



Certified Public Accountants
and Financial Advisors

Tenderloin Housing Clinic, Inc.
Financial Statements
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tenderloin Housing Clinic, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Tenderloin Housing Clinic, Inc. (a non-profit organization) (the “Organization”), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’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 Organization’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.



INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental 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 (CFR) 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 February 16, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Organization's internal control over financial reporting and compliance.

SQUAR MILNER LLP

San Francisco, California
February 16, 2018

Tenderloin Housing Clinic, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 3,004,914
Cash held for clients	3,048,506
Cash - tenant security deposits	36,482
Investment in mutual fund	11,591
Prepaid expenses	671,591
Contracts and grants receivable	3,962,374
Note receivable	25,000
Other receivables	<u>100,237</u>
Total current assets	<u>10,860,695</u>
PROPERTY AND EQUIPMENT - net of accumulated depreciation	<u>8,249,137</u>
OTHER ASSETS	
Deposits	259,805
Investment in limited liability company	<u>100,000</u>
Total assets	<u><u>\$ 19,469,637</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 979,197
Accrued payroll and payroll taxes	653,074
Accrued vacation	424,724
Other accrued liabilities	215,657
Tenant security deposits	36,087
Client trust fund liability	<u>3,048,506</u>
Total current liabilities	<u>5,357,245</u>
OTHER LIABILITIES	
Loans payable	<u>704,949</u>
Total liabilities	<u>6,062,194</u>
COMMITMENTS AND CONTINGENCIES	
	-
NET ASSETS	
Unrestricted	<u>13,407,443</u>
Total liabilities and net assets	<u><u>\$ 19,469,637</u></u>

The accompanying notes are an integral part of this statement.

Tenderloin Housing Clinic, Inc.

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

Revenues and support:

Government contracts and grants	
SRO Housing Program - Department of Homeless & Supportive Housing (HSH)	\$ 22,653,664
Shelter Plus Care - HSH, funded by Department of Housing and Urban Development (HUD)	503,070
Veterans Affairs Supportive Housing (VASH)	329,011
New Horizons - Adult Probation Department (APD)	1,383,219
New Roads (APD)	582,588
Modified Payment Program - HSH	1,361,558
Assistance for Ellis Act Evictions - Mayor's Office of Housing and Community Development (MOHCD)	752,083
Community Development Block Grant (CDBG) - MOHCD	79,688
Central City SRO Collaborative - Department of Building Inspection (DBI)	374,473
La Voz Latina - MOHCD	210,380
Code Enforcement and Outreach Program - DBI	172,483
MOHCD - Planter	30,000
San Francisco Rent Board Grant	20,000
San Francisco Collaborative Courts - Superior Court of San Francisco	232,425
Hotel rental income	10,581,281
Galvin Apartments rental income	390,315
Attorney fees	307,370
Reimbursed legal costs	63,816
Other rental income	90,746
Donations	251,030
	<hr/>
Total revenues and support	40,369,200

Expenses:

Program services	36,989,717
Management and general	2,774,994
	<hr/>
Total expenses	39,764,711

Non-operating revenue:

Investment return	323
	<hr/>
Total non-operating revenue	323
	<hr/>
Change in net assets	604,812
Unrestricted net assets - beginning of year	12,802,631
	<hr/>
Unrestricted net assets - end of year	\$ 13,407,443

The accompanying notes are an integral part of this statement.

