Consolidated Financial Statements

with Supplementary Information in Accordance with Governmental Auditing Standards, the Uniform Guidance and Other Matters

Southeast, Inc. and Affiliates

June 30, 2018 and 2017

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GBQ Partners

To the Board of Directors
Southeast, Inc. and Affiliates
Columbus, Ohio

Independent Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Southeast, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, 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 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 Southeast, Inc. and Affiliates as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and activities and changes in net assets as of and for the year ended June 30, 2018, and certain supplementary information required by the Franklin County Board of Alcohol, Drug Addiction and Mental Health Services, as well as for the Ohio Development Services Agency, is presented for purposes of additional analysis that is not a required part of the basic consolidated financial statements. 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 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 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 March 12, 2019, on our consideration of Southeast, Inc. and Affiliates' 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 Southeast, Inc. and Affiliates' internal control over financial reporting and compliance.

GBQ Partners LLC

Columbus, Ohio
March 12, 2019

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SOUTHEAST, INC. AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,679,684	$ 7,425,016
Restricted cash	402,821	435,347
Investments	11,848,531	11,167,115
Accounts receivable, net of allowance for doubtful accounts	5,162,292	4,083,838
Inventory	480,579	487,364
Other current assets	66,404	98,392
Total current assets	21,640,311	23,697,072
Property and Equipment, net	5,742,226	5,713,589
TOTAL ASSETS	$ 27,382,537	$ 29,410,661

	2018	2017
LIABILITIES AND NET ASSETS		
Current Liabilities		
Long-term obligations, current maturities	$ 303,598	$ 296,819
Accounts payable	450,699	584,109
Amounts held in trust	402,821	435,347
Accrued payroll and related liabilities	2,345,625	2,438,154
Deferred revenue	434,020	464,601
Total current liabilities	3,936,763	4,219,030
Long-Term Obligations, net of current portion	1,869,600	2,107,768
Total liabilities	5,806,363	6,326,798
Net Assets		
Unrestricted:		
Undesignated	19,674,126	21,167,732
Board designated	1,837,655	1,837,591
Total unrestricted net assets	21,511,781	23,005,323
Temporarily restricted	64,393	78,540
Total net assets	21,576,174	23,083,863
TOTAL LIABILITIES AND NET ASSETS	$ 27,382,537	$ 29,410,661

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHEAST, INC. AND AFFILIATES

Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Operating revenues and support:		
ADAMH purchase-of-service	$ 7,720,246	$ 8,899,010
ADAMH cost reimbursement	1,879,319	1,615,079
Medicaid	7,370,028	7,573,369
Medicaid match	3,951,477	4,177,266
Apothecare pharmacy	10,424,758	9,347,261
First and third party fees	448,910	267,221
Contracts	6,026,540	6,416,690
Other operating income	489,023	563,521
In-kind donations	434,026	418,007
Forgiveness of advances from OMHAS	61,733	61,733
Release of restrictions	70,847	50,114
	38,876,907	39,389,271
Operating expenses:		
Clinical services	21,827,966	20,365,602
Housing	2,900,881	2,676,837
Vocational	4,343,674	4,074,458
Apothecare pharmacy	7,124,424	6,633,596
Prevention education	408,900	381,893
Homeless shelter programs	1,130,790	1,072,257
General and administrative	3,020,943	2,940,559
	40,757,578	38,145,202
(Decrease) increase in unrestricted net assets from operations	(1,880,671)	1,244,069
Other income (expense):		
Interest and dividend income	283,388	468,600
Unrealized and realized gains on investments	351,660	428,894
Write-off of note receivable	-	(225,000)
Contributions	68,675	93,114
Rental income	60,433	64,403
Rental expenses	(377,027)	(374,810)
	387,129	455,201
(Decrease) Increase in Unrestricted Net Assets	(1,493,542)	1,699,270
Changes in Temporarily Restricted Net Assets:		
Special events, net	56,700	29,131
Release of restrictions	(70,847)	(50,114)
Decrease in Temporarily Restricted Net Assets	(14,147)	(20,983)
(Decrease) Increase in Net Assets	(1,507,689)	1,678,287
Net Assets, Beginning of Year	23,083,863	21,405,576
Net Assets, End of Year	$ 21,576,174	$ 23,083,863

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHEAST, INC. AND AFFILIATES

Consolidated Statements of Functional Expenses
For the Year Ended June 30, 2018

	Clinical Services	Housing	Vocational	Apothecare Pharmacy	Prevention Education	Homeless Shelter Programs
Salaries and benefits	$ 15,786,349	$ 1,690,532	$ 3,381,384	$ 719,311	$ 394,035	$ 568,438
Contract services	916,778	-	68,464	368	-	41,044
Computer expenses	212,021	49,640	58,706	16,499	-	-
Operating supplies and expenses	934,221	755,691	91,884	54,882	-	33,030
Office expenses	631,086	150,285	459,977	15,356	5,128	92,808
Cost of goods sold - pharmacy	-	-	-	6,290,709	-	-
Mileage / transportation	647,372	53,444	70,936	13,249	5,645	5,400
Building and grounds	1,583,346	152,663	136,425	1,131	4,092	96,809
Interest	46,920	31,053	12,369	-	-	-
Insurance expense	317,088	17,573	23,192	-	-	2,246
In-kind expenses	189,476	-	-	-	-	244,550
	21,264,657	2,900,881	4,303,337	7,111,505	408,900	1,084,325
Depreciation and amortization	563,309	-	40,337	12,919	-	46,465
Total	$ 21,827,966	$ 2,900,881	$ 4,343,674	$ 7,124,424	$ 408,900	$ 1,130,790

The accompanying notes are an integral part of the consolidated financial statements.

	Total Program	General and Administrative	Total Operating Expenses	Rental Operations	Total Expenses
Salaries and benefits	$ 22,540,049	$ 2,263,632	$ 24,803,681	$ -	**$ 24,803,681**
Contract services	1,026,654	373,682	1,400,336	-	**1,400,336**
Computer expenses	336,866	40,350	377,216	-	**377,216**
Operating supplies and expenses	1,869,708	41,868	1,911,576	-	**1,911,576**
Office expenses	1,354,640	28,726	1,383,366	-	**1,383,366**
Cost of goods sold - pharmacy	6,290,709	-	6,290,709	-	**6,290,709**
Mileage / transportation	796,046	50,357	846,403	-	**846,403**
Building and grounds	1,974,466	-	1,974,466	343,387	**2,317,853**
Interest	90,342	22	90,364	-	**90,364**
Insurance expense	360,099	215,043	575,142	33,640	**608,782**
In-kind expenses	434,026	-	434,026	-	**434,026**
	37,073,605	3,013,680	40,087,285	377,027	**40,464,312**
Depreciation and amortization	663,030	7,263	670,293	-	**670,293**
Total	$ 37,736,635	$ 3,020,943	$ 40,757,578	$ 377,027	**$ 41,134,605**

