HomeFirst Services of Santa Clara County Incorporated and Subsidiary

Report on Audits of Consolidated Financial Statements

June 30, 2020 and 2019

BPM

HomeFirst Services of Santa Clara County Incorporated and Subsidiary

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BPM

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
HomeFirst Services of Santa Clara County Incorporated and Subsidiary
(A California Nonprofit Public Benefit Corporation)

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HomeFirst Services of Santa Clara County Incorporated and Subsidiary ("HomeFirst"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 audit 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 HomeFirst as of June 30, 2020 and 2019, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2020, on our consideration of HomeFirst's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HomeFirst's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HomeFirst's internal control over financial reporting and compliance.

BPM LLP

San Jose, California
November 6, 2020

HOMEFIRST SERVICES OF SANTA CLARA COUNTY INCORPORATED AND SUBSIDIARY (A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,662,848	$ 914,905
Restricted cash	11,436	-
Government grants receivable	5,372,007	2,369,823
Other receivables, less allowance for doubtful accounts of $114,076 and $29,839 at 2020 and 2019, respectively	32,508	76,797
Contribution receivable	3,555	199,350
Prepaid expenses	330,707	123,470
Total current assets	7,413,061	3,684,345
Property and equipment, net	21,335,729	22,121,585
OTHER ASSETS:		
Investment in partnerships	220	220
Long-term investments - endowment	108,390	107,224
Other assets	18,751	22,423
Total other assets	127,361	129,867
TOTAL ASSETS	$ 28,876,151	$ 25,935,797
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of mortgages and notes payable	$ 528,487	$ 30,000
Accounts payable and accrued expenses	696,666	458,684
Accrued payroll and related liabilities	1,321,443	626,543
Current portion government grant repayment liabilities	227,828	289,536
Current portion advances received	394,032	310,430
Other liabilities	8,817	8,817
Total current liabilities	3,177,273	1,724,010
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Accrued interest	4,328,675	4,036,229
Mortgages and notes payable	3,683,468	3,181,955
Total long-term liabilities, net of current portion	8,012,143	7,218,184
Government grant repayment liabilities	105,334	102,198
Tenant security deposits	93,284	76,583
Advances received, net of current portion	791,162	791,162
Total liabilities	12,179,196	9,912,137
COMMITMENTS AND CONTIGENCIES (NOTE 16)		
NET ASSETS:		
Without donor restrictions:		
Restricted cash	11,436	-
Board designated for property maintenance	362,010	362,010
Long-term investment	220	220
Undesignated	10,302,689	9,746,226
Total net assets without donor restrictions	10,676,355	10,108,456
With donor restrictions	6,020,600	5,915,204
Total net assets	16,696,955	16,023,660
TOTAL LIABILITIES AND NET ASSETS	$ 28,876,151	$ 25,935,797

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

HomeFirst Services of Santa Clara County Incorporated and Subsidiary
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Activities

For the year ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT:			
Government grants	$ 19,343,013	$ -	$ 19,343,013
Private grants and contributions	1,636,651	681,720	2,318,371
Rental income	1,595,192	-	1,595,192
Service revenue	414,392	-	414,392
Donated goods, services, and rent	1,190,596	-	1,190,596
Special events (net of direct expenses of $4,825)	122,837	-	122,837
Interest income	2,554	-	2,554
Other revenue	283,661	-	283,661
Total revenue and other support	24,588,896	681,720	25,270,616
Net assets released from restrictions	576,324	(576,324)	-
Total revenue and other support released from restrictions	25,165,220	105,396	25,270,616
EXPENSES:			
Program services	21,374,344	-	21,374,344
Supporting services			
Management and general expenses	2,668,608	-	2,668,608
Fundraising	554,369	-	554,369
Total supporting services	3,222,977	-	3,222,977
Total expenses	24,597,321	-	24,597,321
Change in net assets from operations	567,899	105,396	673,295
OTHER NONOPERATING INCOME:			
Sale of Tully I - Restructuring of Notes receivable	936,000	-	936,000
Reserve -Sale of Tully I - Restructuring of Notes receivable	(936,000)	-	(936,000)
Non Cash Interest Income - Notes receivable	237,210	-	237,210
Reserve -Non Cash Interest Income - Notes receivable	(237,210)	-	(237,210)
	-	-	-
Change in net assets	567,899	105,396	673,295
Net assets at beginning of year	10,108,456	5,915,204	16,023,660
Net assets at end of year	$ 10,676,355	$ 6,020,600	$ 16,696,955

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

HomeFirst Services of Santa Clara County Incorporated and Subsidiary
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Activities

For the year ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT:			
Government grants	$ 11,744,042	$ -	$ 11,744,042
Private grants and contributions	1,501,301	379,803	1,881,104
Rental income	1,205,991	-	1,205,991
Service revenue	657,607	-	657,607
Donated goods, services, and rent	1,707,815	-	1,707,815
Special events (net of direct expenses of $18,698)	154,776	-	154,776
Interest income	608	-	608
Other revenue	206,463	-	206,463
Total revenue and other support	17,178,603	379,803	17,558,406
Net assets released from restrictions	178,750	(178,750)	-
Total revenue and other support released from restrictions	17,357,353	201,053	17,558,406
EXPENSES:			
Program services	15,172,652	-	15,172,652
Supporting services			
Management and general expenses	2,025,931	-	2,025,931
Fundraising	348,856	-	348,856
Total supporting services	2,374,787	-	2,374,787
Total expenses	17,547,439	-	17,547,439
Change in net assets from operations	(190,086)	201,053	10,967
OTHER NONOPERATING INCOME:			
Non Cash Interest Income - Notes receivable	308,093	-	308,093
Reserve - Non Cash Interest Income - Notes receivable	(308,093)	-	(308,093)
	-	-	-
Change in net assets	(190,086)	201,053	10,967
Net assets at beginning of year	10,298,542	5,714,151	16,012,693
Net assets at end of year	$ 10,108,456	$ 5,915,204	$ 16,023,660