Tenderloin Housing Clinic, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017

	Program Services						Total Program Services	Management and General	Total
	SRO Housing	Transitional Housing	Housing Service	Legal Assistance	Community Organizing Outreach	Galvin Apartments			
Salaries and related costs	\$ 14,122,757	\$ 887,008	\$ 847,141	\$ 778,486	\$ 480,708	\$ 84,072	\$ 17,200,172	\$ 1,542,454	\$ 18,742,626
Hotel leases	11,219,243	535,619	-	-	-	-	11,754,862	-	11,754,862
Utilities	2,383,030	82,943	18,399	3,406	22,679	90,199	2,600,656	106,698	2,707,354
Repair and maintenance	1,932,067	68,108	9,572	2,097	5,618	48,237	2,065,699	193,610	2,259,309
Subsidy payments	857,884	60,139	9,791	-	49,134	-	976,948	-	976,948
Office	442,001	31,840	22,144	37,947	22,076	36,602	592,610	246,255	838,865
Rent	76,128	394,875	31,153	24,191	39,023	-	565,370	115,366	680,736
Depreciation and amortization	280,029	4,499	2,601	371	180	122,124	409,804	187,970	597,774
Insurance	182,897	9,890	906	7,298	6,447	17,966	225,404	73,360	298,764
Staff development and other costs	44,487	1,303	457	4,573	1,708	-	52,528	119,531	172,059
Community events	97,727	14,799	890	-	38,303	1,257	152,976	15,118	168,094
Elevator	153,002	-	-	-	-	5,838	158,840	-	158,840
Legal and accounting	50,174	5,522	-	-	-	-	55,696	80,086	135,782
Subcontractors, contractors and outside services	7,200	-	-	10,240	23,500	-	40,940	68,021	108,961
Litigation expenses	-	-	-	93,415	-	-	93,415	-	93,415
Bank and finance charges	17,385	-	24,512	-	-	-	41,897	719	42,616
Taxes	-	-	-	-	-	1,900	1,900	25,806	27,706
Total expenses	<u>\$ 31,866,011</u>	<u>\$ 2,096,545</u>	<u>\$ 967,566</u>	<u>\$ 962,024</u>	<u>\$ 689,376</u>	<u>\$ 408,195</u>	<u>\$ 36,989,717</u>	<u>\$ 2,774,994</u>	<u>\$ 39,764,711</u>

The accompanying notes are an integral part of this statement.

Tenderloin Housing Clinic, Inc.

STATEMENT OF CASH FLOWS

Year ended June 30, 2017

Cash flows provided by (used in) operating activities:	
Change in net assets	\$ 604,812
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	597,774
Changes in operating assets and liabilities	
Contracts and grants receivable	(1,082,025)
Cash held for clients	(514,411)
Other receivables	(70,856)
Prepaid expenses	(461,838)
Deposits	14,850
Accounts payable	(379,523)
Client trust fund liability	514,411
Accrued payroll	91,840
Accrued vacation	(42,139)
Other current liabilities	<u>122,579</u>
Net cash used in operating activities	<u>(604,526)</u>
Cash flow provided by (used in) investing activities:	
Purchases of equipment and improvements	<u>(513,872)</u>
Net cash used in investing activities	<u>(513,872)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,118,398)
Cash and cash equivalents - beginning of year	<u>4,123,312</u>
Cash and cash equivalents - end of year	<u><u>\$ 3,004,914</u></u>

The accompanying notes are an integral part of this statement.

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A - DESCRIPTION OF ORGANIZATION

Tenderloin Housing Clinic, Inc. (the “Organization”) was incorporated on June 3, 1980, as a California nonprofit corporation. The Organization’s primary purposes are to preserve, expand and stabilize low-income housing in the Tenderloin and surrounding communities of San Francisco, California, assist tenants to assert their legal rights, provide culturally competent support services, and create employment and leadership opportunities for formerly homeless tenants.

On January 1, 2004, the Clinic merged with City Housing, Inc. (CHI), the exclusive agent that operated and managed all the hotels now master-leased by the Organization. The Organization assumed all the assets and liabilities of CHI and was the surviving corporation.