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHEAST, INC. AND AFFILIATES

Consolidated Statements of Functional Expenses

For the Year Ended June 30, 2017

	Clinical Services	Housing	Vocational	Apothecare Pharmacy	Prevention Education	Homeless Shelter Programs
Salaries and benefits	$ 14,625,054	$ 1,578,879	$ 3,158,055	$ 664,337	$ 368,010	$ 530,893
Contract services	1,249,459	-	63,942	5,440	-	38,335
Computer expenses	284,786	46,361	54,829	29,281	-	-
Operating supplies and expenses	876,841	705,780	85,815	35,137	-	30,848
Office expenses	224,113	135,928	429,597	24,597	4,789	86,679
Cost of goods sold - pharmacy	-	-	-	5,866,556	-	-
Mileage / transportation	680,244	49,914	66,251	511	5,272	5,043
Building and grounds	1,369,141	142,580	127,415	-	3,822	90,415
Interest	60,633	983	29,221	-	-	-
Insurance expense	325,610	16,412	21,660	-	-	2,098
In-kind expenses	173,458	-	-	-	-	244,550
	19,869,339	2,676,837	4,036,785	6,625,859	381,893	1,028,861
Depreciation and amortization	496,263	-	37,673	7,737	-	43,396
Total	$ 20,365,602	$ 2,676,837	$ 4,074,458	$ 6,633,596	$ 381,893	$ 1,072,257

The accompanying notes are an integral part of the consolidated financial statements.

	Total Program	General and Administrative	Total Operating Expenses	Rental Operations	Total Expenses
Salaries and benefits	$ 20,925,228	$ 2,193,806	$ 23,119,034	$ -	$ 23,119,034
Contract services	1,357,176	3,719	1,360,895	-	1,360,895
Computer expenses	415,257	14,059	429,316	-	429,316
Operating supplies and expenses	1,734,421	30,493	1,764,914	-	1,764,914
Office expenses	905,703	442,018	1,347,721	-	1,347,721
Cost of goods sold - pharmacy	5,866,556	-	5,866,556	-	5,866,556
Mileage / transportation	807,235	52,865	860,100	-	860,100
Building and grounds	1,733,373	-	1,733,373	343,392	2,076,765
Interest	90,837	-	90,837	-	90,837
Insurance expense	365,780	203,599	569,379	31,418	600,797
In-kind expenses	418,008	-	418,008	-	418,008
	34,619,574	2,940,559	37,560,133	374,810	37,934,943
Depreciation and amortization	585,069	-	585,069	-	585,069
Total	$ 35,204,643	$ 2,940,559	$ 38,145,202	$ 374,810	$ 38,520,012

The accompanying notes are an integral part of the consolidated financial statements.

SOUTHEAST, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
(Decrease) increase in net assets	**$(1,507,689)**	$ 1,678,287
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	**670,293**	585,069
Unrealized and realized gains on investments	**(351,660)**	(428,894)
Forgiveness of advances from OMHAS	**(61,733)**	(61,733)
(Increase) decrease in operating assets:		
Accounts receivable	**(1,078,454)**	(858,204)
Inventory	**6,785**	(285,519)
Other current assets	**31,988**	(24,217)
(Decrease) increase in operating liabilities:		
Accounts payable	**(133,410)**	107,116
Accrued payroll and related liabilities	**(92,529)**	369,388
Deferred revenue	**(30,581)**	(2,132,563)
Total adjustments	**(1,039,301)**	(2,729,557)
Net cash and cash equivalents used in operating activities	**(2,546,990)**	(1,051,270)
Cash Flows from Investing Activities:		
Purchases of investments	**(329,756)**	(438,048)
Purchases of property and equipment	**(698,930)**	(1,183,237)
Write-off of note receivable	**-**	225,000
Net cash and cash equivalents used in investing activities	**(1,028,686)**	(1,396,285)
Cash Flows from Financing Activities:		
Principal payments on notes payable	**(49,467)**	(45,067)
Principal payments on capital leases obligations	**(120,189)**	(105,360)
Net cash and cash equivalents used in financing activities	**(169,656)**	(150,427)
Net Decrease in Cash and Cash Equivalents	**(3,745,332)**	(2,597,982)
Cash and Cash Equivalents - Beginning of Year	**7,425,016**	10,022,998
Cash and Cash Equivalents - End of Year	**$ 3,679,684**	$ 7,425,016
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	**$ 90,364**	$ 90,837
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Acquisitions of fixed assets through financing	**$ -**	$ 208,704

The accompanying notes are an integral part of the consolidated financial statements.

Nature and Scope of Activities

Southeast, Inc. and Affiliates (the Organization) are non-profit Ohio corporations organized to develop and administer a comprehensive integrated healthcare recovery service system, to provide services to homeless persons throughout Ohio, to provide housing to lower-income, mentally disabled individuals and provide vocational services to individuals overcoming mental, emotional and other challenges. Services and programming are provided primarily in Central and Eastern Ohio locations. Affiliates include Alternative Lifestyles, Inc. (ALS), which owns two facilities and provides housing for the low-income community, and Friends of the Homeless, Inc. (FOH), which operates emergency shelter and other residential facilities.

In both fiscal years 2017 and 2018, Southeast, Inc. (Southeast) renewed its accreditations with the Ohio Mental Health and Addiction Services Board. The accreditations are one way Southeast shows its commitment to the quality improvement of its services to the community.

Southeast also operates a pharmacy (Apothecare) located in the Southeast-owned building in Columbus, Ohio. Southeast operates Apothecare as a specialty pharmacy to serve people with primary care needs, cognitive and/or other mental dysfunctions.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated statements include the financial positions and results of operations of Southeast, FOH and ALS corporations. Intercompany transactions and balances were eliminated upon consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support and revenue and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

Consolidated Financial Statement Presentation

The Organization reports information regarding its consolidated financial position and activities according to three classes of net assets:

- Unrestricted Net Assets – Unrestricted net assets are neither permanently nor temporarily restricted by donor-imposed restrictions and are available for use in the Organization's ongoing operations.

Summary of Significant Accounting Policies (continued)

Consolidated Financial Statement Presentation (continued)

- Temporarily Restricted Net Assets – Temporarily restricted net assets are limited as to use by donor-imposed restrictions that either expire by passage of time, the receipt of funds or can be fulfilled and removed by action of the Organization pursuant to those restrictions.

- Permanently Restricted Net Assets – Permanently restricted net assets are limited as to use by donor-imposed restrictions that generally allow only the use of investment earnings for unrestricted or restricted purposes. The principal is generally not available for use. As of June 30, 2018 and 2017, there were no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include all cash on hand, demand deposits and highly liquid investments with original maturities of three months or less. Cash and cash equivalents exclude money market funds held in an investment portfolio that are reported as investments.

