



**Metro Dallas Homeless Alliance
and Affiliate**

**Consolidated Financial Statements with Compliance Reports
and Supplementary Information
December 31, 2017 and 2016**

Metro Dallas Homeless Alliance and Affiliate

Contents

Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Functional Expenses	7
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10
Supplementary Information:	
Schedule of Expenditures of Federal Awards	19
Notes to Schedule of Expenditures of Federal Awards	20
Compliance Reports:	
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 <i>Government Auditing Standards</i>	21
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	23
Schedule of Findings and Questioned Costs	26



Independent Auditors' Report

Board of Directors
Metro Dallas Homeless Alliance and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Metro Dallas Homeless Alliance and Affiliate (nonprofit organizations) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of MDHA Pebbles, LLC were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metro Dallas Homeless Alliance and Affiliate as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018 on our consideration of Metro Dallas Homeless Alliance and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Metro Dallas Homeless Alliance and Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metro Dallas Homeless Alliance and Affiliate's internal control over financial reporting and compliance.

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A Limited Liability Partnership

Arlington, Texas
September 21, 2018

Metro Dallas Homeless Alliance and Affiliate
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 392,860	\$ 210,830
Grants and accounts receivable, net	141,485	195,331
Prepaid expenses	45,391	36,654
Property and equipment, net	35,395	27,417
Investment in joint venture	49,271	109,874
Total assets	\$ 664,402	\$ 580,106
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 12,082	\$ 2,195
Accrued expenses	100,664	85,343
Deferred revenue	-	10,410
Total liabilities	112,746	97,948
Net assets:		
Unrestricted	412,290	431,089
Temporarily restricted	139,366	51,069
Total net assets	551,656	482,158
Total liabilities and net assets	\$ 664,402	\$ 580,106

See notes to consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate
Consolidated Statement of Activities
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Contributions and grant revenue:			
Corporations	\$ 3,648	\$ 500	\$ 4,148
Foundations	156,071	443,392	599,463
Governments	1,193,268	-	1,193,268
Organizations	23,665	60,807	84,472
Individuals	32,446	3,877	36,323
In-kind	60,859	-	60,859
Net assets released from restriction	420,279	(420,279)	-
Total contributions and grant revenue	1,890,236	88,297	1,978,533
Program income	213,139	-	213,139
Membership fees	9,725	-	9,725
Other	14,545	-	14,545
Total revenue and support	2,127,645	88,297	2,215,942
Other income (expense):			
Loss from joint venture	(60,603)	-	(60,603)
Interest income	39	-	39
Total other income (expense)	(60,564)	-	(60,564)
Total revenue, support and other income (expense)	2,067,081	88,297	2,155,378
Expenses:			
Program services	1,836,525	-	1,836,525
General and administrative	177,624	-	177,624
Fundraising	71,731	-	71,731
Total expenses	2,085,880	-	2,085,880
Increase (decrease) in net assets	(18,799)	88,297	69,498
Net assets at beginning of year	431,089	51,069	482,158
Net assets at end of year	\$ 412,290	\$ 139,366	\$ 551,656

See notes to consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate
Consolidated Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Contributions and grant revenue:			
Corporations	\$ 1,177	\$ 2,000	\$ 3,177
Foundations	148,985	114,741	263,726
Governments	726,919	-	726,919
Organizations	17,210	9,262	26,472
Individuals	30,871	45	30,916
In-kind	85,339	-	85,339
Net assets released from restriction	166,692	(166,692)	-
Total contributions and grant revenue	1,177,193	(40,644)	1,136,549
Program income	200,653	-	200,653
Membership fees	5,650	-	5,650
Other	35,391	-	35,391
Total revenue and support	1,418,887	(40,644)	1,378,243
Other income:			
Income from joint venture	43,263	-	43,263
Interest income	26	-	26
Total other income	43,289	-	43,289
Total revenue, support and other income	1,462,176	(40,644)	1,421,532
Expenses:			
Program services	1,145,353	-	1,145,353
General and administrative	159,596	-	159,596
Fundraising	68,656	-	68,656
Total expenses	1,373,605	-	1,373,605
Increase (decrease) in net assets	88,571	(40,644)	47,927
Net assets at beginning of year	342,518	91,713	434,231
Net assets at end of year	\$ 431,089	\$ 51,069	\$ 482,158