All the Organization's properties are in San Francisco, California and its principal activities are as follows:

Single Room Occupancy (SRO) Housing: This program provides supportive housing to homeless tenants through master lease agreements with residential hotels in San Francisco, California since May 1, 1999. The Organization provides comprehensive property management services for twenty master-leased hotels. The Organization’s property management department manages tenants’ leases and compliance with hotel leases and ensures the sanitation, safety, upkeep and code compliance of the hotels. The Organization offers voluntary comprehensive support services to tenants residing in these hotels. The support services offered by the Organization help residents maintain housing, enrich their self-respect, confidence and awareness, improve quality of life, minimize and/or resolve issues that may jeopardize their housing, build a strong sense of community and access information about other helpful services. The hotels’ operating expenses, including lease payments, are funded by a combination of rent collections and service contracts with the HSH of the City and County of San Francisco, Shelter Plus Care funding, and VASH funding.

Transitional Housing: This program includes the New Roads Subsidy Program (New Roads), New Horizons Transitional Housing Program (New Horizons) and Collaborative Courts Program. Funding for this program is from contracts with the APD and Superior Court of California of the City and County of San Francisco. New Roads provides rental subsidies, financial assistance and/or supportive services to homeless parolees in order to obtain and retain permanent housing. New Horizons provides up to 12 months of clean and sober transitional housing and housing planning assistance to parolees at a master-leased SRO hotel. The Collaborative Courts Program provides short-term stabilization housing and housing planning assistance to San Francisco Superior Court clients.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE A - DESCRIPTION OF ORGANIZATION (continued)

Housing Service: This program provides housing, rental and payment assistance where the Organization acts as a disbursing agent. Comprehensive case management is also offered to adult clients under HSH and the Shelter Plus Care funding. These services target to low-income individuals, low-income families and homeless individuals who may be mentally ill, have chronic substance abuse problems, and/or be afflicted with disabling HIV, AIDS or related disorders.

Legal Assistance: This program assists tenants to assert their legal rights. The majority of the funding for this program comes from settlements of lawsuits, court-awarded legal fees, and an HSH contract to provide legal representation to long-term, low income senior and/or disabled San Francisco tenants facing eviction under the Ellis Act. A CDBG grant managed by MOHCD also funds a portion of the program. The program has a mix of revenue and non-revenue generating litigation, as well as a substantial amount of non-litigation representation for low-income tenants where no fees of any kind are charged or collected. Most of the revenue generating cases are on a contingency fee basis.

Community Organizing and Outreach: This program includes the Central City SRO Collaborative (Collaborative), Code Enforcement Outreach Program (CEOP), La Voz Latina de la Ciudad Central (La Voz), and Residential Rent Stabilization & Arbitration Board Outreach (Rent Board). Funding for this program is from contracts and grants with the following City and County of San Francisco agencies: DBI, MOHCD, and the San Francisco Rent Board. The Collaborative, CEOP and Rent Board programs provide community outreach, counseling and tenant organizing to SRO and low-income residents of San Francisco. The Collaborative operates a tenant representative program at various SRO hotels to enhance stability in the hotels and address residential community concerns. Tenant representatives, with the help of the Organization's community organizers, conduct regular meetings and respond to tenant concerns. La Voz engages and educates Latino and immigrant families living in the Tenderloin community of San Francisco.

Galvin Apartments: The Organization owns and manages a studio apartment building named in honor of Sister Bernie Galvin of Religious Witness with Homeless People (refer to Note J).

Beyond Chron: During the year ended June 30, 2017, the Organization dissolved this wholly owned subsidiary, which operated a daily online news site.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Organization's significant accounting policies:

Basis of accounting

The Organization maintains its records using the accrual method of accounting in accordance with generally accepted accounting principles.

Basis of presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets

The portion of net assets that is neither temporarily restricted nor permanently restricted by donors.

Temporarily Restricted Net Assets

The portion of net assets for which use by the Organization is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled and removed by actions of the Organization. The Organization currently has no temporarily restricted net assets.

Permanently Restricted Net Assets

The portion of net assets for which use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Organization. The Organization currently has no permanently restricted net assets.