Investments

Investments are carried at their fair values. Realized and unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities and changes in net assets. Investment expenses, such as custodial, commission, and investment advisory fees, are included in the general and administrative expenses of the consolidated statements of activities.

Investments are exposed to various risks such as interest rate, market and credit risks. Accordingly, it is at least reasonably possible that changes in the values of investments may occur in the near term, which could be material.

Summary of Significant Accounting Policies (continued)

Accounts Receivable and Revenues

Exchange Transactions

The Organization's revenue is generally derived from federal, state, county and local sources. Generally, accounts receivable and revenue are recorded in the month the related services are provided at estimated realizable values. The Organization provides services to certain consumers covered by various third-party payor arrangements that provide payments at amounts different than established billing rates. Accordingly, in most cases, accounts receivable and revenue are adjusted for contractual allowances based on third-party established rates. In certain cases, accounts receivable and revenue are recorded on the basis of preliminary estimates of the amounts to be received from third-party payors. Final adjustments are made in the period such amounts are finally determined.

The Organization is in contracts with the Franklin County, Delaware County, and the Belmont, Harrison, and Monroe Counties (BHM) Alcohol, Drug Addiction and Mental Health Services Boards (ADAMH), whereby it receives funds based on billable units of mental health, alcohol and substance abuse counseling and other related services and programs provided. The Organization also receives various block grants that are passed through these Boards. The Organization receives Medicaid funds from the Ohio Department of Job and Family Services (ODJFS) and the Ohio Department of Mental Health and Addiction Services (OMHAS). The Organization also receives grant funding from the Ohio Development Services Agency (ODSA) used in providing services to homeless persons. Billing or requests for reimbursement are submitted generally on a monthly-basis subsequent to the month in which service was provided. Delayed collection of accounts receivable from such agencies are considered past due; however, no interest can be charged to the agencies.

Contributions

Certain other grants and donations are classified as contributions. Unconditional contributions are recognized as revenue upon notification of approval of the grant or contribution. Conditional contributions are recognized as revenue when the contingent condition is substantially eliminated.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Summary of Significant Accounting Policies (continued)

Accounts Receivable and Revenues (continued)

Allowance for Doubtful Accounts

Management determines an allowance for doubtful accounts based on historical activity with funding sources, consumers and donors, as well as current economic conditions. On a continuing basis, management analyzes delinquent receivables and once these receivables are determined to not be collectible, they are written-off.

GAAP requires healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered, even though they do not assess the patient's ability to pay, to present the provision for bad debts related to those revenues as a deduction from patient service revenue (net of contractual allowances and discounts), as opposed to an operating expense.

Charity Care

Management does not provide charity care from the standpoint of not expecting any payment for services provided.

Inventory

Inventory consists of pharmaceutical medications and is recorded at the lower of cost or net realizable value using the first-in, first-out inventory accounting method.

Property and Equipment

Property and equipment are recorded at purchased cost less accumulated depreciation and amortization. Donated property and equipment are recorded at fair value at the date of donation. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets with a pro-rata partial year of depreciation being recorded in the year of acquisition. The Organization does not assign time restrictions on the use of donated property and equipment unless a donor stipulates how long a contributed asset must be used for a specific purpose.

The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. Upon disposal of assets, the cost and related accumulated depreciation or amortization is removed from the accounts and any gain or loss is included in income.

Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Depreciation and amortization are provided over the estimated useful lives of the assets as follows:

Buildings and improvements	15 - 39 years
Equipment	3 - 5 years
Furniture	5 - 7 years
Software	3 years
Vehicles	5 years
Leased office equipment	3 - 5 years
Leasehold improvements	3 years

Impairment of Assets

The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate the amount of the assets may not be recoverable. When an indication of impairment is present and the undiscounted cash flows estimated to be generated by the related assets are less than the assets' carrying amount, an impairment loss will be recorded based on the difference between the carrying amount of the assets and their estimated fair value. Management determined that no impairment existed for the years ended June 30, 2018 or 2017.

Amounts Held in Trust

The Organization maintains three custodial bank accounts held on behalf of clients who are unable to manage their own funds. The corresponding funds are included in restricted cash and the liabilities are included in amounts held in trust on the consolidated statements of financial position.

Donated Services

Donated services are recognized as contributions only if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills and would otherwise be purchased. For the years ended June 30, 2018 and 2017, there were no donated services identified that met this criteria. The Organization generally pays for services requiring specific expertise. Many individuals volunteer their time and perform a variety of tasks that assist with the homeless shelter program fundraising events and other initiatives.

Donated Materials

The Organization receives donated food, paper goods and other supplies for use by individuals receiving services in the homeless shelter programs. The value of donated materials is estimated based on a historical cost estimate ($6 per individual per day) multiplied by the number of individuals served during the year. The value of the donated materials is recorded as in-kind revenue and in-kind expense.

Summary of Significant Accounting Policies (continued)

Functional Expenses Allocation

Indirect expenses are generally allocated to the various program services based on full-time equivalents assigned to the programs.

Income Taxes

Each of the corporations is a separate tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management represents that the Organization had no unrelated business income during the years ended June 30, 2018 and 2017. Accordingly, no provisions for federal, state or local taxes are included in the consolidated financial statements.

The Organization performs an annual assessment for any uncertainty in income tax positions, which includes an analysis of whether there are any tax positions the Organization takes with regard to unrelated business income, related deductions applied, or other activities that may jeopardize their tax exempt status and thus would meet the definition of an uncertain tax position. No tax liability accrual was recorded relating to material uncertain positions taken as management believes there are none.

Fair Value Measurements

GAAP established a fair value hierarchy that prioritizes the inputs to measure the fair value of the assets or liabilities being measured. Fair value is defined as the exchange value that would be received on the measurement date to sell an asset or to value the amount paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Level 1 inputs provide the most reliable measure of fair value as of the measurement date.

- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

- Level 3 are significant unobservable inputs for the asset or liability.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU changes the current GAAP model and primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. All equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification (changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. When the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. The accumulated gains and losses due to these changes will be reclassified from accumulated other comprehensive income to earnings if the financial liability is settled before maturity. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The update is effective for the Organization for annual periods beginning after December 15, 2018, but may be adopted effective in fiscal year 2019. The ASU is applied on a modified retrospective basis. Management has not yet fully determined the effect of the pronouncement on the consolidated financial statements.