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

HomeFirst Services of Santa Clara County Incorporated and Subsidiary
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Functional Expenses

For the year ended June 30, 2020

	2020			
	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES:				
Salaries	$ 9,912,585	$ 1,275,678	$ 324,328	$ 11,512,591
Payroll taxes and employee benefits	2,210,801	255,714	48,078	2,514,593
Total salaries and related expenses	12,123,386	1,531,392	372,406	14,027,184
OTHER EXPENSES:				
Professional fees	11,882	256,055	1,685	269,622
Contract services	794,871	166,277	553	961,701
Occupancy	2,687,914	144,024	175	2,832,113
Donated rent	-	162,454	-	162,454
Donated goods and services	914,267	-	113,875	1,028,142
Interest expense - cash	9,943	1,429	-	11,372
Interest expense - non cash	285,871	5,578	-	291,449
Financial assistance	1,895,143	(563)	-	1,894,580
Supplies	680,235	70,852	30,867	781,954
Rentals and maintenance	586,499	23,729	1,013	611,241
Telephone	82,702	116,595	1,115	200,412
Local transportation	89,764	2,916	5,139	97,819
Staff development	27,707	62,916	2,758	93,381
Printing and publication	3,305	2,540	11,143	16,988
Bad debt expense	129,531	1,664	-	131,195
Other	63,730	29,361	13,640	106,731
Total other expenses	8,263,364	1,045,827	181,963	9,491,154
Depreciation and amortization	987,594	91,389	-	1,078,983
	$ 21,374,344	$ 2,668,608	$ 554,369	$ 24,597,321

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

HOMEFIRST SERVICES OF SANTA CLARA COUNTY
INCORPORATED AND SUBSIDIARY
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	2019			
	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES:				
Salaries	$ 6,286,134	$ 899,020	$ 248,553	$ 7,433,707
Payroll taxes and employee benefits	1,379,382	159,215	55,544	1,594,141
Total salaries and related expenses	7,665,516	1,058,235	304,097	9,027,848
OTHER EXPENSES:				
Professional fees	61,144	218,095	1,121	280,360
Contract services	241,672	112,045	(1,010)	352,707
Occupancy	1,885,519	145,298	-	2,030,817
Donated rent	-	142,787	-	142,787
Donated goods and services	1,565,029	-	-	1,565,029
Interest expense - cash	612	15,020	-	15,632
Interest expense - non cash	273,463	5,577	-	279,040
Financial assistance	1,561,821	-	-	1,561,821
Supplies	330,983	54,125	12,419	397,527
Rentals and maintenance	135,411	6,231	-	141,642
Telephone	82,778	75,819	1,139	159,736
Local transportation	105,590	5,667	4,928	116,185
Staff development	42,915	32,422	1,093	76,430
Printing and publication	16,976	4,536	13,558	35,070
Bad debt expense	34,936	-	-	34,936
Other	208,650	58,722	11,511	278,883
Total other expenses	6,547,499	876,344	44,759	7,468,602
Depreciation and amortization	959,637	91,352	-	1,050,989
	$ 15,172,652	$ 2,025,931	$ 348,856	$ 17,547,439

HomeFirst Services of Santa Clara County Incorporated and Subsidiary
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Cash Flows

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 673,295	$ 10,967
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,078,983	1,050,989
Decrease in government liabilities	(58,572)	54,423
Unrealized gain on endowment	(1,165)	(642)
Change in allowance for doubtful accounts	84,238	297
Change in accrued interest	292,446	279,040
(Increase) decrease in operating assets:		
Government grants receivable	(3,002,184)	(852,412)
Contributions receivable	195,795	(199,350)
Other receivables	(39,949)	(7,192)
Prepaid expenses	(207,237)	6,984
Other assets	3,672	512
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	237,982	(220,618)
Accrued payroll and related liabilities	694,900	48,802
Security deposits	16,701	(77)
Other liabilities	-	22,798
Advances received	83,602	973,422
Net cash provided by operating activities	52,507	1,167,943
Cash flows from investing activities:		
Acquisition of property, equipment and projects in development	(293,128)	(183,330)
Net cash used in investing activities	(293,128)	(183,330)
Cash flows from financing activities:		
Repayments of long-term debt	-	(35,577)
Net (payments) borrowings on line of credit	-	(350,000)
Proceeds from issuance of Paycheck Protection Program note payable	1,000,000	-
Net cash provided by (used in) financing activities	1,000,000	(385,577)
Net increase in cash, cash equivalents, and restricted cash	759,379	599,036
Cash, cash equivalents, and restricted cash, beginning of year	914,905	315,869
Cash, cash equivalents, and restricted cash, end of year	$ 1,674,284	$ 914,905

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

HOMEFIRST SERVICES OF SANTA CLARA COUNTY INCORPORATED AND SUBSIDIARY
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the years ended June 30, 2020 and 2019

	2020	2019
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ -	$ 612
Cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	$ 1,662,848	$ 914,905
Restricted cash	11,436	-
	$ 1,674,284	$ 914,905

1. Organization

HomeFirst Services of Santa Clara County Incorporated and Subsidiary ("HomeFirst" or the "Organization") is a California nonprofit public benefit corporation organized in 1980. HomeFirst confronts homelessness by cultivating people's potential to be housed and stay housed. The Organization was formerly known as Emergency Housing Consortium Incorporated dba EHC LifeBuilders and officially changed its name to HomeFirst Services of Santa Clara County on March 13, 2014.