Cash and cash equivalents

The Organization has defined cash and cash equivalents as petty cash, cash in bank and money market accounts.

Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The investment in mutual fund is recorded at fair value, which is its quoted market price. The investment in the limited liability company is recorded using the cost method (refer to Note E).

The Organization's wholly owned subsidiary, Beyond Chron, LLC, was dissolved during the year ended June 30, 2017.

Property and equipment

Equipment purchase costs in excess of \$1,000, with estimated useful lives in excess of one year, are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed on the straight-line method using estimated useful lives varying between three and forty years.

Leasehold improvements, in excess of \$1,000, are recorded at cost and are amortized using the straight-line method over the estimated useful lives of the respective assets, ranging from three to seven years, but not more than the remaining term of the respective lease.

Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred.

Functional allocation of expenses

Expenses are charged to programs and management and general services on the basis of periodic time and expense studies in addition to estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but which provide for the overall support and direction of the Organization.

Estimates

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

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Litigation expenses

Litigation expenses such as court costs, filing fees and courier charges are expensed when incurred because those expenses may not be recoverable.

Income taxes

The Organization is exempt from paying federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for such taxes in the accompanying financial statements.

The wholly owned subsidiary was a pass-through entity for income tax reporting purposes and accordingly, did not pay tax on its taxable income. Instead, allocated income or loss was reported on the tax return of the Organization. The entity was subject to a minimum franchise tax for the State of California.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Revenue recognition

Attorney fees are recognized as revenue during the period in which a case is settled.

Hotel rental income is reported net of any vacancy loss.

Government contracts and grants revenue is recognized when earned.

Contributions and grants are recognized when the donor/grantor makes an unconditional promise to give to the Organization. Amounts that are restricted by the donor/grantor are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Management reviews the collectability of contributions and pledges receivable and establishes reserves for uncollectible amounts when needed.

Subsequent events

The Organization has evaluated subsequent events through February 16, 2018, which represents the date the financial statements are available to be issued.

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE C - CASH HELD FOR CLIENTS

The Organization acts as an agent for its clients in receiving checks and disbursing money for rent and other expenditures on their behalf. It does this as part of the cash management services provided by the Housing Services Program. All client funds are segregated and held separate from the Organization's funds. The Organization bears all expenses incurred to maintain any agency bank accounts. At June 30, 2017, the bank balance for these funds was \$1,053,599. Under the Legal Assistance Program, the Organization maintains client trust bank accounts. During legal proceedings, clients often remit rents and landlords remit stipulated payments, which are deposited into the client trust bank account. The Organization pays rents and stipulated payments to parties based on the terms of the settlement agreement of the respective lawsuit. At June 30, 2017, the trust account balance was \$1,994,907.

NOTE D - CONTRACTS AND GRANTS RECEIVABLE

At June 30, 2017, contracts and grants receivable consists of the following:

Department of Homelessness and Supportive Housing	\$ 3,651,853
Department of Building Inspection	46,210
Adult Probation Department	184,897
Mayor's Office of Housing and Community Development	29,414
San Francisco Rent Board	20,000
Superior Court of San Francisco	30,000
	<hr/>
	\$ 3,962,374
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NOTE E - INVESTMENT IN LIMITED LIABILITY COMPANY

The Organization invested in a limited liability company (the "LLC") that operates a restaurant located in the Tenderloin neighborhood of San Francisco. At June 30, 2017, the Organization's investment in the LLC amounted to \$100,000, representing a 2% interest in the LLC.

During the year ended June 30, 2016, the Organization issued a one-year note receivable for \$25,000 to the LLC. The note had a maturity date of February 2017, with interest at 3.25% per annum. Subsequent to the maturity date, the board of directors agreed to treat the note as due on demand, with the same interest rate.