The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, to improve the presentation of financial statements of not-for-profit entities. It is effective for fiscal year 2019 and addresses the following key qualitative and quantitative matters:

- Net assets classes
- Investment return
- Expenses
- Liquidity and availability of resources
- Presentation of operating cash flows

It is expected, in most cases, that ASU 2016-14 will affect disclosures in the consolidated financial statements, and should not have a material effect on the accounting underlying the consolidated financial statements. Management has not yet fully determined the effect of the pronouncement on the consolidated financial statements.

Reclassifications

Certain amounts for 2017 have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents

Cash and cash equivalents are held in 21 accounts with 3 different financial institutions. Balances in these accounts may periodically exceed federally insured limits.

Investments

Following is a description of the valuation methodologies used for investments measured at fair value.

Money Market Funds:	Valued at the net asset value of shares held by the Organization at year-end.
Mutual Funds:	Valued at the net asset value of shares held by the Organization at year-end.
Fixed Income Funds:	Includes asset backed securities and corporate bonds valued based on prices provided by independent pricing services. Such prices may be determined by taking into account benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Investments (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2018 and 2017:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Money Market Funds	**$ 400,394**	**$ -**	**$ -**	**$ 400,394**
Mutual Funds:				
Growth funds	**1,218,514**	**-**	**-**	**1,218,514**
Blend funds	**1,160,117**	**-**	**-**	**1,160,117**
Value funds	**739,770**	**-**	**-**	**739,770**
Bond funds	**2,537,514**	**-**	**-**	**2,537,514**
Allocation funds	**2,787,417**	**-**	**-**	**2,787,417**
Stock funds	**485,842**	**-**	**-**	**485,842**
Emerging markets funds	**73,929**	**-**	**-**	**73,929**
Fixed Income Funds:				
Assets backed securities	**-**	**2,445,034**	**-**	**2,445,034**
Total assets at fair value	**$ 9,403,497**	**$ 2,445,034**	**$ -**	**$ 11,848,531**

2017	Level 1	Level 2	Level 3	Total
Money Market Funds	$ 393,401	$ -	$ -	$ 393,401
Mutual Funds:				
Growth funds	999,552	-	-	999,552
Blend funds	1,023,843	-	-	1,023,843
Value funds	607,047	-	-	607,047
Bond funds	2,520,188	-	-	2,520,188
Allocation funds	2,670,511	-	-	2,670,511
Stock funds	438,359	-	-	438,359
Emerging markets funds	67,182	-	-	67,182
Fixed Income Funds:				
Assets backed securities	-	2,447,032	-	2,447,032
Total assets at fair value	$ 8,720,083	$ 2,447,032	$ -	$ 11,167,115

Investments (continued)

Accumulated unrealized gains on investments were approximately $1,553,000 and $1,428,000 as of June 30, 2018 and 2017, respectively.

Money market funds are not federally insured. Certificates of deposit are federally-insured up to $250,000 per certificate of deposit. Amounts in certificates of deposits did not exceed federally insured limits as of June 30, 2018.

Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2018	2017
Franklin County ADAMH Board	$ 1,347,970	$ 1,417,770
Delaware County ADAMH Board	187,567	103,376
BHM Counties ADAMH Board	241,643	148,888
Pharmacy - multiple sources	635,945	467,580
Other grants and contracts	548,161	724,518
OMHAS out of county	2,277,447	1,459,285
ODSA	140,444	84,759
Employees	11,863	17,818
Other	152,339	40,931
	5,543,379	4,464,925
Less allowance for uncollectible accounts	(381,087)	(381,087)
Total	$ 5,162,292	$ 4,083,838

Note Receivable

During 2016, the Organization obtained an unsecured convertible note receivable from an unrelated entity which provides information technology services to the Organization. During 2017, management determined that the $225,000 outstanding balance of the note receivable became uncollectible, and a loss for the full balance of the note receivable is recorded in other income and expenses in the consolidating statements of activities and changes in net assets.

Property and Equipment

Property and equipment consisted of the following at June 30:

	2018	2017
Land	$ 555,878	$ 521,378
Buildings and improvements	10,551,781	9,963,572
Equipment	1,679,242	1,617,196
Furniture	232,550	220,126
Software	1,137,887	1,136,137
Vehicles	516,878	516,878
Leased office equipment	602,721	602,721
Leasehold improvements	174,753	174,753
Artwork	75,847	75,847
	15,527,537	14,828,608
Less: accumulated depreciation and amortization	(9,785,311)	(9,115,019)
Total	$ 5,742,226	$ 5,713,589

Notes Payable – Line of Credit

The Organization has a revolving line of credit agreement with a bank that provides for borrowings of up to $3,000,000. Interest is charged on any outstanding balance at the LIBO rate plus 3.00% (4.87% and 4.08% as of June 30, 2018 and 2017, respectively). The line of credit is secured by all assets of the Organization. The line of credit agreement matures on April 8, 2019. There was no amount outstanding as of June 30, 2018 and 2017.

Long-Term Obligations

Notes payable consisted of the following as of June 30:

	2018	2017
Mortgage note payable to a commercial bank in monthly installments of $4,277, with total final payment of outstanding principal and accrued interest due in August 2024. The note bears interest at 4.99% and is secured by real estate owned by Southeast.	$ 563,177	$ 585,390
Mortgage note payable to a commercial bank in monthly installments of $175 through April 2024. The note bears interest at 7.75% and is secured by real estate owned by FOH.	8,497	10,890

Long-Term Obligations (continued)

	2018	2017
Mortgage note to the City of Columbus payable when underlying real estate is sold or transferred or when FOH stops operating as a homeless facility. The note is interest free and is secured by real estate owned by FOH.	**10,000**	10,000
Mortgage note to the City of Columbus payable when underlying real estate is sold or transferred or when FOH stops operating as a homeless facility. The note is interest free and is secured by real estate owned by FOH.	**15,000**	15,000
Mortgage note to the City of Columbus payable when underlying real estate is sold or transferred or when FOH stops operating as a homeless facility. The note is interest free and is secured by real estate owned by FOH.	**10,000**	10,000
Mortgage note to the City of Columbus payable when underlying real estate is sold or transferred or when FOH stops operating as a homeless facility. The note is interest free and is secured by real estate owned by FOH with a net book value of approximately $400,000 at June 30, 2018.	**136,000**	136,000
Mortgage note payable to the OMHAS to be forgiven in monthly amounts through May 2026, as long as the facilities are used to provide mental health care services, pursuant to the contract. The note is interest free and is secured by real estate owned by Southeast with a net book value of approximately $170,000 at June 30, 2018.	**49,770**	56,058
Mortgage note payable to the OMHAS to be forgiven in monthly amounts through April 2020, as long as the facilities are used to provide mental health care services, pursuant to the contract. The note is interest free and is secured by real estate owned by Southeast with a net book value of approximately $149,000 at June 30, 2018.	**11,788**	18,268

