HomeFirst Services of Santa Clara County Incorporated and Subsidiary

Report on Audits of Consolidated Financial Statements and Management's Discussion and Analysis

June 30, 2019 and 2018

HomeFirst Services of Santa Clara County
Incorporated and Subsidiary

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HomeFirst Services of Santa Clara County Incorporated and Subsidiary ("HomeFirst"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HomeFirst as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2, HomeFirst adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The management's discussion and analysis information on pages 3 to 4 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. We have applied certain limited procedures to the management's discussion and analysis information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019, on our consideration of HomeFirst's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HomeFirst's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HomeFirst's internal control over financial reporting and compliance.

BPM LLP

San Jose, California
October 23, 2019

HOMEFIRST SERVICES OF SANTA CLARA COUNTY INCORPORATED AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

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

The Organization is a leading provider of services, shelter, and housing opportunities to the homeless and those at risk of homelessness in Santa Clara County. It provides a continuum of care including street outreach, emergency shelter, case management services, prevention services, transitional housing, and permanent supportive housing. It serves approximately 5,000 adults, veterans, families, and youth each year at seven locations including the Boccardo Reception Center, which is the county's largest homeless services center.

OVERVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as introduction to HomeFirst's basic financial statements in comparison to the prior year and the impact of prior year's activities on current year's operations. The consolidated financial statements include the Consolidated Statements of Financial Position, Consolidated Statements of Activities, Consolidated Statements of Functional Expenses, Consolidated Statement of Cash Flows, and the notes to the consolidated financial statements.

The condensed HomeFirst Consolidated Statement of Financial Position for the year ended June 30, 2019 compared to June 30, 2018 is presented below:

	2019	2018	$ Change	% Change
Condensed consolidated statements of financial position				
Assets:				
Current assets	$ 3,684,345	$ 2,033,636	$ 1,650,709	81.2%
Long-term and other assets	22,251,452	23,118,981	(867,529)	-3.8%
Total assets	$ 25,935,797	$ 25,152,617	$ 783,180	3.1%
Liabilities:				
Current liabilities	$ 1,724,010	$ 1,991,921	$ (267,911)	-13.4%
Long-term liabilities	8,188,127	7,148,003	1,040,124	14.6%
Total liabilities	9,912,137	9,139,924	772,213	8.4%
Net assets:	16,023,660	16,012,693	10,967	0.1%
Total liabilities and net assets	$ 25,935,797	$ 25,152,617	$ 783,180	3.1%

The condensed HomeFirst Consolidated Statement of Activities for the year ended June 30, 2019 compared to the year ended June 30, 2018 is presented below:

	2019	2018	$ Change	% Change
Condensed consolidated statement of financial activities				
Total revenue	$ 17,866,499	$ 14,884,855	$ 2,981,644	20.0%
Expenses:				
Program services	15,480,745	13,804,944	1,675,801	12.1%
Supportive services	2,374,787	2,453,145	(78,358)	-3.2%
Total expenses	17,855,532	16,258,089	1,597,443	9.8%
Change in net assets from operations	10,967	(1,373,234)	1,384,201	100.8%
Decrease in government liability	-	135,496	(135,496)	-100.0%
Change in net assets	$ 10,967	$ (1,237,738)	$ 1,248,705	100.9%

In addition to the non-recurring transactions, HomeFirst incurred depreciation expense in the amount of $1,050,989 and forgivable non-cash interest expense in the amount of $279,940. Below is Management's analysis of pro-forma change in net assets from operations for the year ended June 30, 2019 excluding depreciation, non-cash interest, and non-recurring transactions:

Change in net assets	$ 10,967
Add:	
Depreciation	1,050,989
Non-cash interest expense	279,040
Pro-forma change in net assets from operations	$ 1,340,996

During the fiscal year ended June 30, 2019, Management continued its investment in infrastructure and process improvements to realign the Organization and assure the Organization would be financially stable. The management and general expenses as a percentage of total expenses are 14% in fiscal year 2018 and 11% in fiscal year 2019.