The Organization's goals are based on a business model that identifies three areas that encompass the scope of the Organization's work:

- Emergency Shelter: Year-round shelters, seasonal cold weather shelters and emergency services
- Supportive Services: Case management services, vocational and housing services, as well as outreach, mental health and veterans' care
- Transitional and Permanent Housing: Includes property management of four locations

HomeFirst is a leading provider of services, shelter and housing opportunities to the men, women and children who are currently homeless or at imminent risk of homelessness in Santa Clara County. The Organization provides a robust continuum of care including street outreach, emergency shelter, case management, prevention services, transitional housing and permanent supportive housing. It serves over 6,000 adults, veterans, families and youth each year at seven locations from Gilroy to Menlo Park – including the Boccardo Reception Center, which is Santa Clara County's largest emergency shelter with an overnight capacity of 250 adults, and a Sunnyvale shelter serving 170 adults and families.

The Organization is an essential link to shelter and supportive services throughout the cold weather season (essentially from mid-October to mid-April). HomeFirst manages Cold Weather Shelters in Gilroy and Mountain View, as well as four Overnight Warming Locations within the limits of the City of San Jose.

HomeFirst has two facilities for families working to sustain permanent housing – the Boccardo Family Living Center in San Martin and the Sobrato Family Living Center in Santa Clara. Sobrato House, located in downtown San Jose, is a supportive living center for young adults and their children. A permanent supportive housing facility, located on the grounds of the VA's Menlo Park site, provides intensive care for veterans with special needs.

2. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting.

Consolidation of Financial Statements

The consolidated financial statements include the accounts of the Organization and its wholly-owned subsidiary, EHC Delmas. The Organization is the sole member owner of EHC Delmas. There were no significant intercompany accounts or transactions that required elimination.

Continued

2. Summary of Significant Accounting Policies, continued

Basis of Presentation

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, HomeFirst classified its net assets and changes in net assets as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended to support HomeFirst's operations. Net assets without donor restriction include $362,010 as of June 30, 2020 and 2019, as designated by the Board for future maintenance for various properties owned and used.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. These include those assets which are subject to a contributor's restriction and for which the applicable restriction was not yet satisfied as of the end of the current reporting period. When restrictions are satisfied in the same accounting period as the receipt of the contribution, HomeFirst reports both the revenue and related expense in the net assets without donor restrictions class.

Cash and Cash Equivalents

Cash consists of cash on hand and cash in demand deposit accounts. Funds restricted for their use are segregated into restricted cash accounts. Cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits of $250,000. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Grants, Contributions, Notes and Other Receivables

The Organization considers all receivables to be fully collectible after reserves as estimated by management. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The total allowance for doubtful accounts for other receivables is $114,076 and $29,839 as of June 30, 2020 and 2019, respectively.

Property and Equipment

Property and equipment are stated at cost of acquisition or construction or at fair value, if donated. The Organization capitalizes property and equipment with a cost of $5,000 or more and a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty years.

Investment in Partnerships

The Organization uses the lower of the cost method, which approximates fair value as provided by management, or appraised value to account for its general partnership interests.

Continued

2. Summary of Significant Accounting Policies, continued

Long Term Investments

The Organization invests in a Long-Term Growth Pool with Silicon Valley Community Foundation. The asset allocation of the fund is approximately 20% fixed income, 50% equity, and 30% alternatives, which includes hedge funds and private equity. The value of the investment is based on the fair value of the investment assets held in the Pool.

Revenue Recognition

The Organization has analyzed the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, and has concluded that no changes are necessary to conform with the new standard. Revenue from federal grants and contracts and rental income is recognized based on:

- Identifying the contract with a customer;
- Identifying the performance obligations in the contract;
- Determining the transaction price; and
- Allocating the transaction price to the performance obligations in the contract; and
- Recognizing revenue when, or as, the performance obligations are satisfied.

The Organization performs the majority of its services under contracts and grants awarded by the U.S. Government. The organization also receives rental income.

The aforementioned revenue streams, which are considered single performance obligations, are recognized as service is provided, generally upon delivery (for example, in amounts equal to allowable direct and indirect costs incurred, and where appropriate, fixed fee, up to the limits specified in each agreement). Rental income is recognized ratably over the period of the lease terms. The Organization has elected to use the practical expedient to disregard the financing component when its payment terms are less than one year. The Organization has not incurred any material costs to obtain contracts to date.

Contributions

The Organization is supported primarily through government contracts and program service fees. Grants and contributions received are considered available for general operations unless specifically restricted by the donor. Contributions are recorded as restricted support if they are received with grantor stipulations that limit the use of the contributed assets. When a grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, or donor restrictions are satisfied by the passage of time, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions. Any funding received in advance of expenditure is recorded as deferred revenue ("advances received"). Any eligible expenditure made in advance of funding is recorded as a receivable.

Continued

2. Summary of Significant Accounting Policies, continued

Contributions, continued

A portion of the Organization's revenue is derived federal contracts and grants with various conditions, which include cost reimbursement based on allowable qualifying expenses, per diem based on allowable clients served, and reimbursement based on allowable hours worked. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as advances received in the statement of financial position. The amounts received in advance was $1,185,194 and $1,101,592 as of June 30, 2020, and 2019, respectively. Conditional grants received by the Organization that have not been recognized as of June 30, 2020, because the required conditions have not yet been met, consisted of the following as of June 30, 2020:

Cost reimbursement conditions	$	24,053,498
Per diem based on clients served		2,855,863
Reimbursed based on hours worked		870,493
	$	27,779,854

Donated Goods, Services and Rent

Donated goods, services and rent are recorded at their estimated fair value as of the date of the donation. Donated services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise, but which improve the efficiency of the Organization's operations. In accordance with standards of revenue recognition for not for profit entities, the value of these donated services is not reflected in the consolidated financial statements.

Functional Expense Allocation

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one area are allocated to program and supporting services according to variables that most accurately apportion the costs. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization. The major expenses that are allocated are salaries, payroll taxes and benefits, professional fees, contract services, and occupancy, which are allocated on the basis of estimates of time and effort.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising costs for the years ended June 30, 2020 and 2019 were $4,527 and $10,932, respectively.