Long-Term Obligations (continued)

	2018	2017
Mortgage note payable to the OMHAS to be forgiven in monthly amounts through September 2032, as long as the facilities are used to provide mental health care services, pursuant to the contract. The note is interest free and is secured by real estate owned by Southeast with a net book value of approximately $156,000 at June 30, 2018.	**95,411**	102,146
Mortgage note payable to the OHMS to be forgiven in 480 equal monthly amounts through August 2030, as long as the facilities are used to provide mental health care services, pursuant to the contract. The note is interest free and is secured by real estate owned by Southeast with a net book value of approximately $635,000 at June 30, 2018.	**377,759**	409,009
Mortgage note payable to the OMHAS to be forgiven in monthly amounts through July 2018, as long as the facilities are used to provide mental health care services, pursuant to the contract. During 2010, Southeast sold the land secured by the note, but has not yet repaid the remaining amount not forgiven as of the date of the sale. The note was interest free and was secured by real estate owned by Southeast.	**63,244**	63,244
Mortgage note payable to the OMHAS to be forgiven in monthly amounts through December 2040, as long as the facilities are used to provide mental health care services, pursuant to the contract. The note is interest free and is secured by real estate owned by Southeast with a net book value of approximately $1,173,000 at June 30, 2018.	**260,926**	272,029

Long-Term Obligations (continued)

	2018	2017
Mortgage note payable to the United States Department of Housing and Urban Development in installments of $2,579 through March 2028. The note bears interest at 9.25% and is secured by real estate owned by ALS with a net book value of approximately $116,000 at June 30, 2018.	**198,350**	210,342
Mortgage note payable to the United States Department of Housing and Urban Development in monthly installments of $1,742 through April 2023. The note bears interest at 9.25% and is secured by real estate owned by ALS with a net book value of approximately $103,000 at June 30, 2018.	**81,196**	93,940
Total	**1,881,118**	1,992,316
Less: current portion	**(176,011)**	(172,478)
Long-term portion	**$ 1,705,107**	$ 1,819,838

The aggregate maturities of long-term debt through maturity as of June 30, 2018, are as follows:

Fiscal Year Ended	
2019	$ 176,011
2020	115,590
2021	114,366
2022	116,029
2023	116,039
Thereafter	1,243,083
Total notes payable future payments	$ 1,881,118

The Organization leases office equipment under capital leases expiring at various times through 2022. The assets and liabilities under these capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated useful lives. Amortization of assets held under capital leases is included in depreciation and amortization expense.

Long-Term Obligations (continued)

Following is a summary of office equipment held under the capital leases at June 30:

	2018	2017
Office equipment	$ 602,721	$ 602,721
Less: accumulated amortization	(334,240)	(213,696)
Office equipment, net	$ 268,481	$ 389,025

Future minimum lease payments required under the lease agreements at June 30, 2018 are as follows:

Fiscal Year Ended	
2019	$ 150,206
2020	86,214
2021	54,218
2022	54,218
Total minimum lease payments	344,856
Less: amount representing interest	(52,776)
Present value of minimum lease payments	$ 292,080

At June 30, 2018, the present value of minimum lease payments due within one year is $127,587.

Operating Lease Obligations

The Organization leases office space under operating leases expiring through 2020. Office lease expense was approximately $33,000 and $27,000 for the years ended June 30, 2018 and 2017, respectively.

In addition, the Organization leases four parcels of land at its 131 North High Street location. These leases have ninety-nine year lease terms and are renewable into perpetuity. Land lease expense associated with these leases was approximately $50,000 for each of the years ended June 30, 2018 and 2017.

The Organization leased office equipment under operating leases which expired in 2018. Office equipment lease expense was approximately $23,000 for the year ended June 30, 2017.

Operating Lease Obligations (continued)

Approximate minimum future lease obligations under non-cancelable operating leases for office space, land and equipment with terms in excess of one year as of June 30, 2018, were as follows:

Fiscal Year Ended	
2019	$ 163,000
2020	133,000
2021	50,000
2022	50,000
2023	50,000
Total	$ 446,000

Rental Income

One of the buildings that the Organization owns is a 66,000 square foot building located at 131 North High Street in Columbus, Ohio. Southeast occupies approximately 80% of this building, and the remainder is leased to unrelated parties or is available for lease. Non-cancelable lease agreements are in place through 2019 and the approximate minimum future rentals to be received under these agreements during the fiscal year ended 2019 are $12,000.

Net Assets

Board Designated Net Assets

The Board of Directors designated certain net assets to be used for employee scholarships and risk management. The Scholarship Fund represents resources that are to be used for scholarships to employees taking accredited courses directly applicable to their professional employment or development plans at the Organization. The Risk Management Fund represents resources that are reserved to manage the risk associated with providing services funded by multiple revenue streams, which may prove to be inadequate to cover the cost associated with uncompensated care. In addition, funds are set aside to allow for successful transitions to newly mandated funding mechanisms. Board designated net assets are held primarily in investments and cash and cash equivalents.

Net Assets (continued)

Board Designated Net Assets (continued)

Activity in Board designated net assets is summarized as follows:

	Scholarship Fund	Risk Management Fund	Total Designated Net Assets
Balances - June 30, 2016	**$ 332,633**	**$ 1,533,173**	**$ 1,865,806**
Scholarship expenditures	(28,403)	-	(28,403)
Investment income	188	-	188
Balances - June 30, 2017	**304,418**	**1,533,173**	**1,837,591**
Board funding of scholarship fund	50,000	-	50,000
Scholarship expenditures	(50,760)	-	(50,760)
Investment income	824	-	824
Balances - June 30, 2018	**$ 304,482**	**$ 1,533,173**	**$ 1,837,655**

Temporarily Restricted Net Assets

Temporarily restricted net assets are held primarily in cash and cash equivalents to be used to support the Fresh A.I.R. Gallery.

Retirement Plan

The Organization has a 401(k) defined contribution retirement plan for substantially all employees. The Organization contributes a safe harbor matching contribution equal to 100% up to the first 3%, and 50% of the next 2% of compensation contributed by the employee. The Organization may also make additional discretionary contributions. Retirement plan expenses included in the consolidated statements of activities were approximately $345,000 and $294,000 for the years ended June 30, 2018 and 2017, respectively.

Southeast has a 457(b) top hat plan to provide deferred compensation payments for a select group within management. Southeast did not make any contributions to this plan for the years ended June 30, 2018 and 2017.

FOH maintained a 401(k) defined contribution retirement plan which allowed full-time employees that had one year of service and who were at least 21 years old to participate. Due to the acquisition of FOH by Southeast, all FOH employees became Southeast employees, effectively freezing the plan. Management is assessing the possibility of terminating the plan.

