

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

REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021



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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of HomeFirst Services of Santa Clara County and Subsidiary ("HomeFirst") (a California nonprofit public benefit corporation), which comprise the statement of consolidated financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of HomeFirst as of as of June 30, 2022 and 2021, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of HomeFirst and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HomeFirst's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HomeFirst's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HomeFirst's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of federal expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. GAAS. 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 December 8, 2022, 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 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 HomeFirst's internal control over financial reporting and compliance.

BPM LLP

San Jose, California
December 8, 2022

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2022 and 2021

ASSETS	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,073,076	\$ 419,367
Restricted cash	12,824	12,812
Government grants receivable	6,507,020	7,306,425
Other receivables, less allowance for doubtful accounts of \$125,478 and \$57,500 as of 2022 and 2021, respectively	251,484	223,547
Contribution receivable	-	267,000
Asset available for sale	3,486,912	3,485,912
Prepaid expenses	432,068	396,485
Total current assets	11,763,384	12,111,548
Property and equipment, net	18,144,667	17,094,978
OTHER ASSETS:		
Investment in partnerships	-	157
Long-term investments - endowment	125,701	141,864
Other assets	56,559	54,386
Total other assets	182,260	196,407
TOTAL ASSETS	\$ 30,090,311	\$ 29,402,933
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 652,406	\$ 821,200
Accrued payroll and related liabilities	769,335	915,980
Current portion government grant repayment liabilities	125,629	159,695
Current portion advances received	216,155	494,565
Current maturities of capital lease obligations	-	22,908
Debt and payable associated with asset held for sale	3,569,959	291,311
Other liabilities	53,915	22,478
Total current liabilities	5,387,399	2,728,137
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Accrued interest	4,856,941	4,550,455
Mortgages and notes payable	2,996,043	2,996,043
Total long-term liabilities, net of current portion	7,852,984	7,546,498
Government grant repayment liabilities	35,111	70,222
Capital lease obligations, less current maturities	-	102,953
Tenant security deposits	91,752	92,475
Advances received, net of current portion	791,162	791,162
Total liabilities	14,158,408	11,331,447
COMMITMENTS AND CONTINGENCIES (NOTE 17)		
NET ASSETS:		
Without donor restrictions:		
Restricted cash	12,824	12,812
Delmas subsidiary less related liabilities	(83,047)	3,218,749
Board designated for property maintenance	362,010	362,010
Long-term investment	-	157
Undesignated	9,849,117	8,195,731
Total net assets without donor restrictions	10,140,904	11,789,459
With donor restrictions	5,790,999	6,282,027
Total net assets	15,931,903	18,071,486
TOTAL LIABILITIES AND NET ASSETS	\$ 30,090,311	\$ 29,402,933

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

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT:			
Government grants	\$ 33,641,063	\$ -	\$ 33,641,063
Private grants	6,643,278	-	6,643,278
Contributions	973,483	191,331	1,164,814
Rental income	1,547,618	-	1,547,618
Service revenue	527,137	-	527,137
Donated goods, services, and rent	854,549	-	854,549
Special events (net of direct expenses of \$33,118)	164,806	-	164,806
Interest income, net	4,983	-	4,983
Other revenue	79,522	-	79,522
Total revenue and other support	44,436,439	191,331	44,627,770
Net assets released from restrictions	682,359	(682,359)	-
Total revenue and other support and net assets released from restrictions	45,118,798	(491,028)	44,627,770
EXPENSES:			
Program services:			
Emergency shelter	24,261,417	-	24,261,417
Permanent housing support	11,327,578	-	11,327,578
Property management	2,428,279	-	2,428,279
Total program services	38,017,274	-	38,017,274
Supporting services:			
Management and general expenses	4,633,259	-	4,633,259
Fundraising	816,820	-	816,820
Total supporting services	5,450,079	-	5,450,079
Total expenses	43,467,353	-	43,467,353
Change in net assets from operations	1,651,445	(491,028)	1,160,417
OTHER NONOPERATING INCOME:			
Reversal of previously recorded restricted grant upon sale of rights on restricted use asset	(3,300,000)	-	(3,300,000)
Change in net assets	(1,648,555)	(491,028)	(2,139,583)
Net assets at beginning of year	11,789,459	6,282,027	18,071,486
Net assets at end of year	\$ 10,140,904	\$ 5,790,999	\$ 15,931,903