For the year ended	Program	Management and General	Fundraising	Total
June 30, 2017	82%	15%	3%	100%
June 30, 2018	84%	14%	2%	100%
June 30, 2019	87%	11%	2%	100%

Requests for Information

This report is designed to provide a general overview of HomeFirst's financial results for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to HomeFirst Services of Santa Clara County, Attn: CFO, 507 Valley Way, Milpitas, CA 95035.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 914,905	$ 280,395
Restricted cash	-	35,474
Government grants receivable	2,369,823	1,517,411
Other receivables, less allowance for doubtful accounts of $29,839 and $29,542 at 2019 and 2018, respectively	76,797	69,902
Contribution receivable	199,350	-
Prepaid expenses	123,470	130,454
Total current assets	3,684,345	2,033,636
Property and equipment, net	22,121,585	22,989,244
OTHER ASSETS:		
Investment in partnerships	220	220
Long-term investments - endowment	107,224	106,582
Other assets	22,423	22,935
Total other assets	129,867	129,737
TOTAL ASSETS	$ 25,935,797	$ 25,152,617
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Line of credit	$ -	$ 350,000
Current portion of mortgages and notes payable	30,000	35,577
Accounts payable and accrued expenses	458,684	679,302
Accrued payroll and related liabilities	626,543	577,741
Current portion government grant repayment liabilities	289,536	235,112
Current portion advances received	182,260	-
Other liabilities	136,987	114,189
Total current liabilities	1,724,010	1,991,921
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Accrued interest	4,036,229	3,757,189
Mortgages and notes payable	3,181,955	3,211,955
Total long-term liabilities, net of current portion	7,218,184	6,969,144
Government grant repayment liabilities	102,198	102,199
Tenant security deposits	76,583	76,660
Advances received, net of current portion	791,162	-
Total liabilities	9,912,137	9,139,924
NET ASSETS:		
Without donor restrictions:		
Restricted cash	-	35,474
Board designated for property maintenance	362,010	362,010
Long-term investment	220	220
Undesignated	9,746,226	9,900,838
Total net assets without donor restrictions	10,108,456	10,298,542
With donor restrictions	5,915,204	5,714,151
Total net assets	16,023,660	16,012,693
TOTAL LIABILITIES AND NET ASSETS	$ 25,935,797	$ 25,152,617

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

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the year ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT:			
Government grants	$ 11,744,042	$ -	$ 11,744,042
Private grants and contributions	1,501,301	379,803	1,881,104
Rental income	1,205,991	-	1,205,991
Service revenue	657,607	-	657,607
Donated goods, services, and rent	1,707,815	-	1,707,815
Special events (net of direct expenses of $18,698)	154,776	-	154,776
Interest income	308,701	-	308,701
Other revenue	206,463	-	206,463
Total revenue and other support	17,486,696	379,803	17,866,499
Net assets released from restrictions	178,750	(178,750)	-
Total revenue and other support released from restrictions	17,665,446	201,053	17,866,499
EXPENSES:			
Program services	15,480,745	-	15,480,745
Supporting services			
Management and general expenses	2,025,931	-	2,025,931
Fundraising	348,856	-	348,856
Total supporting services	2,374,787	-	2,374,787
Total expenses	17,855,532	-	17,855,532
Change in net assets	(190,086)	201,053	10,967
Net assets at beginning of year	10,298,542	5,714,151	16,012,693
Net assets at end of year	$ 10,108,456	$ 5,915,204	$ 16,023,660