Governmental Funding

Medicaid Reimbursement

The Organization is required to file an annual cost report with ADAMH that documents actual costs of services rendered on a per-unit cost basis.

Management estimates that there are no material amounts due for any other open cost report periods. The actual amount of the liability may change upon finalization of the cost reports.

The Organization is also subject to annual Medicaid compliance audits by ODJFS and OMHAS. These audits consist of reviewing claim files for documentation sufficiency. Any findings may result in amounts due to the program. No such compliance audits were conducted during 2018. As of June 30, 2018 and 2017, management estimated that no amounts were due to the Medicaid program relating to any open compliance audit periods.

Laws and Regulations

Laws and regulations governing the Medicaid, Medicare and other governmental funding programs are complex and subject to interpretation. The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing which have not been accrued. During 2014, the Organization discovered past billings for services without required individual service plans (ISPs). Upon discovery, the Organization commenced discussions with the State regarding self-disclosure of the issue and potential penalties and fines to be paid by the Organization. Based on meetings with the State and advice by legal counsel, the Organization has accrued approximately $273,000 in current liabilities, which is the amount management believes represents the balance owed to the State for failure to maintain adequate client records. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the programs.

Concentration Risk

The Organization has contracts with the various county ADAMH boards referred to above through which it receives direct support based on units of mental health as well as other services and programs provided. The Organization also receives Medicaid funding through the OMHAS for services and programs provided. Revenues funded through Franklin County ADAMH represent approximately 21% and 24% of the Organization’s total operating revenues and support for 2018 and 2017, respectively. Revenues funded by the OMHAS represent approximately 23% of the Organization’s total operating revenues and support for each of 2018 and 2017, respectively. A significant reduction in the level of this support, if this were to occur, would have a significant effect on the Organization’s programs and activities.

Governmental Funding (continued)

Concentration Risk (continued)

The operations of the Organization are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Health and Human Services, ADAMH, OMHAS and ODJFS. Such administrative directives, rules, regulations and budgetary funding levels are subject to change by an act of Congress, the passage of laws by the Ohio General Assembly or an administrative change mandated by one of the executive branch agencies. Such changes may occur with little notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with a change.

Health Services Professional Insurance

The Organization provides healthcare delivery services that are subject to potential professional liability claims. The Organization has insurance coverage applicable to such claims, should they arise. Insurance covers up to $5,000,000 per incident with a maximum aggregate coverage of $7,000,000 within the premium contract years for both 2018 and 2017.

Subsequent Events – Date of Management Evaluation

On December 27, 2018, the Organization purchased a parking structure in Columbus, Ohio, for approximately $2,000,000. The purpose of the acquisition was to reduce current operating expenses incurred by the Organization for employer paid parking and to generate additional cash flows. The Organization financed the full purchase price, with interest at the LIBO rate plus 2.27% (4.77% at loan date). Principal and interest payments are due monthly, commencing in January, 2019, through maturity date of December 27, 2028. The debt is secured by assignment of interest in the underlying purchased parking structure.

Management has evaluated subsequent events through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

SOUTHEAST, INC. AND AFFILIATES
Consolidating Statement of Financial Position
June 30, 2018

	Southeast, Inc.	Friends of the Homeless, Inc.	Alternative Lifestyles, Inc.	Consolidating/ Eliminating	Consolidated Total
ASSETS					
Current Assets					
Cash and cash equivalents	$ 3,345,305	$ 142,457	$ 191,922	$ -	$ 3,679,684
Restricted cash	399,286	-	3,535	-	402,821
Investments	11,848,531	-	-	-	11,848,531
Accounts receivable, net of allowance for uncollectible accounts	5,162,292	-	-	-	5,162,292
Related party receivables	47,604	326,318	-	(373,922)	-
Inventory	480,579	-	-	-	480,579
Other current assets	66,404	-	-	-	66,404
Total current assets	21,350,001	468,775	195,457	(373,922)	21,640,311
Property and Equipment, net	5,397,327	25,980	318,919	-	5,742,226
TOTAL ASSETS	$ 26,747,328	$ 494,755	$ 514,376	$(373,922)	$ 27,382,537
LIABILITIES AND NET ASSETS					
Current Liabilities					
Long-term obligations, current maturities	$ 276,474	$ -	$ 27,124	$ -	$ 303,598
Accounts payable	450,699	-	-	-	450,699
Related party payables	-	-	373,922	(373,922)	-
Amounts held in trust	399,286	-	3,535	-	402,821
Accrued payroll and related liabilities	2,345,625	-	-	-	2,345,625
Deferred revenue	434,020	-	-	-	434,020
Total current liabilities	3,906,104	-	404,581	(373,922)	3,936,763
Long-Term Obligations, net of current portion	1,428,123	189,055	252,422	-	1,869,600
Total liabilities	5,334,227	189,055	657,003	(373,922)	5,806,363
Net Assets (Deficit in Net Assets)					
Unrestricted:					
Undesignated	19,511,053	305,700	(142,627)	-	19,674,126
Board designated	1,837,655	-	-	-	1,837,655
Total unrestricted net assets (deficit in unrestricted net assets)	21,348,708	305,700	(142,627)	-	21,511,781
Temporarily restricted	64,393	-	-	-	64,393
Total net assets (deficit in net assets)	21,413,101	305,700	(142,627)	-	21,576,174
TOTAL LIABILITIES AND NET ASSETS	$ 26,747,328	$ 494,755	$ 514,376	$(373,922)	$ 27,382,537

See Independent Auditor's Report.