See notes to consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 938,509	\$ 118,230	\$ 57,629	\$ 1,114,368
Contract services, consulting and professional fees	338,362	20,773	782	359,917
Travel, conferences and meetings	46,377	40	6,138	52,555
Training	9,015	-	-	9,015
Advertising and promotion	534	-	740	1,274
Bank and financial services fees	2,404	267	565	3,236
Communications and information technology	19,266	1,094	903	21,263
Memberships and subscriptions	1,172	101	50	1,323
Miscellaneous	459	24,774	1,023	26,256
Hospitality and entertainment	4,496	270	192	4,958
Insurance	5,765	650	312	6,727
Postage and delivery	146	534	84	764
Printing and copying	11,562	522	257	12,341
Occupancy	8,662	1,255	180	10,097
Supplies	19,743	884	637	21,264
Depreciation	9,907	1,176	568	11,651
Client assistance	367,262	-	-	367,262
In-kind	52,434	7,054	1,371	60,859
Charitable donation	450	-	300	750
	<u>\$ 1,836,525</u>	<u>\$ 177,624</u>	<u>\$ 71,731</u>	<u>\$ 2,085,880</u>

See notes to consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 705,066	\$ 93,618	\$ 58,110	\$ 856,794
Contract services, consulting and professional fees	190,129	13,295	1,162	204,586
Travel, conferences and meetings	17,480	871	143	18,494
Training	9,216	-	-	9,216
Advertising and promotion	930	-	881	1,811
Bank and financial services fees	1,677	408	568	2,653
Communications and information technology	30,842	3,133	2,540	36,515
Memberships and subscriptions	1,549	32	28	1,609
Miscellaneous	1,747	886	2,404	5,037
Hospitality and entertainment	2,338	499	-	2,837
Insurance	3,254	3,128	-	6,382
Postage and delivery	16	700	87	803
Printing and copying	3,973	242	203	4,418
Occupancy	6,509	1,053	241	7,803
Supplies	9,337	358	391	10,086
Depreciation	-	9,059	-	9,059
Bad debt	6,603	-	-	6,603
Client assistance	103,560	-	-	103,560
In-kind	51,127	32,314	1,898	85,339
	<u>\$ 1,145,353</u>	<u>\$ 159,596</u>	<u>\$ 68,656</u>	<u>\$ 1,373,605</u>

See notes to consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 69,498	\$ 47,927
Adjustments to reconcile increase in net assets to net cash provided (used) by operations:		
Allowance for doubtful accounts	(9,228)	316
Depreciation	11,651	9,059
Loss (income) from joint venture	60,603	(43,263)
Changes in operating assets and liabilities:		
Grants and accounts receivable	63,074	(30,322)
Prepaid expenses	(8,737)	(9,532)
Accounts payable	9,887	(10,991)
Accrued expenses	15,321	(19,361)
Deferred revenue	(10,410)	(6,735)
Net cash provided (used) by operating activities	201,659	(62,902)
Cash flows from investing activities-		
Purchases of property and equipment	(19,629)	(14,859)
Net cash used by investing activities	(19,629)	(14,859)
Increase (decrease) in cash and cash equivalents	182,030	(77,761)
Cash and cash equivalents at beginning of year	210,830	288,591
Cash and cash equivalents at end of year	\$ 392,860	\$ 210,830

See notes to consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate

Notes to Consolidated Financial Statements

1. Organization

Metro Dallas Homeless Alliance (MDHA) is a Texas nonprofit corporation located in Dallas, Texas. It was established and is operated as a member organization composed of a broad spectrum of stakeholders committed to ending homelessness. In 2003, it was designated by the Dallas City Council as the regional authority on homelessness and charged with implementing homeless initiatives in Dallas' 10-Year Plan to End Chronic Homelessness. MDHA is supported by contributions and grants from individuals, companies, foundations and governmental agencies. It also earns fees by providing program services and by fees charged for memberships.

MDHA accomplishes its purpose through the following programs:

Continuum of Care - MDHA is recognized by the local community and the U.S. Department of Housing and Urban Development (HUD) as the lead agency for the Continuum of Care (CoC) serving Dallas and Collin Counties. As the CoC lead agency, MDHA collaborates with the local CoC Board of Directors to:

- Operate the Continuum of Care
- Provide for a Homeless Management Information System (HMIS) for the Continuum of Care
- Plan for the Continuum of Care
- Serve as the collaborative applicant for funding

Coordinated Assessment - MDHA provides a telephone helpline for persons facing a housing crisis, conducts an uniformed assessment, makes referrals to the appropriate housing intervention organization through prioritization and makes referrals to service and housing providers in the CoC.

Homeless Management Information System - MDHA administers the HMIS that supports required client and services data collection, reporting and performance evaluation for nearly \$70 million in federal, state, and local programs to prevent and end homelessness.