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE F - PROPERTY AND EQUIPMENT

At June 30, 2017, property and equipment consists of the following:

Land	\$ 1,614,975
Buildings	6,023,525
Office furniture and equipment	239,639
Developed software	524,101
Leasehold improvements	388,304
Building improvements	<u>2,092,435</u>
	10,882,979
Less: accumulated depreciation	<u>(2,633,842)</u>
	<u><u>\$ 8,249,137</u></u>

NOTE G - COMMITMENTS

The Organization has a five-year lease for office space on Ellis Street, with ten one-year renewal options. The initial monthly rent was \$1,500, increasing each year as provided for in the lease agreement. Rent expense for the year ended June 30, 2017 was \$18,270.

The Organization has a lease for an office space on Turk Street, which is renewable on an annual basis up to 2019. The starting monthly rent was \$1,150 with an annual minimum increase of 2% but not to exceed 6%. Rent expense for the year ended June 30, 2017 was \$17,230.

In March 2006, the Organization entered into a five-year lease for a second office space on Turk Street, with two five-year renewal options, renewed in 2011 and 2016. The initial monthly rent was \$2,775 with annual increases of 4%. Rent expense for the year ended June 30, 2017 was \$45,273.

In July 2009, the Organization entered into a five-year lease for a third office space on Turk Street, with a five-year renewal option which was renewed in 2014. The initial monthly rent was \$2,000, increasing each year based on the lease agreement. Rent expense for the year ended June 30, 2017 was \$27,220.

In May 2017, the Organization entered into a five-year lease for a fourth office space on Turk Street, with a five-year renewal option. The initial monthly rent was \$3,750, increasing each year based upon the lease agreement. Rent expense for the year ended June 30, 2017 was \$3,750.

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE G - COMMITMENTS (continued)

In June 2015, the Organization entered into a lease to occupy up to sixteen guestrooms at a SRO hotel on Polk Street, with two one-year renewal options, the first of which the Organization exercised for the year ended June 30, 2017. Monthly rent is \$1,000 per unit and total rent expense for the year ended June 30, 2017 was \$192,000.

In January 2016, the Organization entered into a six-month lease to occupy up to twenty-two guestrooms at a SRO hotel on 6th Street, with two one-year renewal options. Monthly rent is \$1,000 per unit, and total rent expense for the year ended June 30, 2017 was \$264,000.

The Organization leases one community room on Jones Street, which is renewed on an annual basis. Rent expense for the year ended June 30, 2017 was \$33,307.

In May 2014, the Organization entered into a five-year lease for retail space on Eddy Street. The lease has four successive five-year renewal options and commenced March 1, 2015. In September 2014, the original lease was amended to include the adjacent retail space on Leavenworth Street and the adjoining basement area between the two locations. The commencement date for the Leavenworth Street space was January 2015 and includes four successive five-year renewal options. Also, in September 2014, the Organization entered into a five-year sublease agreement for both retail spaces and adjoining basement area. Rental income for the year ended June 30, 2017 was \$14,065, net of rent expense of \$41,055.

At June 30, 2017, minimum lease payments under non-cancelable leases are as follows:

<u>Year ending June 30,</u>	<u>Lease Payments</u>	<u>Sublease Income</u>	<u>Total</u>
2018	\$ 209,918	\$ (56,280)	\$ 153,638
2019	181,756	(58,636)	123,120
2020	143,601	(29,802)	113,799
2021	112,664	-	112,664
2022	81,137	-	81,137
	<u>\$ 729,076</u>	<u>\$ (144,718)</u>	<u>\$ 584,358</u>

Residential Hotels

The Organization leases residential hotels from outside parties to provide housing to low-income and homeless people. These leases have an initial one-year term and consecutive one-year renewal terms at the Organization's option. The leases have different termination dates, depending upon the inception and length of the agreement.