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

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT:			
Government grants	\$ 38,359,034	\$ -	\$ 38,359,034
Private grants	59,334	-	59,334
Contributions	1,310,236	861,571	2,171,807
Rental income	1,592,168	-	1,592,168
Service revenue	496,745	-	496,745
Donated goods, services, and rent	938,913	-	938,913
Special events (net of direct expenses of \$4,635)	123,992	-	123,992
Interest income, net	2,664	-	2,664
Other revenue	153,362	-	153,362
Total revenue and other support	43,036,448	861,571	43,898,019
Net assets released from restrictions	600,144	(600,144)	-
Total revenue and other support and net assets released from restrictions	43,636,592	261,427	43,898,019
EXPENSES:			
Program services:			
Emergency shelter	25,675,698	-	25,675,698
Permanent housing support	11,528,792	-	11,528,792
Property management	1,970,917	-	1,970,917
Total program services	39,175,407	-	39,175,407
Supporting services:			
Management and general expenses	4,006,641	-	4,006,641
Fundraising	373,399	-	373,399
Total supporting services	4,380,040	-	4,380,040
Total expenses	43,555,447	-	43,555,447
Change in net assets from operations	81,145	261,427	342,572
OTHER NONOPERATING INCOME:			
Non cash interest income - notes receivable	27,187	-	27,187
Reserve - non cash interest income - notes receivable	(27,187)	-	(27,187)
Gain on debt forgiveness	1,031,959	-	1,031,959
	1,031,959	-	1,031,959
Change in net assets	1,113,104	261,427	1,374,531
Net assets at beginning of year	10,676,355	6,020,600	16,696,955
Net assets at end of year	\$ 11,789,459	\$ 6,282,027	\$ 18,071,486

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2022

	Program Services			
	Emergency Shelter	Permanent Housing Support	Property Management	Total
SALARIES AND RELATED EXPENSES:				
Salaries	\$ 11,845,823	\$ 4,673,729	\$ 310,858	\$ 16,830,410
Payroll taxes and employee benefits	2,757,943	1,250,184	86,977	4,095,104
Total salaries and related expenses	14,603,766	5,923,913	397,835	20,925,514
OTHER EXPENSES:				
Professional fees	43,090	17,432	-	60,522
Contract services	9,074	125	-	9,199
Occupancy	5,371,429	593,665	418,540	6,383,634
Donated rent	-	-	-	-
Donated goods and services	549,678	3,930	-	553,608
Interest expense - cash	7,304	-	-	7,304
Interest expense - non cash	292	-	300,772	301,064
Financial assistance	894,917	4,579,722	3,135	5,477,774
Supplies	973,354	65,240	30,507	1,069,101
Rentals and maintenance	1,082,344	245	372,007	1,454,596
Telephone	206,308	54,263	15,961	276,532
Local transportation	44,829	71,578	25,437	141,844
Staff development and recruitment	26,722	8,446	-	35,168
Printing and publication	19,832	3,297	-	23,129
Bad debt expense	-	-	106,574	106,574
Other	41,149	5,722	45,164	92,035
Total other expenses	9,270,322	5,403,665	1,318,097	15,992,084
Depreciation and amortization	387,329	-	712,347	1,099,676
	<u>\$ 24,261,417</u>	<u>\$ 11,327,578</u>	<u>\$ 2,428,279</u>	<u>\$ 38,017,274</u>

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES, CONTINUED

For the year ended June 30, 2022

	Supporting Services			Total Expenses
	Management and General	Fundraising	Total	
SALARIES AND RELATED EXPENSES:				
Salaries	\$ 2,268,896	\$ 516,797	\$ 2,785,693	\$ 19,616,103
Payroll taxes and employee benefits	474,440	87,913	562,353	4,657,457
Total salaries and related expenses	2,743,336	604,710	3,348,046	24,273,560
OTHER EXPENSES:				
Professional fees	293,583	8,097	301,680	362,202
Contract services	385,723	34,455	420,178	429,377
Occupancy	389,481	41,869	431,350	6,814,984
Donated rent	151,771	-	151,771	151,771
Donated goods and services	71,124		71,124	624,732
Interest expense - cash	94	-	94	7,398
Interest expense - non cash	-	-	-	301,064
Financial assistance	-	-	-	5,477,774
Supplies	110,870	19,530	130,400	1,199,501
Rentals and maintenance	8,723	2,512	11,235	1,465,831
Telephone	44,089	3,669	47,758	324,290
Local transportation	5,664	3,059	8,723	150,567
Staff development and recruitment	216,754	1,368	218,122	253,290
Printing and publication	5,999	46,485	52,484	75,613
Bad debt expense	-	-	-	106,574
Other	150,470	40,153	190,623	282,658
Total other expenses	1,834,345	201,197	2,035,542	18,027,626
Depreciation and amortization	55,578	10,913	66,491	1,166,167
	<u>\$ 4,633,259</u>	<u>\$ 816,820</u>	<u>\$ 5,450,079</u>	<u>\$ 43,467,353</u>