Continued

2. Summary of Significant Accounting Policies, continued

Income Taxes

The Internal Revenue Services has determined that the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Franchise Tax Board has determined that the Organization is exempt from state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. However, income from activities not related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income.

Use of Estimates

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

Measure of Operations

HomeFirst includes in its measure of operations all revenue and expenses that are an integral part of its programs and supporting activities. The measure of operations does not include proceeds from property sold or the forgiven liability from government grant repayments, or non-cash interest income and reserve on notes receivable from partnerships.

Reclassification

Certain reclassifications have been made to the 2019 financial statement presentation to conform to the 2020 presentation.

Financial Results, Liquidity, and Availability

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Organization shows positive working capital of $4,235,788 and $1,960,335 as of June 30, 2020 and 2019, respectively. The Organization showed a positive change in net assets of $673,295 for the year ended June 30, 2020 and a positive change in net assets of $10,967 for the year ended June 30, 2019. The Organization is dependent on contributions from third-party donors, as well as federal and local grants. The ability to continue as a going concern anticipates that such funding will continue for a period of one year or more. The Organization is currently seeking additional funding from donors, lending institutions, and new grant agreements. The Organization recognizes that a portion of its expenses is attributed to depreciation, and accrued interest expense on future forgivable loans.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, HomeFirst considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Continued

2. Summary of Significant Accounting Policies, continued

Financial Results, Liquidity, and Availability, continued

In addition to financial assets available to meet general expenditures over the next 12 months, HomeFirst operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows which identifies the sources and uses of HomeFirst's cash.

HomeFirst's financial assets available for general expenditures that are without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

	2020	2019
Cash	$ 1,662,848	$ 914,905
Government grants receivable	5,372,007	2,369,823
Contribution receivable	3,555	199,350
Other receivables, net	32,508	76,797
	7,070,918	3,560,875
Less: Board designated for property maintenance	(362,010)	(362,010)
Add: Available line of credit facility	500,000	350,000
	$ 7,208,908	$ 3,548,865

Although HomeFirst does not intent to spend from its Board designated net assets, these amounts could be made available, if necessary.

Change in Accounting Principles

During the year ended December 31, 2019, the Organization adopted the requirements of the FASB Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (*Topic 606) ("ASU 2014-09"), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Organization evaluated and concluded this ASU did not have any material impact on its financial statements as the Organization derives substantially all of its revenues from government grants, charitable contributions, or single performance obligations. The aforementioned revenue streams, are recognized as service is provided, generally upon delivery (for example, in amounts equal to allowable direct and indirect costs incurred, and where appropriate, fixed fee, up to the limits specified in each agreement). Rental income is recognized ratably over the period of the lease terms.

Continued

2. Summary of Significant Accounting Policies, continued

Change in Accounting Principles, continued

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. The amendment also clarifies the termination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified prospective method, in which case the effect of applying the standard would be recognized for any agreements not completed and any new agreements entered into at the date of initial application. The new standard is effective for annual reporting periods beginning after December 15, 2018 for resource recipients and for annual reporting period beginning after December 15, 2019 for resource providers. The Organization has adopted ASU 2018-08, as a resource recipient, for the year ended June 30, 2020. The Organization will adopt ASU 2018-08 as a resource provider for the year ending June 30, 2021 and is still considering the impact of adoption as a resource provider. The amendment has been applied using the modified prospective method. There was not a cumulative effect of applying ASU 2018-08. The adoption of ASU 2018-08 resulted in the reclassification of deferred revenue to refundable advance in the statement of financial position for the year ended June 30, 2020.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (842). The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). In June 2020, the FASB issued ASU 2020-05, which extended the effective date of ASU 2016-02 for fiscal years beginning after December 15, 2021. The Organization is in the process of evaluating the impact of the new guidance on its financial statements.

Reclassifications

Certain reclassifications have been made to the June 30, 2019 consolidated financial statement presentation to conform to the June 30, 2020 presentation.

3. Restricted Cash

Restricted cash consisted of the following as of June 30:

	2020	2019
Bridge Housing Community	$ 11,436	$ -

4. Property and Equipment, Net

Property and equipment, net consisted of the following as of June 30:

	2020	2019
Buildings	$ 25,034,488	$ 25,034,488
Land	8,181,804	8,181,804
Furniture and equipment	3,187,731	3,078,353
Building improvements	2,058,058	1,874,308
Motor vehicles	293,937	293,937
Land improvements	121,588	121,588
	38,877,606	38,584,478
Less: accumulated depreciation	(17,541,877)	(16,462,893)
	$ 21,335,729	$ 22,121,585

Depreciation expense was $1,078,983 and $1,050,989 for the years ended June 30, 2020 and 2019, respectively.

5. Investment in Partnerships

The Organization holds a .005% general partnership interests in Tully Gardens, L.P. and Tully Gardens Phase II, L.P., both California limited partnerships (the "Tully Gardens partnerships"). Tully Gardens, L.P. owns and operates a 153 unit single-room occupancy project for low income persons in San Jose, California. Tully Gardens Phase II, L.P. owns and operates a 152 unit single-room occupancy project for low income persons in San Jose, California. Together, the two partnerships own the project known as Markham Plaza.

Investment in partnerships consisted of the following as of June 30:

	2020	2019
Tully Gardens, L.P.	$ 63	$ 63
Tully Gardens Phase II, L.P.	157	157
	$ 220	$ 220

The investments are valued at the lower of cost, where such cost approximates fair value as represented by management, or appraised value. Management has previously obtained an appraisal of its investment in the partnerships, which resulted in impairment in value of the assets in the amount of $5,162,136. For further information regarding valuation, interested parties should consult the management of the Organization. As of October 2020, the Organization transferred its general partnership interest to Core Development, Inc.