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE G - COMMITMENTS (continued)

Residential Hotels (continued)

During the year, the Organization entered into master leases for three additional residential hotels from outside parties to provide housing to chronically homeless veterans and individuals. The Crown Hotel lease commenced on November 1, 2016, which houses 49 units and has a five year term with fifteen one-year options to extend. The Winton Hotel lease commenced on November 16, 2016, which houses 104 units and has a five year term with ten one-year options to extend. The National Hotel lease commenced on April 12, 2017, which houses 90 units and has a five year term with fifteen one-year options to extend.

At June 30, 2017, the master leases are as follows:

<u>Name of Hotel</u>	<u>Commencement Date</u>	<u>Number of Units</u>	<u>Term (Including options to extend)</u>
Seneca Hotel	May 1, 1999	204	20 years
Mission Hotel	October 1, 1999	248	20 years
Jefferson Hotel	October 1, 1999	111	20 years
Vincent Hotel	May 15, 2000	103	20 years
Hartland Hotel	September 1, 2000	138	20 years
Royan Hotel	May 20, 2003	69	20 years
Caldrake Hotel	October 1, 2003	51	20 years
Graystone Hotel	February 1, 2016 renegotiated	74	15 years
Allstar Hotel	August 1, 2004	86	20 years
Pierre Hotel	September 16, 2004	86	20 years
Union Hotel	February 1, 2016 renegotiated	60	15 years
Raman Hotel	September 9, 2005	85	20 years
Boyd Hotel	February 13, 2006	82	20 years
Elk Hotel	August 1, 2006	89	20 years
Mayfair Hotel	July 1, 2010	78	20 years
Edgeworth Hotel	June 1, 2013	46	20 years
Baldwin Hotel	September 1, 2015	186	15 years
Drake Hotel	October 1, 2015	49	15 years
Crown Hotel	November 1, 2016	49	20 years
Winton Hotel	November 16, 2016	104	20 years
National Hotel	April 12, 2017	90	20 years

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE G - COMMITMENTS (continued)

Minimum future rental payments under the non-cancellable portion of these leases are as follows:

Year ending June 30,	
2018	\$ 8,566,914
2019	5,551,603
2020	5,551,603
2021	3,706,212
2022	1,638,569
Thereafter	<u>2,476,284</u>
	<u>\$ 27,491,185</u>

NOTE H - CONCENTRATIONS

The Organization receives a substantial amount of its support from federal and local government agencies. One of the agencies provides 63% of total revenue and accounts for 90% of total receivables. A significant reduction in the level of this support could have a material adverse effect on the Organization's programs and activities.

NOTE I - LOANS PAYABLE

Hartland Hotel CDBG Loan

The Organization entered into a loan agreement for \$317,100 with MOHCD to fund rehabilitation of the Hartland Hotel. This loan is interest-free and the principal is due twenty years from the date of the agreement, January 3, 2002. The loan requires Hartland Hotel to comply with specified affordability and leasing restrictions until August 31, 2020. All principal and accrued interest will be forgiven at maturity, provided the Organization remains in compliance with specified terms of the agreement. If, with the City's prior written consent at any time while the affordability restrictions are still in effect: (i) the Organization consents to the lessor's sale of the property; or (ii) the Organization or its assignee fails to exercise the purchase option (as defined in the lease) for the property, then the lessor may terminate the affordability restrictions by payment of a release fee in an amount equal to the then remaining balance of the loan which is calculated on the basis of a 5% reduction of the original principal balance on each anniversary of the loan closing date.

Tenderloin Housing Clinic, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE I - LOANS PAYABLE (continued)

Mission Hotel CDBG Loan

The Organization entered into a loan agreement for \$387,849 with MOHCD to fund part of the rehabilitation of the Mission Hotel. This loan is interest-free and the principal is due fifteen years from the date of the deed, December 2, 2005. However, all principal and interest will be forgiven at maturity, provided the Organization remains in compliance with specified terms of the agreement. The agreement requires Mission Hotel to comply with stated affordability and leasing restrictions.