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2021

	Program Services			
	Emergency Shelter	Permanent Housing Support	Property Management	Total
SALARIES AND RELATED EXPENSES:				
Salaries	\$ 11,377,885	\$ 3,883,312	\$ 297,690	\$ 15,558,887
Payroll taxes and employee benefits	2,702,462	1,077,688	84,744	3,864,894
Total salaries and related expenses	14,080,347	4,961,000	382,434	19,423,781
OTHER EXPENSES:				
Professional fees	16,608	4,418	2,647	23,673
Contract services	769,458	-	1,104	770,562
Occupancy	7,156,877	929,702	391,364	8,477,943
Donated rent	-	-	-	-
Donated goods and services	655,928	-	1,250	657,178
Interest expense - cash	-	-	-	-
Interest expense - non cash	11,858	-	292,054	303,912
Financial assistance	457,767	5,435,933	-	5,893,700
Supplies	1,006,906	58,189	5,246	1,070,341
Rentals and maintenance	786,689	14,985	143,410	945,084
Telephone	223,886	37,934	31,567	293,387
Local transportation	17,847	59,167	3,376	80,390
Staff development and recruitment	3,883	1,444	30	5,357
Printing and publication	17,087	2,450	30	19,567
Bad debt recovery	-	-	(45,602)	(45,602)
Other	145,979	23,570	48,000	217,549
Total other expenses	11,270,773	6,567,792	874,476	18,713,041
Depreciation and amortization	324,578	-	714,007	1,038,585
	<u>\$ 25,675,698</u>	<u>\$ 11,528,792</u>	<u>\$ 1,970,917</u>	<u>\$ 39,175,407</u>

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES, CONTINUED

For the year ended June 30, 2021

	Supporting Services			Total Expenses
	Management and General	Fundraising	Total	
SALARIES AND RELATED EXPENSES:				
Salaries	\$ 1,888,235	\$ 240,981	\$ 2,129,216	\$ 17,688,103
Payroll taxes and employee benefits	454,842	40,070	494,912	4,359,806
Total salaries and related expenses	2,343,077	281,051	2,624,128	22,047,909
OTHER EXPENSES:				
Professional fees	271,286	522	271,808	295,481
Contract services	220,404	8,890	229,294	999,856
Occupancy	370,059	31,429	401,488	8,879,431
Donated rent	175,584	-	175,584	175,584
Donated goods and services	72,151	-	72,151	729,329
Interest expense - cash	1,795	-	1,795	1,795
Interest expense - non cash	9,296	-	9,296	313,208
Financial assistance	-	-	-	5,893,700
Supplies	64,375	26,590	90,965	1,161,306
Rentals and maintenance	12,746	2,414	15,160	960,244
Telephone	94,849	2,551	97,400	390,787
Local transportation	4,243	3,889	8,132	88,522
Staff development and recruitment	103,287	1,046	104,333	109,690
Printing and publication	72,433	3,994	76,427	95,994
Bad debt recovery	-	-	-	(45,602)
Other	104,217	11,023	115,240	332,789
Total other expenses	1,576,725	92,348	1,669,073	20,382,114
Depreciation and amortization	86,839	-	86,839	1,125,424
	<u>\$ 4,006,641</u>	<u>\$ 373,399</u>	<u>\$ 4,380,040</u>	<u>\$ 43,555,447</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets from operations:	\$ 1,160,417	\$ 342,572
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,166,167	1,125,424
Decrease in government liabilities	(69,177)	(103,245)
Unrealized loss (gain) on endowment, net	16,163	(33,474)
Donated property and equipment	-	(34,000)
Non-cash interest expense related to debt forgiveness	-	1,959
Change in allowance for doubtful accounts	67,978	(56,577)
Change in accrued interest	306,486	311,249
(Increase) decrease in operating assets:		
Government grants receivable	799,405	(1,934,418)
Contributions receivable	267,000	(263,445)
Other receivables	(131,016)	(134,462)
Asset available for sale	(1,000)	-
Prepaid expenses	(35,583)	(65,778)
Other assets	(2,016)	(35,572)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(168,794)	140,464
Accrued payroll and related liabilities	(146,645)	(405,463)
Security deposits	(723)	(809)
Debt and payable associated with asset held for sale	(21,352)	-
Other liabilities	31,438	(16,939)
Advances received	(278,410)	131,133
Net cash provided by (used in) operating activities	<u>2,960,338</u>	<u>(1,031,381)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(2,215,856)	(210,724)
Proceeds from deposit on option agreement to sell Delmas	35,100	-
Net cash used in investing activities	<u>(2,180,756)</u>	<u>(210,724)</u>
Cash flows from financing activities:		
Payments on capital leases	(125,861)	-
Net cash used in financing activities	<u>(125,861)</u>	<u>-</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	653,721	(1,242,105)
Cash, cash equivalents, and restricted cash, beginning of year	432,179	1,674,284
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,085,900</u>	<u>\$ 432,179</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the years ended June 30, 2022 and 2021

	2022	2021
Supplemental disclosure of cash flows information:		
Cash paid for interest	\$ 7,303	\$ 5,873
Noncash financing activities:		
Property and equipment acquisition through capital leases	\$ -	\$ 125,861
Cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 1,073,076	\$ 419,367
Restricted cash	12,824	12,812
	\$ 1,085,900	\$ 432,179

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

1. Organization

HomeFirst Services of Santa Clara County and Subsidiary (“HomeFirst” or the “Organization”) is a nonprofit public benefit corporation agency based in California. Founded in 1980, HomeFirst has more than 40 years of experience sheltering and supporting our unhoused and housing insecure neighbors in the Bay Area. HomeFirst views housing as a fundamental human right and operates with the understand that solving homelessness takes everyone working together. HomeFirst is relentlessly focused on eliminating barriers to permanent housing and creating a path to stability for everyone we serve.

Vision: We envision a community where everyone has a home.