6. Note and Advances Receivable - Affiliates

The Organization entered into two notes receivable in connection with the construction of projects owned by Tully Gardens, L.P. and Tully Gardens Phase II, L.P. The Organization has determined that the notes receivable, and accrued interest receivable, are uncollectible and maintained a full reserve for uncollectible amounts as of June 30, 2020 and 2019.

Notes receivable - affiliates consisted of the following as of June 30:

	2020	2019
Tully Gardens, L.P. note dated June 21, 2002 for a maximum amount of $2,147,793. The source of the funds is a grant to the Organization from the City of San Jose. Funds were used for the construction of Tully Gardens, L.P.'s low income housing tax credit project. Annual payments are due and payable January 1st each year equal to 30% of net cash flow, as defined by the note. The interest rate is based on the Applicable Federal Rate for long-term debt instruments in effect at the time of each disbursement and is compounded annually. Unpaid principal and interest is due June 30, 2042. Accrued interest was $2,506,490 as of June 30, 2019. On October 31, 2019, the note and unpaid accrued interest was assigned to Markham Plaza I, L.P.	$ -	$ 4,079,030
Tully Gardens Phase II, L.P. note dated October 1, 2002 for a maximum amount of $1,336,691. The source of the funds is a grant to the Organization from the City of San Jose. Funds were used for the construction of Tully Gardens Phase II, L.P.'s low income housing tax credit project. Annual payments are due and payable January 1st of each year equal to 30% of net cash flow, as defined by the note. The interest rate is based on the Applicable Federal Rate for long-term debt instruments in effect at the time of each disbursement and is compounded annually. Unpaid principal and interest is due October 1, 2042. As of June 30, 2020 and 2019, accrued interest was $1,078,987 and $986,708, respectively. The partnership does not intend to draw down the balance of the note.	1,788,834	1,696,555

Continued

6. Note and Advances Receivable – Affiliates, continued

	2020	2019
Markham Plaza I, L.P. note dated October 31, 2019 for a maximum amount of $5,397,798. The source of the funds is assumption of loan by Markham Plaza I from the Organization as part of sale of Tully I - Partnership. The interest rate is 2.45% and is compounded annually. Unpaid principal and interest is due October 31, 2074. Accrued interest was $96,598 as of June 30, 2020. As of October 2020, the Organization assigned this note to Core Development, Inc.	5,494,396	-
	7,283,230	5,775,585
Less: valuation allowance	(7,283,230)	(5,775,585)
	$ -	$ -

Advances receivable - affiliates consisted of the following as of June 30:

	2020	2019
Tully I - (assigned, as notes receivable to Markham Plaza I, L.P.)	$ -	$ 334,435
Less: valuation allowance	-	(334,435)
	$ -	$ -

On June 14, 2018, the Organization entered into an agreement with CORE Development for the re-syndication of the Tully Gardens partnerships and the waiver of the Organization's interest in the partnerships in lieu of the following payments to HomeFirst:

1) $213,479 for payroll expenses and management fees; where $25,000 was due on the date of the agreement and the remaining $188,479 is due upon the sale of the partnerships.
2) $50,000 for syndication fees is due on the sale of the partnerships.
3) $200 for termination of HomeFirst's option to purchase the properties.
4) Up to $15,000 for out of pocket expenses of which the Organization had incurred $9,000 as of June 30, 2019.

As of June 30, 2020, the Organization recognized on the statement of activities as other revenue, $119,239, as this is related to the signing of the agreement and received upon sale of the Tully I partnership. The other amounts noted in the agreement are contingent on the re-syndication and sale of the properties and as such will be recorded upon the successful re-syndication and sale of the properties. As of June 30, 2020, Tully I has sold to Markham Plaza I and the related note and accrued interest has been assigned to Markham Plaza I L.P., Tully II property has not sold and no additional amounts have been recorded.

7. Government Grant Repayment Liabilities

In 2006, the Organization was informed by Housing and Urban Development ("HUD") that certain costs reimbursed for support of homeless and related services did not qualify for reimbursement under HUD guidelines. As requested by HUD, the Organization performed a review of related Supportive Housing Grant monies received from HUD; thereafter, HUD and the Organization agreed to a total liability of $204,397 as of June 30, 2018.

As of March 2019, HUD executed a repayment agreement to pay the remaining liability of $204,397 in three calendar years, with the first quarterly installment paid in April 2019. The amount due for June 30, 2021 is $102,198.

The government grant liabilities includes liability to the County of Santa Clara, as follows:

- $140,446 - relates to disputed overpayment for previous grant contracts. During 2017, the Organization submitted documentation to the County of Santa Clara to support the amount in dispute. As of June 2020, the County of Santa Clara executed a repayment agreement to pay the remaining liability of $140,446 in four calendar years, with the first monthly installment paid July 1, 2020. Remaining payments due are as follows:

Year Ending June 30:		
2021	$	35,112
2022		35,112
2023		35,112
2024		35,110
	$	140,446

- $90,518 - relates to the year ended June 30, 2020 tentative overpayment for contract Intensive Case Management for the Chronically Homeless in North County. HomeFirst believes the County of Santa Clara overpaid due to changes in the split of Medi-Cal funding in the contract; however, the County of Santa Clara has not yet confirmed this understanding. Of the $90,518, $8,732 relates to disallowed costs per clinical records review for fiscal years 2018 and 2019 by Behavioral Health Service Department of County of Santa Clara.