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the year ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT:			
Government grants	$ 9,936,519	$ -	$ 9,936,519
Private grants and contributions	1,034,470	206,263	1,240,733
Rental income	1,057,807	-	1,057,807
Service revenue	666,275		666,275
Donated goods, services, and rent	1,367,964	-	1,367,964
Special events (net of direct expenses of $42,894)	200,461	-	200,461
Interest income	292,150	-	292,150
Other revenue	122,946	-	122,946
Total revenue and other support	14,678,592	206,263	14,884,855
Net assets released from restrictions	222,569	(222,569)	-
Total revenue and other support released from restrictions	14,901,161	(16,306)	14,884,855
EXPENSES:			
Program services	13,804,944	-	13,804,944
Supporting services			
Management and general expenses	2,190,100	-	2,190,100
Fundraising	263,045	-	263,045
Total supporting services	2,453,145	-	2,453,145
Total expenses	16,258,089	-	16,258,089
Change in net assets from operations	(1,356,928)	(16,306)	(1,373,234)
OTHER NONOPERATING INCOME:			
Decrease in government liability	135,496	-	135,496
Change in net assets	(1,221,432)	(16,306)	(1,237,738)
Net assets at beginning of year	11,519,974	5,730,457	17,250,431
Net assets at end of year	$ 10,298,542	$ 5,714,151	$ 16,012,693

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

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	2019			
	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES:				
Salaries	$ 6,286,134	$ 899,020	$ 248,553	$ 7,433,707
Payroll taxes and employee benefits	1,379,382	159,215	55,544	1,594,141
Total salaries and related expenses	7,665,516	1,058,235	304,097	9,027,848
OTHER EXPENSES:				
Professional fees	61,144	218,095	1,121	280,360
Contract services	241,672	112,045	(1,010)	352,707
Occupancy	1,885,519	145,298	-	2,030,817
Donated rent	-	142,787	-	142,787
Donated goods and services	1,565,029	-	-	1,565,029
Interest expense - cash	612	15,020	-	15,632
Interest expense - non cash	273,463	5,577	-	279,040
Financial assistance	1,561,821	-	-	1,561,821
Supplies	330,983	54,125	12,419	397,527
Rentals and maintenance	135,411	6,231	-	141,642
Telephone	82,778	75,819	1,139	159,736
Local transportation	105,590	5,667	4,928	116,185
Staff development	42,915	32,422	1,093	76,430
Printing and publication	16,976	4,536	13,558	35,070
Bad debt expense	343,029	-	-	343,029
Other	208,650	58,722	11,511	278,883
Total other expenses	6,855,592	876,344	44,759	7,776,695
Depreciation and amortization	959,637	91,352	-	1,050,989
	$ 15,480,745	$ 2,025,931	$ 348,856	$ 17,855,532

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

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

Consolidated Statements of Functional Expenses

For the year ended June 30, 2018

	2018			
	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses:				
Salaries	$ 5,301,588	$ 1,191,330	$ 157,882	$ 6,650,800
Payroll taxes and employee benefits	1,205,443	216,548	32,638	1,454,629
Total salaries and related expenses	6,507,031	1,407,878	190,520	8,105,429
Other Expenses:				
Professional fees	53,686	188,427	5,000	247,113
Contract services	333,881	104,097	6,611	444,589
Occupancy	1,686,693	121,832	552	1,809,077
Donated rent	5,253	74,672	11,470	91,395
Donated goods and services	1,276,569	-	-	1,276,569
Interest expense - cash	2,213	21,554	-	23,767
Interest expense - non cash	262,317	5,578	-	267,895
Financial assistance	1,498,390	-	-	1,498,390
Supplies	344,940	40,633	32,757	418,330
Rentals and maintenance	263,859	4,212	-	268,071
Telephone	103,454	58,603	963	163,020
Local transportation	53,606	5,409	2,070	61,085
Staff development	26,396	19,798	1,087	47,281
Printing and publication	14,356	2,318	1,864	18,538
Bad debt expense	317,849	2,236	-	320,085
Other	69,349	37,823	10,151	117,323
Total other expenses	6,312,811	687,192	72,525	7,072,528
Depreciation and amortization	985,102	95,030	-	1,080,132
	$ 13,804,944	$ 2,190,100	$ 263,045	$ 16,258,089

