Program CFDA #64.033
- 8 The threshold for distinguishing Type A and B programs was \$300,000.
- 9 Mental Health Services for Homeless Persons, Inc. was determined to be a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Mental Health Services for Homeless Persons, Inc.

Year Ended June 30, 2013

Financial Statement Finding:

| | | |
|---------|------------------------|---|
| 2010-01 | Condition: | We historically provide accounting assistance to the Organization, including guidance on the implementation of accounting pronouncements and preparation of the annual financial statements and related footnote disclosures. |
| | Criteria: | Exclusive of the external auditor, the Organization should have controls in place to ensure complete and accurate financial statements and footnote disclosures. |
| | Effect: | The Organization's financial statements could potentially not be presented in accordance with accounting principles generally accepted in the United States of America. |
| | Recommendation: | The Organization may wish to consider additional training or resources to ensure controls are in place over the financial reporting process. |
| | Management's Response: | Based on consideration of resources and the cost/benefit of additional training or resources that would be needed to ensure complete mastery of existing and future accounting principles and disclosure requirements, this would not be a practical, cost effective option for the Organization. |