8. Mortgages and Notes Payable

Mortgages and notes payable consisted of the following as of June 30:

	2020	2019
Boccardo Family Living Center		
City of Gilroy Housing and Community Development note dated April 1991, $30,000 secured by deed of trust on the real property, bearing 2% interest. Annual payments of interest of $600. Unpaid principal and interest due March 2020. The Organization is working on obtaining loan forgiveness documentation and release.	$ 30,000	$ 30,000
County of Santa Clara HOME note dated December 1996, in the amount of $373,500, secured by deed of trust on the real property, bearing 6% interest. Payment of principal and interest shall be deferred during the term of the note. Balance due December 2026.	373,500	373,500
County of Santa Clara CDBG note dated December 1996, in the amount of $332,552, secured by deed of trust on real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	332,552	332,552
County of Santa Clara CDBG note dated December 1996 in the amount of $100,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	100,000	100,000
County of Santa Clara CDBG note dated December 1996 in the amount of $50,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	50,000	50,000

Continued

8. Mortgages and Notes Payable, continued

	2020	2019
Boccardo Family Living Center, continued		
County of Santa Clara CDBG note dated December 1996, in the amount of $251,664, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	251,664	251,664
County of Santa Clara CDBG note dated June 1998, in the amount of $11,750, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due June 2028.	11,750	11,750
Sobrato Family Living Center		
City of Sunnyvale CDBG note dated April 2001, in the amount of $100,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due April 2031.	100,000	100,000
Housing Trust Silicon Valley (formerly Lenders for Community Development/Opportunity Fund) note dated April 2004, in the amount of $450,000, secured by deed of trust on the real property, bearing 0% interest. Annual payments of principal and interest shall be made out of 100% residual receipts from operations. Balance due April 2034.	445,380	445,380
County of Santa Clara CDBG note dated February 2001, in the amount of $500,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due February 2031.	500,000	500,000

Continued

8. Mortgages and Notes Payable, continued

	2020	2019
Boccardo Reception Center		
City of Sunnyvale CDBG note dated July 1997, in the amount of $50,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due July 2027.	50,000	50,000
City of Sunnyvale CDBG note dated February 1997, in the amount of $50,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due February 2027.	50,000	50,000
Sobrato House		
City of Palo Alto note dated November 2005, in the amount of $75,000, secured by a deed of trust on the property, bearing 3% simple interest. Payments of principal and interest shall be deferred during the term of the note. Balance due November 2035.	75,000	75,000
Opportunity Fund (formerly Lenders for Community Development/ Opportunity Fund) note dated April 2008, in the amount of $240,000, secured by deed of trust, bearing 0% interest. Payments of principal and interest shall be deferred during term of the note. Balance due May 2038.	240,000	240,000
City of Sunnyvale note dated June 2006, in the amount of $50,000, secured by deed of trust, bearing simple interest at 3%. Payments of principal and interest shall be deferred during the term of the note. Balance due June 2061.	50,000	50,000
County of Santa Clara two notes dated November 2006, in the amount of $366,197, secured by deed of trust, bearing simple interest at 6%. Payments of principal and interest shall be deferred during the term of the note. Balance due November 2036.	366,197	366,197

Continued

8. Mortgages and Notes Payable, continued

		2020		2019
EHC Delmas Park, LLC				
City of San Jose note dated October 2004, in the amount of $185,912, secured by a deed of trust on the real property of Delmas Park. Interest is calculated at 1.25% during the construction period, 3% from after construction to the end of 15 years, and at 5% until maturity. Interest accrues and payments of principal and interest are due annually based on surplus cash. The City of San Jose is entitled to 50% of any surplus cash, of which 2.58% of the City of San Jose's portion will be used to pay this note, first interest, and then principal. Unpaid principal and interest are due on October 2047.		185,912		185,912
SBA Loan				
Small Business Association loan under the Paycheck Protection Program following the Covid-19 pandemic dated April 2020, in the amount of $1,000,000. No payment is due for six months from receipt of the funds and the loan is forgivable under certain circumstances. Amounts outstanding under the loan will bear a fixed interest rate of 1.0% per annum with a maturity date of April 2022.		1,000,000		-
Total mortgages and notes payable		4,211,955		3,211,955
Less: current portion		(528,487)		(30,000)
	$	3,683,468	$	3,181,955

Continued

8. Mortgages and Notes Payable, continued

As of June 30, 2020, aggregate future annual maturities on mortgages and notes payable are as follows:

Year Ending June 30:		
2021	$	528,487
2022		501,513
2023		-
2024		-
2025		-
2026 and thereafter		3,181,955
	$	4,211,955

9. Line of Credit

The Organization has a line of credit with Heritage Bank of Commerce with a current limit of $500,000 at prime interest plus 0.75% (currently 5.00%) with the original maturity date of April 2017 extended to November 2020. The line is secured by a blanket security agreement. These borrowings are subject to various covenants, for which HomeFirst is in compliance as of June 30, 2020. The Organization had no borrowings on the line of credit as of June 30, 2020 or 2019.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted due to the following as of June 30:

		2020		2019
Purpose of restriction:				
Time restricted	$	5,904,266	$	5,788,616
Program services		7,944		19,364
Endowment - time		22,146		20,980
Endowment - perpetuity		86,244		86,244
Total net assets with donor restrictions	$	6,020,600	$	5,915,204

The Organization has recognized the receipt of an endowment bequest whose use is restricted to certain youth program activities (see Note 15).

11. Net Assets Released From Restrictions

Net assets were released from restrictions by incurring expenses that satisfied the restricted purpose during the year, by the passage of time, or by the direction of the donor as follows for the year ended June 30:

	2020	2019
Program services	$ 341,974	$ 178,750
Time restricted	234,350	-
	$ 576,324	$ 178,750

12. Donated Goods, Services and Rent

The estimated fair value of donated food, goods, services and rent received are recorded as contributions. The following donations were received by the Organization during the years ended June 30:

	2020	2019
Donated goods:		
Food	$ 904,267	$ 1,406,110
Goods for clients	123,875	158,918
Total donated goods	1,028,142	1,565,029
Donated rent	162,454	142,787
Total donated food, goods, and rent	$ 1,190,596	$ 1,707,815

The Organization also receives donated services that do not require specific expertise, but which are nonetheless central to the Organization's operations. In accordance with the standards of revenue recognition for not-for-profit entities, the value of these services is not reflected in the consolidated financial statements.