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 10,967	$ (1,237,738)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,050,989	1,080,132
Decrease in government liabilities	54,423	(135,496)
Unrealized gain on endowment	(642)	(7,880)
Change in allowance for doubtful accounts	297	9,731
Change in accrued interest	279,040	267,895
(Increase) decrease in operating assets:		
Government grants receivable	(852,412)	(452,908)
Contributions receivable	(199,350)	65,750
Other receivables	(7,192)	157,164
Prepaid expenses	6,984	40,172
Other assets	512	(368)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(220,618)	(7,923)
Accrued payroll and related liabilities	48,802	79,220
Security deposits	(77)	2,289
Other liabilities	22,798	(8,561)
Net cash provided by (used in) operating activities	194,521	(148,521)
Cash flows from investing activities:		
Acquisition of property, equipment and projects in development	(183,330)	(13,368)
Net cash used in investing activities	(183,330)	(13,368)
Cash flows from financing activities:		
Repayments of long-term debt	(35,577)	(70,085)
Net (payments) borrowings on line of credit	(350,000)	250,000
Advances received	973,422	-
Net cash provided by financing activities	587,845	179,915
Net increase in cash, cash equivalents, and restricted cash	599,036	18,026
Cash, cash equivalents, and restricted cash, beginning of year	315,869	297,843
Cash, cash equivalents, and restricted cash, end of year	$ 914,905	$ 315,869

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

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the years ended June 30, 2019 and 2018

	2019	2018
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 612	$ 2,213
Noncash investing activities:		
Reduction of government liabilities	$ -	$ 135,496
Cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	$ 914,905	$ 280,395
Restricted cash	-	35,474
	$ 914,905	$ 315,869

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

1. Organization

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

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

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

HomeFirst is a leading provider of services, shelter and housing opportunities to the men, women and children who are currently homeless or at imminent risk of homelessness in Santa Clara County. The Organization provides a robust continuum of care including street outreach, emergency shelter, case management, prevention services, transitional housing and permanent supportive housing. It serves over 5,000 adults, veterans, families and youth each year at seven locations from Gilroy to Menlo Park – including the Boccardo Reception Center, which is Santa Clara County's largest emergency shelter with an overnight capacity of 250 adults, and a Sunnyvale shelter serving 170 adults and families.

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Consolidation of Financial Statements

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

Continued

2. Summary of Significant Accounting Policies, continued

Basis of Presentation

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

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended to support HomeFirst's operations. Net assets without donor restriction include $362,010 as of June 30, 2019 and 2018, as designated by the board for future maintenance for various properties owned and used.

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

Cash and Cash Equivalents

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

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

Grants, Contributions, Notes and Other Receivables

The Organization considers all receivables to be fully collectible after reserves as estimated by management. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The total allowance for doubtful accounts for grants and other receivables is $29,839 and $29,542 as of June 30, 2019 and 2018, 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 $2,000 or more and a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty years.

Investment in Partnerships

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

Continued

2. Summary of Significant Accounting Policies, continued

Long Term Investments

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

Revenue Recognition

The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants that have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. Loans expected to be forgiven by the lenders are treated as restricted grants since it is management's intent to comply with the terms of the loans.

Contributions

Contributions are recognized when the donor makes a pledge to give an unconditional promise. Contributions are recorded as an increase in net assets without donor restrictions or with donor restrictions, depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met, the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions. The Organization records contributions whose restrictions are met in the same year as unrestricted support. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise became unconditional.

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.

Continued

2. Summary of Significant Accounting Policies, continued

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising costs for the years ended June 30, 2019 and 2018 were $10,932 and $510, 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.

Use of Estimates

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

Measure of Operations

HomeFirst includes in its measure of operations all revenue and expenses that are an integral part of its programs and supporting activities. The measure of operations does not include proceeds from gain from property sold or the forgiven liability from government grant repayments.

Reclassifications

Certain reclassifications have been made to the June 30, 2018 consolidated financial statement presentation to conform to the June 30, 2019 presentation. The prior year numbers were adjusted to properly reflect the additional donated goods for food, which increased donated revenue and donated expenses (Note 12) and had no net impact on the change in net assets for fiscal year ending June 30, 2018.

