

**HEARTLAND CARES, INC.
PADUCAH, KENTUCKY**

**FINANCIAL STATEMENTS
With Independent Auditor's Report**

YEAR ENDED JUNE 30, 2019

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William B. Byrd, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Heartland Cares, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Heartland Cares Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heartland Cares Inc. as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2018, Heartland Cares, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2020, on our consideration of Heartland Cares Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Heartland Cares Inc.'s internal control over financial reporting and compliance.

Clayton, Byrd & Meeks, LLP

Paducah, Kentucky
January 28, 2020

BASIC FINANCIAL STATEMENTS

HEARTLAND CARES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Cash	\$ 511,925
Grants and contract receivables	473,975
Inventory	75,181
Prepaid expenses	198,151
Property and equipment, net of accumulated depreciation of \$351,129	280,627
Restricted cash	<u>683</u>

TOTAL ASSETS

\$ 1,540,542

LIABILITIES

Accounts payable	\$ 104,185
Accrued payroll, taxes and fringe benefits withheld	50,822
Liability for compensated absences	32,135
Deferred revenue	18,201
Due to Kentucky conference	<u>683</u>

TOTAL LIABILITIES

206,026

Net Assets

Without donor restrictions	<u>1,334,516</u>
Total Net Assets	<u><u>1,334,516</u></u>

TOTAL LIABILITIES AND NET ASSETS

\$ 1,540,542

The notes to Financial Statements are an integral part of this statement.

**HEARTLAND CARES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Revenues	
Grants/contract support	\$ 1,839,113
Pharmacy	2,794,333
Fundraising	30,636
Insurance and patient payments	78,109
Donations	37,190
Other revenue	8,202
Total revenues	<u>4,787,583</u>
Expenses	
Program services	4,177,596
Support services	367,524
Fundraising	4,061
Total expenses	<u>4,549,181</u>
Change in Net Assets	238,402
Beginning Net Assets	<u>1,096,114</u>
Ending Net Assets	<u><u>\$ 1,334,516</u></u>

The notes to Financial Statements are an integral part of this statement.

HEARTLAND CARES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2019

	Program Services	Support Services	Fundraising	Total Expenses
Operating Expenses:				
Wages, payroll taxes and benefits	1,055,769	232,054	-	1,287,823
Physician services	203,055	-	-	203,055
Rental assistance and utilities	284,400	-	-	284,400
Pharmacy medication	1,987,301	-	-	1,987,301
Health and medical (not insurance)	350,021	-	-	350,021
Medical billing	28,333	-	-	28,333
Fundraising	-	-	4,061	4,061
Occupancy and administration	158,915	74,958	-	233,873
Travel & training	20,709	-	-	20,709
Professional fees	-	25,646	-	25,646
Insurance	14,039	14,039	-	28,078
Repairs and maintenance	29,817	3,313	-	33,130
Utilities and telephone	26,953	2,995	-	29,948
Bank fees and interest	-	2,062	-	2,062
Depreciation	8,748	972	-	9,720
Loss on disposal of assets	9,536	1,059	-	10,595
Advertising	-	1,850	-	1,850
Miscellaneous	-	8,576	-	8,576
Total operating expenses	<u>\$ 4,177,596</u>	<u>\$ 367,524</u>	<u>\$ 4,061</u>	<u>\$ 4,549,181</u>

The notes to Financial Statements are an integral part of this statement.

**HEARTLAND CARES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 238,402
Adjustments to reconcile expenses in excess of revenues to net cash provided by operating activities:	
Depreciation	9,720
Change in assets and liabilities:	
Grants and contracts receivable	(107,491)
Inventory	(3,051)
Prepaid expenses	(924)
Accounts payable	(13,892)
Accrued payroll, taxes and fringe benefits	6,823
Liability for compensated absences	(12,145)
Deferred revenue	11,190
	<hr/>
Net cash provided by (used for) operating activities	128,632
	<hr/>
Cash Flows from Investing Activities:	
Purchase of property and equipment	(230,373)
Loss on disposal of assets	10,595
Redemption of certificate of deposit	50,774
Interest earned on certificate of deposit	(115)
	<hr/>
Net cash used in investing activities	(169,119)
	<hr/>
Cash Flows from Financing Activities:	-
	<hr/>
Change in Cash	(40,487)
	<hr/>
CASH, BEGINNING OF YEAR	553,095
	<hr/>
CASH, END OF YEAR	<u><u>\$ 512,608</u></u>

The notes to Financial Statements are an integral part of this statement.