13. Ground Lease

On October 15, 2004, EHC Delmas Park, LLC entered into a ground lease agreement with Delmas Park Associates, L.P. for the land located in downtown San Jose owned by EHC Delmas Park, LLC. Delmas Park Associates, L.P. built and operates a multi-family low income housing project. The lease is for an initial period of 58 years with two options to extend for ten years each. Annual rent is to be paid to EHC Delmas Park, LLC in arrears in the amount of $1,000 per year plus 1.324% of net cash flow of the project.

14. 401(k) Plan

The Organization sponsors the HomeFirst Services of Santa Clara 401(k) Profit Sharing Plan (the "Plan") in which employees are eligible to participate at age 21 years or older. The costs of administering the Plan are not material. Before January 2020, the Organization made contributions to the Plan at the discretion of management, which were pre-approved by the Board of Directors. In January 2020, the Organization implemented a Safe Harbor matching program of up to 4% of employees' salary. Employer contributions were made in the amounts of $49,538 and $0 for the years ended June 30, 2020 and 2019, respectively.

Continued

15. Endowment Fund

The Organization's endowment fund currently consists of one fund created as the result of a bequest of $86,244 received with the stipulation that it be used for endowment purposes with income henceforth to be used for certain Youth program activities. The balance of the endowment fund is recorded as long-term investments on the consolidated statement of financial position. All income earned on the endowment fund investment is treated as restricted and used from time to time to fund restricted activities.

The State of California enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Net asset classifications of donor-restricted endowment funds subject to an enacted version of UPMIFA have been accounted for appropriately in these consolidated financial statements.

Interpretation of Relevant Law

The Organization's Board has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not restricted perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the fund in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

Spending Policy

In accordance with the State of California's enacted version of UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the Organization;
(2) The purposes of the Organization and the endowment funds;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the Organization; and
(7) The investment policies of the Organization.

The Organization does not have a policy for appropriating for distribution each year. The fund requires the payout to be no more than 5% based on twelve quarter balances. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Continued

15. Endowment Fund, continued

Investment Policy, Strategies, and Objectives

The Organization has adopted investment and spending policies for endowment assets that attempt to maximize total return consistent with an acceptable level of risk, and to provide a predictable stream of funding to programs supported by its endowment. Under this policy, as approved by the Finance Committee of the Board, the endowment assets are invested in a manner that is intended to produce results that achieve price and yield results commensurate with assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return in which investment returns are achieved through both capital appreciation and current yield. The Organization targets a diversified asset allocation that helps to achieve its long-term objectives within prudent risk constraints.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the funds to retain as a fund of perpetual duration. There were no funds with deficiencies as of June 30, 2020 and 2019.

Changes in endowment net assets consisted of the following for the years ended June 30:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2018	$ -	$ 106,582	$ 106,582
Investment gain	-	1,584	1,584
Expenditures	-	(942)	(942)
Endowment net assets, June 30, 2019	-	107,224	107,224
Investment gain	-	2,403	2,403
Expenditures	-	(1,237)	(1,237)
Endowment net assets, June 30, 2020	$ -	$ 108,390	$ 108,390

Continued

16. Commitments and Contingencies

Economic Dependency

The Organization received approximately 76% and 66% of its funding from government agencies, of which 56% and 67% is from the County of Santa Clara, 19% and 24% is from the Department of Veterans Affairs, and 25% and 8% is from the City of San Jose for the years ended June 30, 2020 and 2019, respectively. The Organization also has approximately 99% and 90% of its receivables from government agencies for the years ended June 30, 2020 and 2019, respectively. The continuation of this funding is dependent on the respective government agencies' budget and revenue constraints. The Organization also has received 36% of private grants and contributions from an individual and a foundation for the year ended June 30, 2020.

Restrictions on Real Properties

Certain loan and grant agreements with governmental agencies impose restrictions on the operations of all of the properties owned by the Organization, including maximum tenant income limitations, maximum rents chargeable and the tenants' history of homelessness. Such tenant qualifications are monitored by the Organization on an ongoing basis. If such agreements and qualifications are not met, related loans and revenue received could become reimbursable to the agencies.

All of the real properties owned by the Organization are subject to liens by lenders or grantors who provided funding for the acquisition or development of the properties. None of these properties may be sold or hypothecated without the consent of the secured parties.

Grants and Contracts

Grants and contracts awarded to the Organization are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs.

During the year ended June 30, 2006, the Organization notified HUD of potential over drawing of funds for certain Supportive Housing Grants. At the request of HUD, the Organization conducted an internal audit of certain grants specified by HUD to determine the amount potentially reimbursable to HUD. As of June 30, 2020 and 2019, the amount of the potential liability accrued in the consolidated financial statements to the federal agency was determined by management to be $102,198 and $170,331, respectively (see Note 7).

COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Organization to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on its operations and financial results at this time.

Continued

16. Commitments and Contingencies, continued

Leases

The Organization leases certain equipment and vehicles under cancelable and non-cancelable operating leases through April 2024. Minimum commitments under subsequent operating leases are as follows:

Year Ending June 30:		
2021	$	104,416
2022		101,358
2023		86,392
2024		71,408
2025 and thereafter		21,883
	$	385,457

Total rental expense was $226,474 and $174,549 for the years ended June 30, 2020 and 2019, respectively.

In September 2008, the Organization entered into a facility agreement with The Sobrato Foundation, with a lease term of three years and an annual rent expense of $12. In the absence of a formal renewal, the lease terms continue on a month-to-month basis, although the Organization expects that the lease will be extended with similar terms and conditions. The annual rent amount is subject to the Organization complying with the conditions of the lease agreement. The estimated fair value of rent for these facilities was $162,454 and $142,787 for the years ended June 30, 2020 and 2019, respectively. The estimated fair value of rents for the use of these facilities was recorded as a gift-in-kind for the years ended June 30, 2020 and 2019.