SOUTHEAST, INC. AND AFFILIATES
Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Southeast, Inc.	Friends of the Homeless, Inc.	Alternative Lifestyles, Inc.	Consolidating/ Eliminating	Consolidated Total
Changes in Unrestricted Net Assets					
Operating revenues and support:					
ADAMH purchase-of-service	$ 7,720,246	$ -	$ -	$ -	$ 7,720,246
ADAMH cost reimbursement	1,879,319	-	-	-	1,879,319
Medicaid	7,370,028	-	-	-	7,370,028
Medicaid match	3,951,477	-	-	-	3,951,477
Apothecare pharmacy	10,424,758	-	-	-	10,424,758
First and third party fees	448,910	-	-	-	448,910
Contracts	6,026,540	-	-	-	6,026,540
Other operating income	338,096	1	150,926	-	489,023
In-kind donations	189,476	244,550	-	-	434,026
Forgiveness of advances from OMHAS	61,733	-	-	-	61,733
Release of restrictions	70,847	-	-	-	70,847
	38,481,430	244,551	150,926	-	38,876,907
Operating expenses:					
Clinical services	21,827,966	-	-	-	21,827,966
Housing	2,755,408	-	145,473	-	2,900,881
Vocational	4,343,674	-	-	-	4,343,674
Apothecare pharmacy	7,124,424	-	-	-	7,124,424
Prevention education	408,900	-	-	-	408,900
Homeless shelter programs	884,889	245,901	-	-	1,130,790
General and administrative	3,020,943	-	-	-	3,020,943
	40,366,204	245,901	145,473	-	40,757,578
(Decrease) increase in unrestricted net assets from operations	(1,884,774)	(1,350)	5,453	-	(1,880,671)
Other income (expense):					
Interest and dividend income	283,369	-	19	-	283,388
Unrealized and realized gains on investments	351,660	-	-	-	351,660
Contributions	14,608	54,067	-	-	68,675
Rental income	60,433	-	-	-	60,433
Rental expenses	(377,027)	-	-	-	(377,027)
	333,043	54,067	19	-	387,129
(Decrease) Increase in Unrestricted Net Assets	(1,551,731)	52,717	5,472	-	(1,493,542)
Changes in Temporarily Restricted Net Assets					
Special events, net	56,700	-	-	-	56,700
Release of restrictions	(70,847)	-	-	-	(70,847)
Decrease in Temporarily Restricted Net Assets	(14,147)	-	-	-	(14,147)
(Decrease) Increase in Net Assets	(1,565,878)	52,717	5,472	-	(1,507,689)
Net Assets, Beginning of Year	22,978,979	252,983	(148,099)	-	23,083,863
Net Assets, End of Year	$ 21,413,101	$ 305,700	$(142,627)	$ -	$ 21,576,174

See Independent Auditor's Report.

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Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through To Subrecipients
U.S. Department of Health and Human Services:				
Health Resources and Services Administration (HRSA):				
Direct: Health Center Cluster	93.224	N/A	$ 2,736,676	$ -
Passed through the Ohio Department of Jobs and Family Services:				
HITECH Public Health	ARRA - 93.729	31-1334820	72,250	-
Passed through the Ohio Department of Health:				
Ryan White Federal HIV Care	93.917	31-1334820	208,664	-
Passed through the City of Columbus:				
Ryan White HIV Care - Part A	93.914	31-6400223	182,864	-
Substance Abuse and Mental Health Services Administration:				
Direct: Health Center Cluster				
Integrating Care for Better Health in Appalachian Ohio	93.243	N/A	357,358	-
Passed through Child and Family Collaborative of Ohio LLC:				
Temporary Assistance for Needy Families	93.558	151OHFOST	19,919	-
Passed through the Ohio Department of Mental Health and the Franklin County ADAMH Board:				
Mobile Opiate Response Teams	93.788	31-6400067	193,816	-
Passed through the Coalition on Homelessness and Housing in Ohio (COHHIO)				
Ohio SOAR	93.788	31-1189029	41,113	-
Total U.S. Department of Health and Human Services			3,812,660	-
U.S. Department of Job and Family Services:				
Passed through the Ohio Department of Mental Health and the Franklin County ADAMH Board:				
Project for Assistance in Transition from Homelessness (PATH)	93.150	31-6400067	151,785	-

See Independent Auditor's Report.

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through To Subrecipients
U.S. Department of Housing and Urban Development:				
Direct: Project Rental Assistance Contract (FHA Project Number 043-EH060)	93.778	N/A	$ 29,613	$ -
Direct: Project Rental Assistance Contract (FHA Project Number 043-EH219)	14.157	N/A	48,220	-
Direct: Loan (FHA Project Number 043-EH060)	14.157	N/A	210,343	-
Direct: Loan (FHA Project Number 043-EH219)	93.778	N/A	93,940	-
Passed through Community Housing Network: Transitional Housing	14.235	38-3372734	61,972	-
Total U.S. Department of Housing and Urban Development			444,088	-
Social Security Administration:				
Direct: Work Incentives Planning and Assistance (WIPA)	96.008	N/A	174,482	-
Total Expenditures of Federal Awards			$ 4,583,015	$ -

Note 1. Basis of Presentation
The accompanying schedule of expenditures of Federal awards includes the Federal award activity of Southeast, Inc. and Affiliates, under programs of the federal government for the year ended June 30, 2018 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 Southeast, Inc. and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southeast, Inc. and Affiliates.

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 allowed or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Southeast, Inc. and Affiliates has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

Note 3. Federal Loan Programs
The federal loan programs listed subsequently are administered directly by U.S. Department of Housing and Urban Development and balances and transactions relating to the programs are included in the U.S. Department of Housing and Urban Development's financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding as June 30, 2018 consist of:

CFDA Number	Program Name	Outstanding Balance at 6/30/2018
14.157	FHA Project Number 043-EH060	$ 198,350
93.778	FHA Project Number 043-EH219	$ 81,196

See Independent Auditor's Report.

			2018	2017
Current Ratio:				
Current assets / Current liabilities	21,640,311 / 3,936,763	=	**5.50**	5.62
Debt to Equity Ratio:				
Total liabilities / Total net assets	5,806,363 / 21,576,174	=	**0.27**	0.27
Administrative Costs to Expenses:				
Total administrative costs / Total expenses	3,020,943 / 41,134,605	=	**0.07**	0.08
Revenue to Expenses:				
Total revenue / Total expenses	39,641,063 / 41,134,605	=	**0.96**	1.02
Fund Balance Reserve:				
Total net assets / Total expenses / 12	21,576,174 / 3,427,884	=	**6.29**	7.19
Percent of Funding From Franklin County ADAMH Board:				
Total revenue from Franklin County ADAMH / Total revenue	8,431,851 / 39,641,063	=	**0.21**	0.24
Cash to Average Days Expenses:				
Cash / Expenses / 365 days	3,679,684 / 112,698	=	**32.65**	70.36

See Independent Auditor's Report.

Division Name, Grant Name	Grant Number	Beginning Balance	2018 Cash Receipts	2018 Expenditures	Ending Receivable Balance
Office of Housing and Community Partnerships					
ESG Shelter (Men's & Women's)	N-L-12-7OZ-1	$ 84,759	$ 149,258	$ 204,943	$ 140,444
GRAND TOTAL		$ 84,759	$ 149,258	$ 204,943	$ 140,444

Presentation:
This schedule is required by the Ohio Development Services Agency to be included in the annual consolidated financial statements reporting package in accordance with grant funding contracts.

See Independent Auditor's Report.

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GBQ Partners

To the Board of Directors
Southeast, Inc. and Affiliates
Columbus, Ohio

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*

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 consolidated financial statements of Southeast, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statement of activities and changes in net assets, 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 March 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Southeast, Inc. and Affiliates' 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 Southeast, Inc. and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast, Inc. and Affiliates' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness.

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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast, Inc. and Affiliates' 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-002.