2. Summary of Significant Accounting Policies, continued

Financial Results, Liquidity, and Availability

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Organization shows positive working capital of $1,960,335 and $41,715 as of June 30, 2019 and 2018, respectively. The Organization showed a positive change in net assets of $10,967 for the year ended June 30, 2019 and a negative change in net assets of $1,237,738 for the year ended June 30, 2018. 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 their 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 statement of cash flows which identifies the sources and uses of HomeFirst's cash for fiscal year 2019.

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

Cash	$ 914,905
Government grants receivable	2,369,823
Contribution receivable	199,350
Other receivables, net	76,797
	3,560,875
Less: Board designated for property maintenance	(362,010)
Add: Available line of credit facility	350,000
	$ 3,548,865

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

2. Summary of Significant Accounting Policies, continued

Change in Accounting Principles

During the year ended June 30, 2019, HomeFirst adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14") required for annual reporting periods beginning after December 15, 2017. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted or permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability has also been added. HomeFirst applied the new guidance retrospectively, with the exception of the liquidity and availability that is only required to be included for the first year of adoption.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which converges the FASB and the International Accounting Standards Board standards on revenue recognition. The ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. HomeFirst is currently evaluating the impact of the adoption of this ASU on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to clarify in distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third-party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2018 for contributions received, and after December 15, 2019 for contributions made with early adoption permitted. HomeFirst is currently evaluating the impact of the adoption of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (842). The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early application is permitted. HomeFirst is in the process of evaluating the impact of the new guidance on its financial statements.

3. Restricted Cash

Restricted cash consisted of the following as of June 30:

	2019	2018
Youth savings program	$ -	$ 35,474

The program ended March 31, 2019 and all funds were transferred to another party to continue the program.

4. Property and Equipment, net

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

	2019	2018
Buildings	$ 25,034,488	$ 25,034,488
Land	8,181,804	8,181,804
Furniture and equipment	3,078,353	2,926,261
Building improvements	1,874,308	1,859,812
Motor vehicles	293,937	273,828
Land improvements	121,588	121,588
	38,584,478	38,397,781
Less accumulated depreciation	(16,462,893)	(15,411,903)
	22,121,585	22,985,878
Projects in development	-	3,366
	$ 22,121,585	$ 22,989,244

Depreciation expense for the years ended June 30, 2019 and 2018 was $1,050,989 and $1,080,132, respectively.

5. Investment in Partnerships

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

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

	2019	2018
Tully Gardens, L.P.	$ 63	$ 63
Tully Gardens Phase II, L.P.	157	157
	$ 220	$ 220

Continued

5. Investment in Partnerships, continued

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

6. Note and Advances Receivable - Affiliates

The Organization entered into two notes receivable in connection with the construction of projects owned by Tully Gardens, L.P. and Tully Gardens Phase II, L.P. The Organization has determined that the notes receivable, and accrued interest receivable are uncollectible and maintained a full reserve for uncollectible amounts as of June 30, 2019 and 2018.

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

	2019	2018
Tully Gardens, L.P. note dated June 21, 2002 for a maximum amount of $2,147,793. The source of the funds is a grant to the Organization from the City of San Jose. Funds were used for the construction of Tully Gardens, L.P.'s low income housing tax credit project. Annual payments are due and payable January 1st each year equal to 30% of net cash flow, as defined by the note. The interest rate is based on the Applicable Federal Rate for long-term debt instruments in effect at the time of each disbursement and is compounded annually. Unpaid principal and interest is due June 30, 2042. As of June 30, 2019 and 2018 accrued interest was $2,506,490 and $2,285,847, respectively. The partnership does not intend to draw down the balance of the note.	$ 4,079,030	$ 3,858,387