HEARTLAND CARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Heartland Cares, Inc. (HCI) is a non-profit, non-stock corporation under Kentucky Revised Statutes, Chapter 273. HCI's primary purpose is to conduct educational, supportive, and health-care related activities for persons infected with and/or affected by others infected with the human immunodeficiency virus (HIV), and/or diagnosed with acquired immunodeficiency syndrome (AIDS) and/or other debilitating diseases; to plan, establish, and administer a program of comprehensive early intervention health care and support services, and other appropriate programs.

Accounting Method

HCI maintains its books and these financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned while expenses are recognized in the period incurred.

Revenues

HCI receives a substantial amount of revenue from grant revenue from federal agencies. HCI recognizes grant revenue to the extent of expenditures.

During the fiscal year ended June 30, 2016 HCI started receiving revenues from the pharmacy inside the HCI building.

Funding sources may, at their discretion, request reimbursement for expenditures or return of funds, or both, as a result of non-compliance by HCI with the terms of the grants, contracts and regulations.

Contributions

Contributions received are recorded as temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. HCI has not received any contributions with donor-imposed restrictions, with the exception of funds used to purchase equipment in prior years.

Income Taxes

HCI is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct any unrelated business activities. Therefore, HCI has made no provision for federal or state income taxes in the accompanying financial statements. In addition, HCI has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

HCI's federal Exempt Organization Business Income tax returns (Form 990) for 6/30/19, 6/30/18 and 6/30/17, are subject to examination by the IRS, generally for three years after they were filed.

Inventories

HCI maintains an inventory of gift cards/vouchers and pharmacy medications that are used to assist clients. All inventories are recorded at cost.

HEARTLAND CARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Donated assets are stated at fair value on the date donated. HCI generally does not capitalize assets with costs less than \$1,000. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded. In instances where grant funds were used to purchase equipment in prior years grantors retain a reversionary interest in such property and equipment as well as the determination of use of any proceeds from subsequent sales of those assets. Depreciation is provided by the straight-line method over the estimated useful lives of the various classes of assets as follows:

	<u>Years</u>
Medical Equipment	5 - 10
Leasehold Improvements	40
Office furniture and fixtures	3 - 10
Vehicles	5 - 10

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. HCI incurred advertising expenses in the amounts of \$1,369.

Financial Statement Presentation

During 2018, the Fund adopted ASU No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net assets classification requirements and the information presented in the financial statements and notes about not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2018 follows:

ASU 2016-14 Classifications

Net Assets Classifications	Without donor restrictions	With donor restrictions	Total Net Assets
As previously presented:			
Unrestricted net assets	\$ 2,435,587	\$ -	\$ 2,435,587
Net assets as previously presented	<u>\$ 2,435,587</u>	<u>\$ -</u>	<u>\$ 2,435,587</u>

HEARTLAND CARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

For financial reporting purposes, HCI follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net assets categories and types of transactions affecting each category follow:

- Without Donor Restrictions-Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of donations, non-restrictive grants, etc.
- With Donor Restrictions-Net assets subject to donor-imposed restrictions that will be met either by actions of HCI or the passage of time. Items that affect this net asset category are donations for which donor-imposed restrictions have not been met in the year of receipt including.

HCI maintained no donor restricted net assets at 2018.

NOTE B – DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Custodial credit risk for deposits is the risk that in the event of a bank failure, HCI's deposits may not be returned or HCI will not be able to recover collateral securities in the possession of an outside party. HCI's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally HCI's investing activities are managed under the direction of the Executive Director. Investing is performed in accordance with investment policies adopted by the Board of Directors complying with KRS 212.480.

As of June 30, 2019, HCI's demand deposit carrying amount was \$512,507. The balance per the bank was \$561,192, which is only insured by the FDIC up to \$250,000 leaving the credit risk of loss of \$311,192.