Resources for Partner Agencies - MDHA oversees funds that are utilized by organizations for direct aid to the homeless within the CoC.

Metro Dallas Homeless Alliance and Affiliate

Notes to Consolidated Financial Statements

The Housing Authority of the City of Dallas

MDHA entered into an agreement with The Housing Authority of the City of Dallas (DHA), Texas, a Texas public housing authority, to lease apartment units through December 31, 2019 as part of MDHA's mission to reinforce the public supportive housing initiative for single women and families composed of women and children who are homeless or formerly homeless. The apartments are leased under a "bargain" lease agreement from DHA for \$1 annually.

MDHA Pebbles, LLC

On February 22, 2010, MDHA Pebbles, LLC (Pebbles) was formed in the state of Texas, to alleviate poverty and provide housing, shelter and support for independent living directly to the homeless population of Dallas, Texas. MDHA is the sole member of Pebbles. Pebbles owns a 50 percent interest in Pebbles Apartments, L.L.C. (PA) which subleases the apartments referred to above from MDHA and operates the apartments under an operating agreement with MDHA. Pebbles has no operations of its own. MDHA and Pebbles are collectively referred to herein as the Organization.

In 2010, operations of the apartment units began in PA. PA is an entity owned 50 percent by Pebbles and 50 percent by Pebbles PSH, Inc., an unrelated Texas nonprofit corporation. Pebbles PSH, Inc. is the controlling member and manager over PA in accordance with the operating agreement effective May 5, 2010. Accordingly, PA is not consolidated as part of MDHA's consolidated financial statements, but MDHA's investment and its share of the earnings and losses of PA are shown in the Organization's consolidated financial statements as investment in joint venture. In connection with the operation of the apartments, PA collects rents and pays operating expenses.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

Consolidated Financial Statements

The financial statements of MDHA and Pebbles have been consolidated and all inter-organizational transactions and accounts have been eliminated.

Metro Dallas Homeless Alliance and Affiliate

Notes to Consolidated Financial Statements

Consolidated Financial Statement Presentation

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

Unrestricted net assets - Net assets not subject to donor imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor or grantor stipulations that will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purpose. There are no permanently restricted net assets at December 31, 2017 or 2016.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash Equivalents

Cash equivalents consist of all highly liquid investments purchased with an initial maturity of three months or less.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash, cash equivalents, and grants and accounts receivable. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. Grants receivable are due from various grantor agencies and donors. Accounts receivable are unsecured and are due from various agencies for user fees related to the HMIS system. The Organization continually evaluates the collectability of grants and accounts receivable and maintains allowances for potential losses, if considered necessary.

Metro Dallas Homeless Alliance and Affiliate

Notes to Consolidated Financial Statements

The Organization maintains cash balances at a financial institution located in Texas. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2017, the Organization's uninsured balances totaled \$167,256.

Property and Equipment

Property and equipment purchased by the Organization are recorded at cost or if acquired by gift, at the fair value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$2,000; the fair value of donated property and equipment is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Investment in Joint Venture

The Organization uses the equity method to account for its investment in Pebbles. Under the equity method, the Organization recognizes its share of the earnings and losses of the joint venture as they accrue. Advances and distributions are charged and credited directly to the investment account.

Revenue Recognition

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Government grant revenue is recognized as contract terms are fulfilled. Cost reimbursement contracts are recognized as revenue when the allowable costs are incurred. Fees for contract services are recognized as revenue when the contracted services are performed.

Donated rent is reflected as a contribution at the estimated fair value. Contributions of services are recorded as estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation.

Grants and Contracts

The Organization receives grants and contracts from federal and state agencies to be used for specific programs. For government grants and contracts, the excess of reimbursable expenditures over cash receipts is included in grants receivable.

Metro Dallas Homeless Alliance and Affiliate

Notes to Consolidated Financial Statements

The Organization's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or changes in net assets of the Organization.

Federal Income Taxes

MDHA is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC). Pebbles is a wholly-owned for-profit subsidiary of MDHA which is considered to be a disregarded entity for tax purposes, and its activity is included in MDHA's federal information return.