Delmas Loan

The EHC Delmas Park loan contains certain restrictions on the use of the property, and such restrictions are passed on to the ground lessee. If the ground lessee were to fail to comply with these restrictions, the lender would have the right to accelerate repayment of the loan balance.

Forgivable Loans

The Organization received forgivable loans which were used for the development of certain projects. These loans will be forgiven if the Organization has complied with certain terms and conditions of the loan throughout the loan term. If these conditions are met, the forgivable loan and accrued interest will be shown as a decrease as the restrictions are satisfied. If these conditions are not met, the monies would have to be repaid in full with accrued interest at varying interest rates. These loans are accounted for as restricted contributions when received, because the funds carry with them a restriction for the number of years the properties must be used for affordable housing and since management believes that they will be able to comply with the terms and conditions of these loans throughout their loan term.

Continued

16. Commitments and Contingencies, continued

Forgivable Loans, continued

		2020		2019
Boccardo Reception Center: Various notes with due dates ranging from May 2026 to July 2027	$	3,600,614	$	3,600,614
Sobrato Family Living Center: Various notes with due dates ranging from January 2023 to December 2032		1,913,652		1,913,652
Sobrato House: Notes with a due date in December 2022		75,000		75,000
	$	5,589,266	$	5,589,266
Accrued interest	$	2,791,945	$	2,675,676

Accrued interest on the forgivable loans of $2,791,945 and $2,675,676 for the years ended June 30, 2020 and 2019, respectively, was not recorded as a contribution or debt, due to the forgivable loans being deemed contributions at the time they were received.

Restricted Grants

The Organization received grants which were used for the development of certain projects. These grants may be retained by the Organization as long as it has complied with certain terms and conditions of the grant throughout the grant term. If these conditions are met, the restricted grant is decreased as the restrictions are satisfied. If these conditions are not met, the partial or full repayment of the funds may be demanded by the funders. These grants are accounted for as contributions when received since management believes that they will be able to comply with the terms and conditions of these grants throughout their grant terms.

Balances are as follows as of June 30:

		2020		2019
Boccardo Reception Center	$	1,000,000	$	1,000,000
Boccardo Family Living Center		953,966		953,966
Sobrato Family Living Center		4,000,000		4,000,000
Sobrato house		8,876,293		8,876,293
Tully I		-		2,660,324
Delmas		3,300,000		3,300,000
	$	18,130,259	$	20,790,583

As of June 30, 2020, the Tully I property was sold and the Organization's restriction was transferred to Markham Plaza I, L.P.

16. Commitments and Contingencies, continued

Services for Partnerships

The Organization participated in the development of Delmas Park and received certain up-front fees for its participation. The Organization agreed to provide certain services, as may be required, for building tenants for periods of 15 to 40 years without further compensation by the property owner (see Note 13).

Legal Proceedings

The Organization is party to various legal proceedings and certain other matters that arise from time to time in the ordinary course of its business. Although litigation is inherently unpredictable, in the opinion of management, the outcomes from these proceedings will not have a material adverse effect on the cash flows, financial condition or results of operations of the Organization.

17. Fair Value Measurement

The Organization defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Organization considers the principal or most advantageous market in which the Organization would transact and the market-based risk measurement or assumptions that market participants' would use in pricing the assets or liability, such as inherent risk, transfer restrictions and credit risk.

The Organization applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1: quote prices in active markets for identical investments. Investments in Level 1 include listed equities held in the name of the Organization and exclude listed equities and other securities held indirectly through commingled funds.
- Level 2: pricing inputs, including broker quotes, are those other than exchange quoted prices in active markets, and are either directly or indirectly observable as of the reporting date for which the fair value is determined through the use of models or other valuation methodologies.
- Level 3: pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments and may require a high level of judgment to determine the fair value.

17. Fair Value Measurement, continued

The following tables summarize the financial assets and liabilities measured at fair value on a recurring basis as of June 30:

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Pooled blended fund	$ -	$ 108,390	$ -	$ 108,390
Investment in partnership	-	-	220	220
	$ -	$ 108,390	$ 220	$ 108,610

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Pooled blended fund	$ -	$ 107,224	$ -	$ 107,224
Investment in partnership	-	-	220	220
	$ -	$ 107,224	$ 220	$ 107,444

Level 1 assets are based on quoted market prices. Level 2 assets are based on estimated current market inputs for similar financial instruments with comparable terms and credit quality. The investment in partnership is categorized as a Level 3 asset. The primary input utilized in calculating the investment in partnerships fair value is its net asset, which represents fair market valuation of certain equity debt and other instruments held by partnerships. The Organization records 0.005% of partnership discounted net asset value to approximate fair market value.

Assets measured at fair value on recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

Balance as of July 1, 2018	$ 220
Change in value	-
Balance as of June 30, 2019	220
Change in value	-
Balance as of June 30, 2020	$ 220

There was no change in the value and no transfers in or out of Level 3 assets for the years ended June 30, 2020 and 2019.

18. Subsequent Events

In accordance with accounting standards affecting disclosures of subsequent events, the Organization evaluated subsequent events for recognition and disclosure through November 6, 2020, the date which these consolidated financial statements were available to be issued. Management concluded that, other than discussed in Notes 5 and 6, no material subsequent events have occurred since June 30, 2020 that require recognition or disclosure in the consolidated financial statements.

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

The Board of Directors
HomeFirst Services of Santa Clara County Incorporated and Subsidiary
(A California Nonprofit Public Benefit Corporation)

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 HomeFirst Services of Santa Clara County Incorporated (a California nonprofit public benefit corporation) and Subsidiary ("HomeFirst" or the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 6, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered HomeFirst's internal control over financial reporting (internal control) as a basis for designing 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 HomeFirst's internal control. Accordingly, we do not express an opinion on the effectiveness of the HomeFirst'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 HomeFirst's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HomeFirst's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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.

BPM LLP

San Jose, California
November 6, 2020