Mission: Every day HomeFirst Services works to end homelessness by providing a full spectrum of services to help people find a home, improve their lives and stay housed.

Community Impact

HomeFirst excels at working with the hardest to serve unhoused populations. The partnership approach builds trust with our most vulnerable residents as we explore opportunities for permanent housing. We utilize part of a nationwide model of service known as “Housing First,” in which people are placed in permanent housing as soon as possible instead of waiting in shelters or transitional housing until they are deemed “ready.” This methodology has proven much more effective in *ending* homelessness rather than just *managing* it.

Locally, HomeFirst has emerged as a leader in the community not just by providing comprehensive services but also by coordinating efforts with other service providers and government agencies. The collaborative attitude eliminates duplication, connects program participants to the right services sooner, increases accountability among providers, and allows us to share data and set common performance goals.

HomeFirst’s targeted work with other organizations is ultimately designed to develop long-term solutions to homelessness. By working together and strategically creating resources, we can make our vision of ending homelessness locally a reality.

Services

Guiding Principles and Best Practices in Service

- **Housing First:** Our participants are housed as quickly as possible without any preconditions; once housed, we work on stabilization by addressing areas that led them to homelessness (E.g., the participant does not need to be housing ready).
- **Harm Reduction:** We focus on addressing the consequences of unhealthy behavior until the participant is ready to handle the behavior itself (E.G., needle exchange).
- **Low Barrier:** At our interim and emergency shelter site, we eliminate as many requirements as possible to ease entry (E.g., entrance does not require sobriety). Low barrier does not mean “no rules.”

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

1. Organization, continued

Services, continued

Two Lines of Service: Emergency & Permanent Housing

- **Emergency Housing**

Shelter Programs: Emergency placement, typically in a congregate setting for people seeking shelter right now.

Street-Based Services: Outreach and street case management efforts support the unsheltered by offering resources, linking to services, and encouraging shelter. Outreach is also tasked with locating people when selected for housing programs.

Interim Housing: Temporary housing opportunities in private or semi-private units not intended for permanent stay.

- **Permanent Housing**

Rapid Rehousing (“RRH”): Program offering time-limited rental assistance and services designed to support people with housing navigation and stabilization. The participant becomes responsible for rent at the end of the program. Our teams build relationships with local landlords to fulfill the needs of this program.

Permanent Supportive Housing (“PSH”): A model that combines low-barrier affordable housing, health care, and supportive services to help individuals with a disability achieve housing stability.

Prevention and Early Intervention: Strategizes to slow the influx of individuals and families entering homelessness and quickly resolves housing crisis for newly unhoused persons. This is typically done with one-time or very short-term intensive case management.

Property Management

HomeFirst owns two low income housing developments in Santa Clara County, totaling 77 units and housing 274 individuals.

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. On January 10, 2022 HomeFirst entered into an agreement to sell the rights and property associated with Delmas subsidiary (see Note 19).

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June 30, 2022 and 2021

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 restrictions includes \$362,010 as of June 30, 2022 and 2021, as designated by the Board of Directors (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. Restricted cash is for Bridge Housing Community and was \$12,824 and \$12,812 as of June 30, 2022 and 2021, respectively. Cash equivalents includes 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 was \$125,478 and \$57,500 as of June 30, 2022 and 2021, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

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.

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

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;
- 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 associated with tenants and residents of various properties. The rental income is recognized ratably over the period of the lease terms which includes monthly payments on the month-to-month leases. 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 consolidated 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.

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2. Summary of Significant Accounting Policies, continued

Contributions, continued

A portion of the Organization's revenue is derived from 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 consolidated statement of financial position. The amounts received in advance were \$1,007,317 and \$1,285,727 as of June 30, 2022, and 2021, respectively. Conditional grants received by the Organization that have not been recognized as of June 30, 2022, because the required conditions have not yet been met, consisted of the following as of June 30, 2022:

Cost reimbursement conditions	\$ 9,892,052
Per diem based on clients served	1,450,807
Reimbursed based on hours worked	550,831
	<u>\$ 11,893,690</u>

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, 2022 and 2021 were \$38,702 and \$71,900, respectively.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 repayment loans, or non-cash interest income, loss from deconsolidation of subsidiary, and reserve on notes receivable from partnerships.

Change in Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities: Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"). This standard became effective for fiscal years beginning after June 15, 2021. The amendments in ASU 2020-07 require that Not-for-Profit entities present contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash or other financial assets. ASU 2020-07 also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets an entity has received. It was determined by management that the implementation of this standard did not materially change the presentation of their contributed nonfinancial assets. The additional required disclosures are included in Note 14.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (842) ("ASU 2016-02"). ASU 2016-02 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 ASU 2016-02 on its consolidated financial statements.

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 pandemic and its disruptive effects on the Organization's operations and financial results at this time. During 2022, the Organization has been able to navigate the challenges of COVID-19 with minimal impact on the Organization's financial results.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

3. Financial Results, Liquidity and Availability

These consolidated financial statements have been prepared in conformity with U.S. GAAP. The Organization shows positive working capital of \$6,459,032 and \$6,172,880 as of June 30, 2022 and 2021, respectively. The Organization showed a positive change in net assets from operations of \$1,203,464 and \$342,572 for the years ended June 30, 2022 and 2021, respectively. 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.