Southeast, Inc. and Affiliates' Response to Findings

Southeast, Inc. and Affiliates' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Southeast, Inc. and Affiliates' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

GBQ Partners LLC

Columbus, Ohio
March 12, 2019

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GBQ Partners

To the Board of Directors
Southeast, Inc. and Affiliates
Columbus, Ohio

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited Southeast, Inc. and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southeast, Inc. and Affiliates' major federal programs for the year ended June 30, 2018. Southeast, Inc. and Affiliates' 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 Southeast, Inc. and Affiliates' 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 Southeast, Inc. and Affiliates' 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of Southeast, Inc. and Affiliates' compliance.

Basis for Qualified Opinion on Ryan White HIV Care – Part A

As described in the accompanying schedule of findings and questioned costs, Southeast, Inc. and Affiliates did not comply with requirements regarding CFDA 93.914 Ryan White HIV Care – Part A as described in finding number 2018-002 for Activities Allowed or Unallowed and Allowable Costs & Cost Principles. Compliance with such requirements is necessary, in our opinion, for Southeast, Inc. and Affiliates to comply with the requirements applicable to that program.

Qualified Opinion on Ryan White HIV Care – Part A

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Southeast, Inc. and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.914 Ryan White HIV Care – Part A for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Southeast, Inc. and Affiliates 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

Southeast, Inc. and Affiliates' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Southeast, Inc. and Affiliates' response was not subjected 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 Southeast, Inc. and Affiliates 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 Southeast, Inc. and Affiliates' 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 Southeast, Inc. and Affiliates' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-002 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.

Southeast, Inc. and Affiliates' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Southeast, Inc. and Affiliates' 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.

GBQ Partners LLC

Columbus, Ohio
March 12, 2019

Section I – Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards:

Internal control over major federal programs:				
Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditor's report issued on compliance for major federal programs:				
Ryan White HIV Care - Part A	Qualified			
Health Center Cluster	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	Yes		No

Identification of major federal programs:

CFDA Number	Name of Federal Program
93.224	U.S. Department of Health and Human Services; Health Resources and Service Administration (HRSA); Health Center Cluster
93.914	U.S. Department of Health and Human Services; Ryan White HIV Care - Part A

Dollar threshold used to distinguish between Type A and Type B programs?	$	750,000		
Auditee qualified as low-risk auditee?		Yes	X	No

Section II – Findings Related to the Financial Statements Required to be Reported in Accordance with *Government Auditing Standards*

Finding Number: 2018-001
Material Weakness – Internal Controls over Financial Reporting

Criteria: The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of not-for-profit organizations. AU-C section 200 establishes standards, responsibilities, and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This standard requires the auditor to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. Internal controls over financial reporting should allow management or employees in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis.

Condition: The Organization identified fraudulent disbursements that occurred primarily during the year ended June 30, 2018.

Cause: Individual member of management override of the system of controls.

Effect: During the fiscal year ended June 30, 2018, the Organization discovered a misappropriation of assets that were fraudulent in nature that primarily occurred during fiscal year ended June 30, 2018. Management has used internal resources to investigate and quantify the extent of the activity.

Recommendation: The Organization should review controls over disbursements and its operating effectiveness to determine what improvements can be made to reduce the possibility of similar occurrences in the future.

Management's Response: See Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

Finding Number: 2018-002

Program Information:
U.S. Department of Health and Human Services
Ryan White HIV Care – Part A, CFDA 93.914
Award number: Ordinance No. 0493 – 2017, PO # PO010033-1
Award year: March 1, 2017 – February 28, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Criteria: 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award requires compliance with the provisions of activities allowed or unallowed and allowable costs and activities. The Organization should have internal controls designed to ensure compliance with those provisions.

Condition: In May 2018, the Organization's management informed us that they were in the process of responding to the pass through grantor related to ineligible program participants submitted for reimbursement. At that time, the Organization discovered there was a significant fraud scheme committed by the Southeast program manager. Invoices were being generated for false tenants, sent to the Organization for disbursement, and passed onto the grantor for reimbursement. The fraud scheme involved collusion with several outside parties. During our testing of activities allowed or unallowed, allowable costs and activities charged to the grant, and eligibility, we noted the Organization charged the Ryan White Part A program for costs that were fraudulent in nature and not in compliance with these direct and material compliance requirements.

Cause: The control environment in place over the program manager with the Ryan White Part A program was not designed effectively, as described in finding 2018-001, and due to collusion by the individual committing the fraud, resulted in the material noncompliance.

Effect: The Organization billed Ryan White Part A for expenses that were disallowed.

Questioned costs: The Organization approximates $155,390 of false invoices with ineligible program participants were submitted for reimbursement.

Recommendation: We recommend that the Organization evaluate their processes to determine whether additional controls over all grant programs have adequate internal controls in place to identify and maintain compliance and can be implemented to provide reasonable assurance that the amounts reported in the financial statements and charged to the grant program are free of error.

Management's Response: See Corrective Action Plan.

Section IV – Summary of Status of Prior Year Findings

There were no prior year audit findings.

Finding Number: 2018-001

Anticipated Completion Date: May 2018

Responsible Contact Person: John Bell, CFO

Planned Corrective Action:

The Southeast employee involved in the Ryan White fraudulent activity had the title of Coordinator and the disbursement requests were not required to be approved by the Coordinator's supervisor due to the low amount of each individual transaction. Southeast has made additional efforts to strengthen controls by insuring that all disbursement requests at the level of Coordinator are approved by employee's supervisor and/or by an employee at the level of Manager and above. While controls are in place, and are effective and not withstanding management's responsibility for fair and accurate reporting, collusion is very difficult to overcome without the assistance of parties outside of the normal business transaction cycle, and management is confident this corrective action plan will sufficiently mitigate significant risk over future misappropriation of disbursements.

Finding Number: 2018-002

Anticipated Completion Date: May 2018

Responsible Contact Person: John Bell, CFO

Planned Corrective Action:

The Southeast employee involved in the Ryan White fraudulent activity had the title of Coordinator and the disbursement requests were not required to be approved by the Coordinator's supervisor due to the low amount of each individual transaction. Southeast has made additional efforts to strengthen controls by insuring that all disbursement requests at the level of Coordinator are approved by employee's supervisor and/or by an employee at the level of Manager and above. While controls are in place, and are effective and not withstanding management's responsibility for fair and accurate reporting, collusion is very difficult to overcome without the assistance of parties outside of the normal business transaction cycle, and management is confident this corrective action plan will sufficiently mitigate significant risk over future misappropriation of disbursements.

The same procedures and controls discussed above will be used to insure that all grant documents maintain compliance and provide reasonable assurance that amounts reported in financial statements and charged to grant programs are free of error.

Award Number: Ordinance NO. 0493-2017, PO# PO010033-1
Award Year: March 1, 2017 – February 28, 2018

See Independent Auditor's Report.