6. Note and Advances Receivable – Affiliates, continued

	2019	2018
Tully Gardens Phase II, L.P. note dated October 1, 2002 for a maximum amount of $1,336,691. The source of the funds is a grant to the Organization from the City of San Jose. Funds were used for the construction of Tully Gardens Phase II, L.P.'s low income housing tax credit project. Annual payments are due and payable January 1st of each year equal to 30% of net cash flow, as defined by the note. The interest rate is based on the Applicable Federal Rate for long-term debt instruments in effect at the time of each disbursement and is compounded annually. Unpaid principal and interest is due October 1, 2042. As of June 30, 2019 and 2018, accrued interest was $986,708 and $899,258, respectively. The partnership does not intend to draw down the balance of the note.	1,696,555	1,609,105
Less: valuation allowance	(5,775,585)	(5,467,492)
	$ -	$ -

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

	2019	2018
Tully I	$ 334,435	$ 334,435
Less: valuation allowance	(334,435)	(334,435)
	$ -	$ -

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

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

As of June 30, 2018, the Organization recognized on the statement of activities as other revenue the $25,000, as this is related to the signing of the agreement and received upon the signing of the agreement. The other amounts noted in the agreement are contingent on the re-syndication and sale of the properties and as such will be recorded upon the successful re-syndication and sale of the properties. As of June 30, 2019, the properties have not sold and no additional amounts have been recorded.

Continued

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. Remaining payments due are as follows:

Year Ending June 30,	
2020	$ 68,133
2021	102,198
	$ 170,331

The Organization has a remaining liabilities of $170,331 to HUD as of June 30, 2019.

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

- $140,448 - relates to disputed overpayment for previous grant contracts. During 2017, the Organization submitted documentation to the County to support the amount in dispute. Because the Organization has not yet received acceptance of its submission by the County, the balance remains recorded as a current liability as of June 30, 2019.
- $72,223 - relates to the year ended June 30, 2018 tentative overpayment for contract Intensive Case Management for the Chronically Homeless in North County. HomeFirst believes the County overpaid due to changes in the split of Medi-Cal funding in the contract; however, the County has not yet confirmed this understanding.
- $8,732 - relates to disallowed costs per Clinical records review for FY 18/19 by Behavioral Health Service Department of County of Santa Clara.

Continued

8. Mortgages and Notes Payable

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

	2019	2018
Boccardo Family Living Center		
City of Gilroy Housing and Community Development note dated April 1991, $30,000 secured by deed of trust on the real property, bearing 2% interest. Annual payments of interest of $600. Unpaid principal and interest due March 2020.	$ 30,000	$ 30,000
County of Santa Clara HOME note dated December 1996, in the amount of $373,500, secured by deed of trust on the real property, bearing 6% interest. Payment of principal and interest shall be deferred during the term of the note. Balance due December 2026.	373,500	373,500
County of Santa Clara CDBG note dated December 1996, in the amount of $332,552, secured by deed of trust on real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	332,552	332,552
County of Santa Clara CDBG note dated December 1996 in the amount of $100,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	100,000	100,000
County of Santa Clara CDBG note dated December 1996 in the amount of $50,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	50,000	50,000

Continued

8. Mortgages and Notes Payable, continued

	2019	2018
Boccardo Family Living Center, continued		
County of Santa Clara CDBG note dated December 1996, in the amount of $251,664, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	251,664	251,664
County of Santa Clara CDBG note dated June 1998, in the amount of $11,750, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due June 2028.	11,750	11,750
Sobrato Family Living Center		
City of Sunnyvale CDBG note dated April 2001, in the amount of $100,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due April 2031.	100,000	100,000
Housing Trust Silicon Valley (formerly Lenders for Community Development/Opportunity Fund) note dated April 2004, in the amount of $450,000, secured by deed of trust on the real property, bearing 0% interest. Annual payments of principal and interest shall be made out of 100% residual receipts from operations. Balance due April 2034.	445,380	445,380
County of Santa Clara CDBG note dated February 2001, in the amount of $500,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due February 2031.	500,000	500,000