For the years ended December 31, 2017 and 2016, MDHA had no material unrelated business income, including pass-through income from Pebbles. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing MDHA's tax returns and recognition of a tax liability (or asset) if MDHA has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by MDHA, and has concluded that as of December 31, 2017 and 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Allocation of Functional Expenses

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

Estimates and Assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support and expenses during the reporting period. Actual results could differ from those estimated.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

Metro Dallas Homeless Alliance and Affiliate

Notes to Consolidated Financial Statements

The Organization considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organization's consolidated financial position and results of activities.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under GAAP. The core principal of the new guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The original guidance has been amended through subsequent accounting standard updates that resulted in technical corrections, improvements, and a one-year deferral of the effective date to January 1, 2018 for public entities and January 1, 2019 for all other entities. Entities can elect to adopt the guidance either on a full or modified retrospective basis. Full retrospective adoption will require a cumulative effect adjustment to net assets as of the beginning of the earliest comparative period presented. Modified retrospective adoption will require a cumulative effect adjustment to net assets as of the beginning of the reporting period in which the entity first applies the new guidance. The Organization is currently assessing the impact that adopting this new guidance will have on the Organization's consolidated financial statements.

In February 2016, the FASB issued new accounting guidance related to leases, which requires that the Organization recognize the assets and liabilities for the rights and obligations created by leased assets. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 for public companies and December 15, 2019 for all other entities. The Organization is currently assessing the impact that adopting this new guidance will have on the Organization's consolidated financial statements.

In August 2016, the FASB issued new accounting guidance on the presentation of financial statements for not-for-profit entities. The objective of this ASU is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit's liquidity, financial performance, and cash flows. The key provisions include net asset classes, investment return, expenses, liquidity and availability of resources, and statement of cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. Early application of the amendments is permitted. The Organization is currently assessing the impact that adopting this new guidance will have on the Organization's consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate
Notes to Consolidated Financial Statements

3. Grants and Accounts Receivable

Grants and accounts receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Grants receivable	\$ 127,548	\$ 139,459
Accounts receivable	-	41,945
Pledges receivable	11,938	20,441
Other	1,999	2,714
Allowance for doubtful accounts	-	(9,228)
	<u>\$ 141,485</u>	<u>\$ 195,331</u>

Grants and accounts receivable are expected to be collected within the next year.

4. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Office equipment	\$ 81,374	\$ 61,745
Software	7,500	7,500
Accumulated depreciation	(53,479)	(41,828)
	<u>\$ 35,395</u>	<u>\$ 27,417</u>

Depreciation expense totaled \$11,651 and \$9,059 for the years ended December 31, 2017 and 2016, respectively.

Metro Dallas Homeless Alliance and Affiliate
Notes to Consolidated Financial Statements

5. Investment in Joint Venture

The Organization has a 50% investment in PA. Summarized financial information relative to the joint venture is as follows as of and for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Current/total assets (primarily cash)	<u>\$ 92,216</u>	<u>\$ 221,514</u>
Current liabilities	\$ 5,980	\$ 14,072
Partners' equity	<u>86,236</u>	<u>207,442</u>
	<u>\$ 92,216</u>	<u>\$ 221,514</u>
Revenue	\$ 298,736	\$ 314,852
Net earnings (loss)	(121,206)	86,527
Organization's interest in net earnings (loss)	(60,603)	43,263

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Client assistance	\$ 136,191	\$ 30,628
Time restricted	<u>3,175</u>	<u>20,441</u>
	<u>\$ 139,366</u>	<u>\$ 51,069</u>

7. In-Kind Contributions and Related Party Transaction

In-kind revenue and expense consist of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Occupancy	\$ 59,659	\$ 59,659
Legal services from board member	-	25,680
Other	<u>1,200</u>	<u>-</u>
Total	<u>\$ 60,859</u>	<u>\$ 85,339</u>

These amounts are included in revenue and expense in the accompanying consolidated financial statements.

Metro Dallas Homeless Alliance and Affiliate

Notes to Consolidated Financial Statements

Effective December 1, 2011, the Organization and a foundation entered into a rent-free lease agreement for land and a building with an initial term which ended on November 20, 2014. The lease was extended 10 years until November 30, 2021. As provided by the lease agreement, the Organization is required to pay utilities and repairs, maintain certain insurance and must abide by the Wilson Historic Block District Agencies Lease Compliance Expectation.

8. Concentrations

Accounts receivable from one governmental unit accounted for approximately 90% of the Organization's receivables at December 31, 2017. Accounts receivable from one governmental unit accounted for approximately 48% of the Organization's receivables at December 31, 2016.

The Organization's revenue from three governmental units comprised approximately 54% of total revenue for the year ended December 31, 2017. The Organization's revenue from two governmental units comprised approximately 62% of total revenue for the year ended December 31, 2016. Although management believes these revenue sources will continue in the near term, it acknowledges that the loss of revenue from these sources could have a materially adverse effect on the Organization's financial position, activities and cash flows.

9. Subsequent Events

Management has evaluated subsequent events through September 21, 2018, the date which the consolidated financial statements were available to be issued, and concluded that no additional disclosures are required.