NOTE C – CHANGES IN PROPERTY AND EQUIPMENT

A summary of changes in Property and Equipment at June 30 is as follows:

	<u>2019</u>			
	<u>Balance as of June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2019</u>
Medical Equipment	\$ 117,358	-	-	117,358
Leasehold Improvements	151,207	233,621	(151,207)	233,621
Office furniture and fixtures	207,521	16,584	-	224,105
Vehicles	56,672	-	-	56,672
	532,758	250,205	(151,207)	631,756
Accumulated depreciation	(482,021)	(9,720)	140,612	(351,129)
Total property and equipment – net:	<u>\$ 50,737</u>	<u>\$ 240,485</u>	<u>\$ (10,595)</u>	<u>\$280,627</u>

HEARTLAND CARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE D – LIQUIDITY AND AVAILABILITY OF RESOURCES

HCI has \$985,900 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$511,925 and \$473,975 of accounts receivable. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. HCI has a goal to maintain approximately 90 days of normal operating expenses in available assets. HCI also invests excess cash of its daily needs in short-term investments.

NOTE E – LEASES AND RELATED PARTY TRANSACTIONS

HCI leases its office facilities from the Heartland Foundation, Inc., a pending not-for-profit corporation established for the sole purpose of providing facilities to HCI. The Organization also leases apartments from unrelated landlords in Paducah, Kentucky to furnish housing for its clients.

The lease for HCI's clinic and office facility has a term of five years, beginning November 28, 2018, at a monthly rent of \$9,330. HCI prepaid rent to Heartland Foundation, Inc during construction in the amount of \$210,000. Under the rental agreement \$3,000 a month will be applied to the prepaid rent. As of June 30, 2019 the prepaid amount is \$192,000. The amount paid to Heartland Foundation, Inc. under the lease for the year ended June 30, 2019 was \$105,570. HCI has no accounts payable due to Heartland Foundation, Inc. as of June 30, 2019.

Future minimum lease requirements for the clinic and office facilities are:

Fiscal year ended June 30,	
2020	111,960
2021	111,960
2022	111,960
2023	111,960
2024	111,960
	<u>\$ 559,800</u>

NOTE F – DISCLOSURES REGARDING STATEMENTS OF CASH FLOWS

Accounting Policy - For purposes of the Statement of Cash Flows, cash includes all unrestricted demand deposits. There was no interest expense during the fiscal year ended June 30, 2019.

NOTE G – RISK MANAGEMENT

HCI is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To handle the risk of loss, HCI has purchased certain insurance policies. Its worker's compensation insurance is retrospectively rated.

NOTE H – CONCENTRATIONS

HCI has in the past been entirely dependent on federal, state, and local grants to support its programs and operations. During fiscal year end June 30, 2016 HCI had become less dependent on grant revenues with HCI purchasing and selling medications for the pharmacy. During the year ended June 30, 2019, HCI received the following grants:

HEARTLAND CARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE H – CONCENTRATIONS (Continued)

	<u>2019</u>
Ryan White, Part C	\$ 673,465
Ryan White, Part B	830,762
HOPWA	184,316
Shelter Plus Care	50,330
HOME Grant	<u>62,202</u>
Total Federal Grant Income	1,801,075
Other grants/contract support	<u>38,038</u>
Grant Funds Received	<u>1,839,113</u>
Less Voucher Inventory Deferred in Current Year	18,201
TOTALS	<u>\$ 1,820,912</u>

The loss or reduction of grant funding could cause significant reductions in services or the elimination of programs operated by the Organization.

Beginning in the year ended June 30, 2016, and continuing into the year ended June 30, 2019, HCI has become substantially less dependent on grant revenues due to increasing revenues from the pharmacy. Grant revenues made up 38.03% of all revenues.

NOTE I – FUNCTIONAL CLASSIFICATION OF EXPENSES

HCI's primary program service is health care and supporting services for those with HIV/AIDS. Natural expense attributable to more than one functional expense category are allocated based on time and effort and space.

NOTE J – RETIREMENT PLAN

HCI offers to all employees as SIMPLE IRA retirement plan that requires employee contributions with matching employer contributions. The retirement expense reported in employee benefits under this plan during the year ended June 30, 2019 was \$22,179.

NOTE K– EMPLOYEE BENEFITS

HCI offers to all full time employees a Health Savings Account starting fiscal year ended June 30, 2019. HCI contributes \$300 per month for all full time employees. During the fiscal year 2019 HCI contributed to \$64,051.