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 consolidated 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 consolidated statement of financial position date, were as follows as of June 30:

	2022	2021
Cash	\$ 1,073,076	\$ 419,367
Government grants receivable	6,507,020	7,306,425
Contribution receivable	-	267,000
Other receivables, net	251,484	223,547
	<u>7,831,580</u>	<u>8,216,339</u>
Less: Board designated for property maintenance	(362,010)	(362,010)
	<u>\$ 7,469,570</u>	<u>\$ 7,854,329</u>

Although HomeFirst does not intent to spend from its Board designated net assets, these amounts could be made available, if necessary. In addition the Organization has a line of credit for \$1,000,000 available (see Note 10).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

4. Property and Equipment, Net

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

	2022	2021
Buildings	\$ 26,998,783	\$ 25,034,488
Land	4,695,891	4,695,892
Furniture and equipment	1,057,318	3,418,957
Building improvements	2,151,452	2,058,058
Motor vehicles	509,229	433,295
Land improvements	121,588	121,588
	<u>35,534,261</u>	<u>35,762,278</u>
Less: accumulated depreciation	<u>(17,389,594)</u>	<u>(18,667,300)</u>
	<u><u>\$ 18,144,667</u></u>	<u><u>\$ 17,094,978</u></u>

Depreciation expense was \$1,166,167 and \$1,125,424 for the years ended June 30, 2022 and 2021, respectively.

5. Investment in Partnerships

The Organization held a .005% general partnership interests in Tully Gardens Phase II, L.P., a California limited partnership. Tully Gardens Phase II, L.P. owns and operates a 152 unit single-room occupancy project for low income persons in San Jose, California. During the year ended June 30, 2022, the Organization liquidated its' partnership interest in Tully Gardens Phase II, L.P.

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

	2022	2021
Tully Gardens Phase II, L.P.	\$ -	\$ 157
	<u><u>\$ -</u></u>	<u><u>\$ 157</u></u>

The investments are valued at the lower of cost, where such cost approximates fair value as represented by management, or appraised value. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

6. Note and Advances Receivable - Affiliates

The Organization has determined that the following notes receivable, and accrued interest receivable, are uncollectible and maintained a full reserve for uncollectible amounts as of June 30, 2022 and 2021.

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

	2022	2021
Markham Plaza II, L.P. note dated May 24, 2021 for a maximum amount of \$1,816,021. The source of the funds is assumption of loan by Markham Plaza II from the Organization as part of the sale of Tully II - Partnership. The interest rate was 2.15% and is compounded annually. Unpaid principal and interest is due May 24, 2076. On April 30, 2022, the note and accrued interest was assigned to Markham Plaza II L.P.	\$ -	\$ 1,816,021
Less: valuation allowance	-	(1,816,021)
	<u>\$ -</u>	<u>\$ -</u>

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 upon 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, 2021.

As of June 30, 2021, the Organization recognized \$119,239 as other revenue on the consolidated statement of activities, this is related to the signing of the agreement and received upon sale of the Tully II partnership. As of June 30, 2021, Tully II has sold to Markham Plaza II and the related note and accrued interest has been assigned to Markham Plaza II L.P., and Markham Plaza I property was reassigned to CORE Development, Inc. and removed as a receivable.

As of June 30, 2022, the Markham Plaza II property was assigned to CORE Development, Inc. and removed as a receivable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

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 paid during the year ended June 30, 2021 totaled \$34,066. That was the final payment and the liability was paid in full as of June 30, 2022.

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

- \$70,223 – remaining liability relating to disputed overpayment for previous grant contracts. During 2017, the Organization and the County of Santa Clara executed a repayment agreement for a disputed grant overpayment. The parties agreed to a total liability amount of \$140,446, to be repaid over four calendar years, with the first monthly installment paid on July 1, 2020.
- \$90,517 – relates to an estimated overpayment on the Intensive Case Management for the Chronically Homeless in North County contract. HomeFirst believes the County of Santa Clara overpaid due to changes in the split of Medi-Cal funding in the contract. The County has not yet confirmed this understanding.

As of June 30, 2022, the remaining payments for the aforementioned liabilities are due as follows:

Year ending June 30:

2023	125,629
2024	35,111
	<u>\$ 160,740</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

8. Mortgages and Notes Payable

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

	2022	2021
Boccardo Family Living Center		
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
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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

8. Mortgages and Notes Payable, continued

	2022	2021
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 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
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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

8. Mortgages and Notes Payable, continued

	2022	2021
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
Two County of Santa Clara 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
Total mortgages and notes payable	2,996,043	2,996,043
Less: current portion	-	-
	<u>\$ 2,996,043</u>	<u>\$ 2,996,043</u>

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

8. Mortgages and Notes Payable, continued

As of June 30, 2022, aggregate future annual maturities on mortgages and notes payable were as follows:

Year ending June 30:

2023	\$ -
2024	-
2025	-
2026	-
2027	1,157,716
2028 and thereafter	1,838,327
	<u>\$ 2,996,043</u>

9. Capital Lease Obligations

The Organization had a capital lease obligation with Edgeworth Integration, LLC dated October 2020, in the amount of \$125,861. Insurance was obtained to cover the equipment in accordance with the note. There were five annual payments applied to principal and interest for the 5-year term with variable interest explicitly stated per annum in financing agreement. The note maturity date is October 2025, however during the year ended June 30, 2022, the Organization terminated the lease agreement.