If, with the City's prior written consent at any time while the affordability restrictions are still in effect: (i) the Organization consents to the lessor's sale of the property; or (ii) the Organization or its assignee fails to exercise the purchase option (as defined in the lease) for the property, then the lessor may terminate the affordability restrictions by payment of a release fee in an amount equal to the then remaining balance of the loan which is calculated on the basis of a 5% reduction of the original principal balance on each anniversary of the loan closing date.

NOTE J - GALVIN APARTMENTS

The Organization manages a 56-unit studio apartment building located on Brannan Street (the Galvin Apartments). It rents the studio apartments in accordance with below-market-rate housing policies as established by MOHCD, which caters to low-income individuals. Rental revenue from the building pays for the expenses associated with managing and operating the property. The Organization received the Galvin Apartments in September 2007 without paying consideration.

NOTE K - CONTINGENCIES

The Organization receives monies from several grant/contract programs that are operated by various government agencies. Those programs are subject to financial and compliance audits by the grantors/agencies or their representatives, to ensure compliance with conditions and restrictions of the agreements.

NOTE L - RETIREMENT PLAN

The Organization sponsors an employee individual retirement plan under section 403(b) of the Internal Revenue Code. There are no employer contributions to this plan. All contributions are made only by employees who elect to participate.

SUPPLEMENTAL INFORMATION

Tenderloin Housing Clinic, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
<u>Pass-through Award</u>			
Department of Housing and Urban Development (Pass-through from the City and County of San Francisco)			
Community Development Block Grant	14.218	B15MC060016	\$ 79,688
Community Development Block Grant (loan)	14.218	None Provided	317,100
Community Development Block Grant (loan)	14.218	None Provided	<u>387,849</u>
			<u>704,949</u>
			<u>784,637</u>
Shelter Plus Care Funding	14.238	CA1296L9T011400	<u>503,070</u>
Veterans Affairs Supporting Housing (VASH)	14.871	None Provided	<u>329,011</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,616,718</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Tenderloin Housing Clinic, Inc.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

Note 1: Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes the federal award activity of Tenderloin Housing Clinic, Inc. under programs of the federal government for the year ended June 30, 2016 and is presented on the accrual basis of accounting. 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 operations of Tenderloin Housing Clinic, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Tenderloin Housing Clinic, 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. The Organization has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Note 3: Community Development Block Grant (CDBG) Loans

Federal awards received under the CDBG loan program are for periods of 15 to 20 years. These loans are secured by deeds of trust. The loan obligations will be waived at the end of the loan terms provided that the Organization remains in compliance with specified terms and agreements in the loan documents. The amounts of the CDBG loans represent the balances outstanding at June 30, 2016 and 2017.

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

Board of Directors
Tenderloin Housing Clinic, 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 Tenderloin Housing Clinic, Inc. (a non-profit organization) (the “Organization”), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’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 Organization’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 Organization’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.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* (continued)

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



San Francisco, California
February 16, 2018

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

Board of Directors
Tenderloin Housing Clinic, Inc.

Report on Compliance for Each Major Federal Program

We have audited Tenderloin Housing Clinic, 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 Tenderloin Housing Clinic, Inc.'s major federal programs for the year ended June 30, 2017. Tenderloin Housing Clinic, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Tenderloin Housing Clinic, 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 Tenderloin Housing Clinic, 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 Tenderloin Housing Clinic, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Tenderloin Housing Clinic, 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, 2017.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (continued)

Report on Internal Control Over Compliance

Management of Tenderloin Housing Clinic, 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 Tenderloin Housing Clinic, 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 Tenderloin Housing Clinic, 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 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.



San Francisco, California
February 16, 2018

Tenderloin Housing Clinic, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Tenderloin Housing Clinic, Inc. (the "Organization") were prepared in accordance with GAAP.
2. No material weaknesses or significant deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Organization expresses an unmodified opinion.
6. There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The program tested as a major program was:

14.238 Shelter Plus Care Funding
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Organization qualified as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

No matters reported.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters reported.