NOTE L – COMMITMENTS AND CONTINGENCIES

HCI receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose and in accordance with the terms of the grant, the grantors may request a refund of the monies advanced or refuse to reimburse the Organization for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, may be significant. Continuation of HCI's grant programs is predicated upon the grantors' satisfaction that the funds provided are being used as intended and the grantors' intent to continue their programs and related future funding to HCI.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 28, 2020 the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Greg L. Yates, CPA
Patrick T. Whalen, CPA
James R. Hite, CPA



William B. Byrd, CPA
Rick A. Meeks, CPA

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

To the Board of Directors of
Heartland Cares, 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 Heartland Cares, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Heartland Cares, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Heartland Cares, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Heartland Cares, Inc.'s internal control.

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

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

Compliance and Other Matters

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

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.

Clayton, Byrd & Meeks, LLP

Paducah, Kentucky
January 28, 2020

Greg L. Yates, CPA
Patrick T. Whalen, CPA
James R. Hite, CPA



William B. Byrd, CPA
Rick A. Meeks, CPA

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

To the Board of Directors of
Heartland Cares, Inc.

Report on Compliance for Each Major Federal Program

We have audited Heartland Cares, 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 HCI's major federal programs for the year ended June 30, 2019. HCI's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Heartland Cares, 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 Heartland Cares, 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 HCI's compliance.

Opinion on Each Major Federal Program

In our opinion, Heartland Cares, 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, 2019.

Report on Internal Control Over Compliance

Management of HCI 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 HCI'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 HCI'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 a 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.

Clayton, Byrd & Meeks, LLP

Paducah, Kentucky
January 28, 2020

HEARTLAND CARES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title:</u>	<u>Federal CFDA No.</u>	<u>Pass-Through Grantor Number</u>	<u>Expenditures</u>
Department of Housing and Urban Development:			
<i>Passed through the Kentucky Housing Corporation</i>			
Housing Opportunities for	14.241	HW18-0061-01	\$ 183,442
Persons with AIDS	14.241	HS16-0061-01	<u>941</u>
Total for CFDA 14.241			<u>\$ 184,383</u>
 HOME Investment Partnership Program	 14.239	 TB18-0061-01	 <u>\$ 62,202</u>
 Shelter Plus Care	 14.238	 KY0120C41001100	 <u>\$ 45,795</u>
Total US Department of Housing and Urban Development			<u>\$ 292,380</u>
U.S. Department of Health and Human Services:			
Outpatient Early Intervention Services	93.918	PO6HA3216	\$ 92,033
With respect to HIV Disease, Part C	93.918	H76HA00208	<u>585,348</u>
			<u>\$ 677,381</u>
 Passes through the Commonwealth Of Kentucky, Cabinet for Human Resources HIV Care Formula Grants	 93.917	 PON272818000017721	 <u>\$ 830,762</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,508,143</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,800,523</u>

HEARTLAND CARES, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Heartland Cares, Inc. under programs of the federal government for the year ended June 30, 2019. 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, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of operations of HCI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HCI.

Note B – 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.

Note C – Pass Through of Federal Funds:

No federal awards were passed through to sub-recipients.

Note D – Indirect Cost Rate:

HCI has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

HEARTLAND CARES, INC.
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section I – Summary of the Independent Auditor’s Results:

Financial Statements

1. An unmodified opinion was issued on the financial statements of Heartland Cares, Inc.
2. No material weaknesses or significant deficiencies were disclosed by our audit of the financial statements.
3. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

No material weakness or significant deficiencies were disclosed by our audit for the major federal award program.

4. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
5. Our audit did not disclose any audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
6. The federal awards tested as major program was:
HIV Care Formula Grants Part B CFDA – 93.917
7. The dollar threshold used to distinguish between Types A and B federal award programs was \$750,000.
8. Heartland Cares, Inc. did qualify as a low-risk auditee.

Section II – Findings – Financial Statements Audit

There are no findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards.

Section III – Findings and Questioned Costs – Major Federal Awards Programs

There are no findings or questioned costs related to the major federal programs which are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Award (Uniform Guidance).

HEARTLAND CARES, INC.
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

There were no prior year findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards.

Section III – Findings and Questioned Costs – Major Federal Awards Programs

There were no prior year findings or questioned costs related to the major federal programs which are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Award (Uniform Guidance)