10. Line of Credit

The Organization has a line of credit with Heritage Bank of Commerce with a current limit of \$1,000,000 at prime interest plus 0.50% (currently 6.00%) with the maturity date of March 24, 2023. The line is secured by a blanket security agreement. These borrowings are subject to various covenants, for which HomeFirst has met, or received waiver for, as of June 30, 2022. The Organization had no borrowings on the line of credit as of June 30, 2022 and 2021.

11. Net Assets With Donor Restrictions

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

	2022	2021
Purpose of restriction:		
Time restricted	\$ 5,641,122	\$ 6,042,425
Program services	24,176	97,738
Endowment - time	39,457	55,620
Endowment - perpetuity	86,244	86,244
Total net assets with donor restrictions	<u>\$ 5,790,999</u>	<u>\$ 6,282,027</u>

The Organization has recognized the receipt of an endowment bequest whose use is restricted to certain youth program activities (see Note 13).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

12. Net Assets Released From Restrictions

Net assets 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 were as follows for the year ended June 30:

	2022	2021
Program services	\$ 281,318	\$ 383,269
Time restricted	401,041	216,875
	<u>\$ 682,359</u>	<u>\$ 600,144</u>

13. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

13. Endowment Fund, continued

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.

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, 2022 and 2021.

Changes in endowment net assets consisted of the following for the years ended June 30, 2022 and 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2020	\$ -	\$ 108,390	\$ 108,390
Investment gain	-	34,495	34,495
Expenditures	-	(1,021)	(1,021)
Endowment net assets, June 30, 2021	-	141,864	141,864
Additions	-	500	500
Investment loss	-	(15,340)	(15,340)
Expenditures	-	(1,323)	(1,323)
Endowment net assets, June 30, 2022	<u>\$ -</u>	<u>\$ 125,701</u>	<u>\$ 125,701</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

14. 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:

	Revenue Recognized		Program/Activity Utilization	Donor Restriction	Valuation Techniques and Inputs
	2022	2021			
Food	\$ 559,189	\$ 634,992	Program - Shelter	None	Estimated wholesale values that would be received for selling similar products in U.S
Goods for clients	65,543	94,337	Program - Shelter	None	Estimated wholesale values that would be received for selling similar products in U.S
Rent	151,771	175,584	General and administrative	None	Letter from lessor indicating value of in-kind donation
Construction services	78,046	-	Program - construction of units	None	Payment to construction contractor based on Invoice
Vehicle	-	34,000	Program	None	Kelly blue book value
	<u>\$ 854,549</u>	<u>\$ 938,913</u>			

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.

15. 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. On January 10, 2022 HomeFirst entered into an agreement to sell the rights and property associated with Delmas subsidiary (see Note 19).

16. 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. 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 \$216,551 and \$174,917 for the years ended June 30, 2022 and 2021, respectively.

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

17. Commitments and Contingencies

Economic Dependency

The Organization received approximately 75% and 87% of its funding from government agencies, of which 43% and 34% is from the County of Santa Clara, 11% and 20% is from the Department of Veterans Affairs, and 46% and 46% is from the City of San Jose for the years ended June 30, 2022 and 2021, respectively. The Organization also has approximately 96% and 94% of its receivables from government agencies for the years ended June 30, 2022 and 2021, respectively. The continuation of this funding is dependent on the respective government agencies' budget and revenue constraints. The Organization also has received 23% of private grants and contributions from an individual and a foundation for the year ended June 30, 2022.

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, 2022 and 2021, the amount of the potential liability accrued in the consolidated financial statements to the federal agency was determined by management to be \$0 and \$34,066, respectively (see Note 7). The liability was paid in full during the year ended June 30, 2022.

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

17. Commitments and Contingencies, continued

Leases

The Organization leases certain building equipment and vehicles under cancelable and non-cancelable operating leases through April 2027. Minimum commitments under subsequent operating leases are as follows:

Year ending June 30:

2023	\$ 643,678
2024	216,380
2025	117,905
2026	72,138
2027 and thereafter	37,240
	<u>\$ 1,087,341</u>

Total lease expense was \$595,603 and \$381,187 for the years ended June 30, 2022 and 2021, 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 \$151,771 and \$175,587 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

On April 7, 2022, HomeFirst entered into a Ground Lease, Funding, and Service Agreement with the City of Rohnert Park regarding the activities of a Program Homekey contract awarded to HomeFirst, the City of Rohnert Park, and Dignity Moves on December 21, 2021. Under the agreement, Dignity Moves will build an Emergency Interim Housing project on land leased by HomeFirst from the city for \$1 per year. HomeFirst will provide services at this site for three years.