Continued

8. Mortgages and Notes Payable, continued

	2019	2018
Boccardo Reception Center		
City of Sunnyvale CDBG note dated July 1997, in the amount of $50,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due July 2027.	50,000	50,000
City of Sunnyvale CDBG note dated February 1997, in the amount of $50,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due February 2027.	50,000	50,000
Sobrato House		
City of Palo Alto note dated November 2005, in the amount of $75,000, secured by a deed of trust on the property, bearing 3% simple interest. Payments of principal and interest shall be deferred during the term of the note. Balance due November 2035.	75,000	75,000
Opportunity Fund (formerly Lenders for Community Development/ Opportunity Fund) note dated April 2008, in the amount of $240,000, secured by deed of trust, bearing 0% interest. Payments of principal and interest shall be deferred during term of the note. Balance due May 2038.	240,000	240,000
Housing Trust of Santa Clara County (formerly Lenders for Community Development) note dated December 2006, secured by all personal and intangible assets of the Organization in the amount of $1,230,000, as amended by the Change in Terms Agreement dated as of December 2008, bearing 0% interest until December 2013 and 1% over prime thereafter. Annual principal payments of $61,500. Monthly interest payments commenced in 2014. Balance was paid in full December 2018	-	35,577

8. Mortgages and Notes Payable, continued

	2019	2018
Sobrato House, continued		
City of Sunnyvale note dated June 2006, in the amount of $50,000, secured by deed of trust, bearing simple interest at 3%. Payments of principal and interest shall be deferred during the term of the note. Balance due June 2061.	50,000	50,000
County of Santa Clara two notes dated November 2006, in the amount of $366,197, secured by deed of trust, bearing simple interest at 6%. Payments of principal and interest shall be deferred during the term of the note. Balance due November 2036.	366,197	366,197
EHC Delmas Park, LLC		
City of San Jose note dated October 2004, in the amount of $185,912, secured by a deed of trust on the real property of Delmas Park. Interest is calculated at 1.25% during the construction period, 3% from after construction to the end of 15 years, and at 5% until maturity. Interest accrues and payments of principal and interest are due annually based on surplus cash. The City of San Jose is entitled to 50% of any surplus cash, of which 2.58% of the City of San Jose's portion will be used to pay this note, first interest, and then principal. Unpaid principal and interest are due on October 2047.	185,912	185,912
Total mortgages and notes payable	3,211,955	3,247,532
Less: current portion	(30,000)	(35,577)
	$ 3,181,955	$ 3,211,955

8. Mortgages and Notes Payable, continued

As of June 30, 2019, aggregate future annual maturities on mortgages and notes payable are as follows:

Year Ending June 30,	
2020	$ 30,000
2021	-
2022	-
2023	-
2024	-
2025 and thereafter	3,181,955
	$ 3,211,955

9. Line of Credit

The line of credit consisted of the following as of June 30:

	2019	2018
Heritage Bank of Commerce - Line of Credit		
Heritage Bank of Commerce line of credit with a current limit of $350,000 at prime interest plus 0.75% (currently 5.00%) with original maturity date in April 2017 extended to November 2019. The line is secured by a blanket security agreement. These borrowings are subject to various covenants, for which HomeFirst is in compliance as of June 30, 2019.	$ -	$ 350,000

10. Net Assets With Donor Restrictions

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

	2019	2018
Purpose of restriction:		
Program services	$ 19,364	$ 18,303
Time restricted	5,788,616	5,589,266
Endowment - time	20,980	20,338
Endowment - perpetuity	86,244	86,244
Total net assets with donor restrictions	$ 5,915,204	$ 5,714,151

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

11. Net Assets Released From Restrictions

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

	2019	2018
Program services	$ 178,750	$ 192,569
Time restricted	-	30,000
	$ 178,750	$ 222,569

12. Donated Goods, Services and Rent

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

	2019	2018
Donated goods:		
Food	$ 1,406,110	$ 1,168,886
Goods for clients	158,918	107,683
Total donated goods	1,565,028	1,276,569
Donated rent and common area maintenance	142,787	91,395
Total donated goods, services, and rent	$ 1,707,815	$ 1,367,964

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

13. Ground Lease

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

14. 401(k) Plan

The Organization sponsors the Emergency Housing Consortium 401(k) 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. The Organization makes contributions at the discretion of management, which are pre-approved by the Board of Directors. No discretionary contributions were made for the years ended June 30, 2019 and 2018.