Metro Dallas Homeless Alliance and Affiliate
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA #</u>	<u>Contract Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Continuum of Care Program	14.267	TX0405L6T001500	\$ 181,469
Continuum of Care Program	14.267	TX0405L6T001601	267,770
Continuum of Care Program	14.267	TX0403L6T001500	301,780
Continuum of Care Program	14.267	TX0442L6T001600	116,914
Continuum of Care Program	14.267	TX0404L6T001500	186,757
Continuum of Care Program	14.267	TX0404L6T001601	<u>98,744</u>
Total expenditures of federal awards			<u><u>\$ 1,153,434</u></u>

See notes to schedule of expenditures of federal awards.

Metro Dallas Homeless Alliance and Affiliate
Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

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

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 not elected to use the 10 percent de minimis indirect cost rate, and continues to use the cost allocation plan negotiated individually with its grantors, as applicable.

3. Match

The Organization is required to provide 25% matching funds to fulfill its contracts. These matching funds consist of contributions, fees, in-kind rent and other grants. The Organization claimed the following in matching funds for the following contracts for the year ended December 31, 2017:

HMIS	\$ 186,129
CAS	163,118
CoC	<u>214,971</u>
Total	<u><u>\$ 564,218</u></u>

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
Metro Dallas Homeless Alliance and Affiliate

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Metro Dallas Homeless Alliance and Affiliate (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 21, 2018. The financial statements of MDHA Pebbles, LLC were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with MDHA Pebbles, LLC.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Metro Dallas Homeless Alliance and Affiliate's (Organization) 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 consolidated 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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated 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.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
September 21, 2018

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

Board of Directors
Metro Dallas Homeless Alliance and Affiliate

Report on Compliance for Each Major Federal Program

We have audited Metro Dallas Homeless Alliance and Affiliate's (Organization) (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization'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 the 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 the Organization'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 U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a significant deficiency.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
September 21, 2018

Metro Dallas Homeless Alliance and Affiliate
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to consolidated financial statements noted? yes no

Federal Awards

Internal control over major program:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Type of auditors' report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal program:

CFDA 14.267 Continuum of Care Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

None

Metro Dallas Homeless Alliance and Affiliate
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section III - Federal Award Findings and Questioned Costs

U.S. Department of Housing and Urban Development
CFDA 14.267 Continuum of Care Program

2017-001 - Internal control over compliance and compliance finding over procurement

Criteria: As stipulated in 2 CFR Part 200.320 procurement procedures must be followed when the procurement does not meet the standards for noncompetitive proposals.

Condition: MDHA did not properly procure the contract with the HMIS software provider or follow its own procurement policy.

Cause: MDHA could not support that the procurement of the HMIS software met the standards for a noncompetitive proposal. HMIS software is available from multiple providers and the procurement procedures must be followed.

Effect: MDHA did not solicit multiple bids and allow for open competition from other providers.

Questioned costs: \$121,929

Auditors' Recommendation: MDHA should follow written procurement procedures and policies in accordance with 2 CFR 200 and develop controls and procedures to ensure purchases of this nature are procured properly.

Management's Response: MDHA concurs with the auditors findings and issued a statement of assurance that it will comply with its own procurement policies and with federal requirements.

Corrective Action Plan: MDHA has amended the original contract with the HMIS software provider to include the required federal provisions. MDHA will continue to observe its own policies and procedures and the requirements set forth in 2 CFR Part 200.320.

2017-002 - Internal control over compliance and compliance finding over allowable costs and period of performance

Criteria: As stipulated in 2 CFR Part 200.405, a cost is allocable to a particular federal award if the goods or services involved are chargeable or assignable to that federal award.

Condition: MDHA did not allocate costs properly to the corresponding grant period.

Cause: MDHA's management did not review the invoice in order to determine whether the costs should be allocated to a FY 2016 or FY 2017 grant.

Metro Dallas Homeless Alliance and Affiliate
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Effect: MDHA incorrectly charged costs to the grant year ended March 31, 2017 rather than to the grant year beginning April 1, 2017 in accordance with when the costs were incurred. This could result in unallowable costs that would need to be reimbursed to the federal government and drawn down to the proper grant, assuming there are sufficient grant funds remaining.

Questioned costs: \$37,086

Auditors' Recommendation: MDHA should put controls in place to ensure that costs are charged and allocated to the proper grant and grant period.

Management's Response: MDHA agrees with the finding and has put controls and procedures in place to ensure the costs are charged and allocated to the proper grant and grant period.

Corrective Action Plan: MDHA has implemented controls and procedures to ensure costs are allocated to the proper grant and grant period.