Delmas Loan

The EHC Delmas Park loan contained certain restrictions on the use of the property, and such restrictions were 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. On January 10, 2022 HomeFirst entered into an agreement to sell the rights and property associated with Delmas subsidiary (see Note 19).

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

17. Commitments and Contingencies, continued

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.

	2022	2021
<u>Boccardo Reception Center:</u> Various notes with due dates ranging from May 2026 to July 2027	\$ 3,600,614	\$ 3,600,614
<u>Sobrato Family Living Center:</u> Various notes with due dates ranging from January 2023 to December 2032	1,913,652	1,913,652
<u>Sobrato House:</u> Notes with a due date in December 2022	75,000	75,000
	<u>\$ 5,589,266</u>	<u>\$ 5,589,266</u>
Accrued interest	<u>\$ 3,024,481</u>	<u>\$ 2,908,213</u>

Accrued interest of \$3,024,481 and \$2,908,213 on the forgivable loans for the years ended June 30, 2022 and 2021, 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.

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

17. Commitments and Contingencies, continued

Restricted Grants, continued

Balances were as follows as of June 30:

	2022	2021
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
Delmas	3,300,000	3,300,000
	<u>\$ 18,130,259</u>	<u>\$ 18,130,259</u>

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 15). On January 10, 2022 HomeFirst entered into an agreement to sell the rights and property associated with Delmas subsidiary (see Note 19).

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.

18. 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.

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

18. Fair Value Measurement, continued

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.

The following tables summarize the financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 and 2021:

Assets at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Pooled blended fund	\$ -	\$ 125,701	\$ -	\$ 125,701
	\$ -	\$ 125,701	\$ -	\$ 125,701

Assets at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Pooled blended fund	\$ -	\$ 141,864	\$ -	\$ 141,864
Investment in partnership	-	-	157	157
	\$ -	\$ 141,864	\$ 157	\$ 142,021

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.

HOMEFIRST SERVICES OF SANTA CLARA COUNTY AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

18. Fair Value Measurement, continued

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

Balance as of July 1, 2020	\$ 220
Assets sold	(63)
Balance as of June 30, 2021	157
Assets sold	(157)
Balance as of June 30, 2022	<u>\$ -</u>

19. EHC Delmas

On January 10, 2022, HomeFirst entered into an agreement to sell the rights and property associated with Delmas subsidiary. As such the assets for Delmas were reclassified as available for sale and pulled out of regular operations. In addition, the previously recorded restricted grant which was used for the original purchase of Delmas was added back as a liability and the related net asset was reversed. For comparative purpose on the Statement of Financial Position the available for sale assets was reclassified from property and equipment for June 30, 2021. Upon the agreement Delmas received a deposit for the sale for \$35,100 and the remaining purchase price of \$4,900 is due upon closing. Management has determined that the net impact for this transaction is not material to on-going operations for HomeFirst.

Related party receivable with HomeFirst	\$ -
Other receivables	1,000
Property and equipment	3,485,912
Assets available for sale	<u>3,486,912</u>
Accounts payable	-
Accrued interest	(84,047)
Add back of the previously recorded restricted grant (Note 17)	(3,300,000)
Mortgages and notes payable	(185,912)
Debt and payable related to assets available for sale	<u>(3,569,959)</u>
Net assets related to assets available for sale	<u>\$ (83,047)</u>
Proceeds from deposit	\$ 35,100
Receivable for final purchase	4,900
Total purchase price	<u>40,000</u>
Effect on transfer of Delmas	<u>\$ (43,047)</u>

20. Subsequent Events

In accordance with accounting standards affecting disclosures of subsequent events, the Organization evaluated subsequent events for recognition and disclosure through December 8, 2022, the date which these consolidated financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2022 that require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Current year Expenditure of Federal Awards				
U.S. Department of Housing and Urban Development:				
Community Development Block Grants/Emergency Solutions Grants				
Pass-through programs from:				
COVID-19 - City of San Jose-CDBG CV1	14.218	ESGCV1-20-001A	\$ -	\$ 629,932
City of San Jose-CDBG	14.218	CPS-18-002E	-	388,490
Sacred Heart Community Services	14.218	HPS/CDBG	-	252,117
COVID-19 - City of San Jose-OWL	14.231	HTF-21-006	-	333,361
COVID-19 - City of San Jose-SOAR	14.231	ESGCV2-20-002	-	1,043,858
COVID-19 - City of San Jose-BHC	14.231	GF-18-004C	-	3,803,356
COVID-19 - City of San Jose-EIH	14.231	GF-19-012B	-	3,510,940
COVID-19 - City of San Jose-RRH	14.231	ESTG-20-002	-	890,312
COVID-19 - County of Santa Clara-Gilroy	14.231	ESG-CV	-	982,068
COVID-19 - County of Santa Clara-Vaccine	14.231	2020-ESGV1-0002	-	881,087
COVID-19 - County of Santa Clara-Gilroy PSH Outreach	14.231		-	249,420
COVID-19 - County of Santa Clara-EHV	14.231		-	192,796
County of Santa Clara-RRRH	14.231		-	705,491
Sonoma County Community Development Commission	14.267		-	91,526
Total - U.S. Department of Housing and Urban Development			-	13,954,754
U.S. Department of Veterans Affairs				
VA Homeless Providers Grant and Per Diem Program				
VA Per Diem Beds	64.024		-	379,998
VA Emergency Shelter Program	64.024		-	214,317
VA Shelter Program Special Conditions	64.024		-	44,404
VA Direct Programs				
COVID-19 - VA Supportive Services for Veteran Families	64.033	19-CA-010-CA-C3	-	1,318,516
VA Supportive Services for Veteran Families	64.033	19-CA-010-CA-C3	-	1,225,166
VA Supportive Services for Veteran Families	64.033	S20-CA-500/500-C3	-	855,812
Total - U.S. Department of Veterans Affairs			-	4,038,213
U.S. Department of Treasury:				
Emergency Rental Assistance Program				
Pass-through programs from:				
COVID-19 - Sacred Heart Community Services	21.023	HPS/HPS-CV MOU	-	916,070
Total - U.S. Department of Treasury			-	916,070
U.S. Department of Agriculture				
Emergency Food Assistance Program				
Pass-through programs from:				
Second Harvest Food Bank	10.569	Donated Food Value	-	13,330
Total - U.S. Department of Agriculture			-	13,330
U.S. Department of Homeland Security				
FEMA: Emergency Food and Shelter National Board Program				
Pass-through program from:				
Second Harvest Food Bank	97.024	Donated Food Value	-	1,943
Total - U.S. Department of Health and Human Services			-	1,943
Total Current Year Expenditure of Federal Awards			-	18,924,310

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

For the year ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Prior Year Federal Awards Requiring Continuing Compliance				
<i>U.S. Department of Housing and Urban Development:</i>				
Prior year loans and grants for which continuing compliance is required				
Community Development Block Grant				
Pass-through loans from:				
City of San Jose	14.218		-	1,100,000
County of Santa Clara	14.218		-	500,000
City of San Jose	14.218		-	366,197
County of Santa Clara	14.218		-	251,664
City of Mountain View	14.218		-	150,000
City of Sunnyvale	14.218		-	100,000
County of Santa Clara	14.218		-	100,000
City of Mountain View	14.218		-	75,000
City of Palo Alto	14.218		-	75,000
City of Milpitas	14.218		-	50,000
City of Palo Alto	14.218		-	50,000
City of Sunnyvale	14.218		-	50,000
City of Sunnyvale	14.218		-	50,000
City of Sunnyvale	14.218		-	50,000
County of Santa Clara	14.218		-	50,000
County of Santa Clara	14.218		-	11,750
HOME Investment Partnership Program Loans				
Pass-through loans from:				
City of Santa Clara	14.239		-	1,770,533
County of Santa Clara	14.239		-	373,500
County of Santa Clara	14.239		-	332,552
Other				
U.S. Department of Agriculture	10.446		-	953,966
Total prior year loans and grants for which continuing compliance is required			-	6,460,162
Total			\$ -	\$ 25,384,472

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

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of HomeFirst Services of Santa Clara County ("HomeFirst") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of HomeFirst, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HomeFirst.

2. Prior Years' Expenditures

The accompanying schedule of expenditures of federal awards includes \$6,460,162 of expenditures from prior years, for which continuing compliance is required.

3. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. HomeFirst has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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*

INDEPENDENT AUDITORS' REPORT

The Board of Directors
HomeFirst Services of Santa Clara County 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 and Subsidiary ("HomeFirst" or the "Organization") (a California nonprofit public benefit corporation), which comprise the consolidated statement of financial position as of June 30, 2022, 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 December 8, 2022.

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 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 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
December 8, 2022



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited HomeFirst Services of Santa Clara County and Subsidiary ("HomeFirst" or the "Organization") (a California nonprofit public benefit corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HomeFirst's major federal programs for the year ended June 30, 2022. HomeFirst's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of finding and questioned costs.

In our opinion, HomeFirst complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of HomeFirst and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of HomeFirst's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to HomeFirst's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HomeFirst's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about HomeFirst's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding HomeFirst's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of HomeFirst's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 HomeFirst's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

BPM LLP

San Jose, California
December 8, 2022

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2022

Section I – Summary of Audit Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting | |
| • Material weakness identified? | No |
| • Significant deficiencies identified? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|--|---------------|
| 4. Internal control over major programs: | |
| • Material weakness identified? | No |
| • Significant deficiencies identified? | None reported |
| 5. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516 (a)? | No |
| 7. Identification of major programs: | |

Federal Assistance

Listing Number

Name of Federal Program or Cluster

14.231 COVID-19 – Emergency Solutions Grant Program

64.033 COVID-19 – VA Supportive Services for Veteran Families

21.023 COVID-19 – Emergency Rental Assistance Program

- | | |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and type B Programs: | \$761,534 |
| 9. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Findings and Questioned Costs

No matters were reported.

Section IV – Status of Prior Year Audit Findings

Not applicable. No prior year findings noted.