15. Endowment Fund

The Organization's endowment 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 is recorded as long-term investments on the consolidated statement of financial position. All income earned on the endowment fund investment is treated as restricted and used from time to time to fund restricted activities.

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

Interpretation of Relevant Law

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

Spending Policy

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

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

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

Continued

15. Endowment Fund, continued

Investment Policy, Strategies, and Objectives

The Organization has adopted investment and spending policies for endowment assets that attempts 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 Fund to retain as a fund of perpetual duration. There were no funds with deficiencies as of June 30, 2019 and 2018.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2017	$ -	$ 98,702	$ 98,702
Investment gain	-	9,040	9,040
Expenditures	-	(1,160)	(1,160)
Endowment net assets, June 30, 2018	-	106,582	106,582
Investment gain	-	1,584	1,584
Expenditures	-	(942)	(942)
Endowment net assets, June 30, 2019	$ -	$ 107,224	$ 107,224

Continued

16. Commitments and Contingencies

Economic Dependency

The Organization received approximately 66% and 70% of its funding from government agencies, of which 67% and 60% is from the County of Santa Clara, 24% and 29% is from the Department of Veterans Affairs, and 8% and 11% is from the City of San Jose for the years ended June 30, 2019 and 2018, respectively. The Organization also has approximately 90% and 96% of its receivables from government agencies for the years ended June 30, 2019 and 2018, respectively. The continuation of this funding is dependent on the respective government agencies' budget and revenue constraints. The Organization also has received 27% of private grants and contributions from a foundation for the year ended June 30, 2019.

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, 2019 and 2018, the amount of the potential liability accrued in the consolidated financial statements to the federal agency was determined by management to be $170,331 and $204,397, respectively (see Note 7).

Continued

16. Commitments and Contingencies, continued

Leases

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

Year Ending June 30,		
2020	$	50,049
2021		50,049
2022		42,566
2023		27,600
2024		23,000
	$	193,264

Total rental expense was $174,549 and $165,611 for the years ended June 30, 2019 and 2018, 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 $142,787 and $89,903 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018.

Delmas Loan

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

Continued

16. 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.

	2019	2018
Boccardo Reception Center: Various notes with due dates ranging from May 2026 to July 2027	$ 3,600,614	$ 3,600,614
Sobrato Family Living Center: Various notes with due dates ranging from January 2023 to December 2032	1,913,652	1,913,652
Sobrato House: Notes with a due date in December 2022	75,000	75,000
	$ 5,589,266	$ 5,589,266
Accrued interest	$ 2,675,676	$ 2,559,407

Accrued interest on the forgivable loans of $2,675,676 and $2,559,407 for the years ended June 30, 2019 and 2018, 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.

Continued

16. Commitments and Contingencies, continued

Restricted Grants, continued

Balances are as follows as of June 30:

	2019	2018
Boccardo Reception Center	$ 1,000,000	$ 1,000,000
Boccardo Family Living Center	953,966	953,966
Sobrato Family Living Center	4,000,000	4,000,000
Sobrato house	8,876,293	8,876,293
Tully I and Tully II	2,660,324	2,660,324
Delmas	3,300,000	3,300,000
	$ 20,790,583	$ 20,790,583

Services for Partnerships

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

Legal Proceedings

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

17. Fair Value Measurement

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

17. 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:

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

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Pooled blended fund	$ -	$ 106,582	$ -	$ 106,582
Investment in partnership	-	-	220	220
	$ -	$ 106,582	$ 220	$ 106,802

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.

Continued

17. **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, 2017	$	220
Change in value		-
Balance as of June 30, 2018		220
Change in value		-
Balance as of June 30, 2019	$	220

There was no change in the value and no transfers in or out of Level 3 assets for the years ended June 30, 2019 and 2018.

18. **Subsequent Events**

In accordance with accounting standards affecting disclosures of subsequent events, the Organization evaluated subsequent events for recognition and disclosure through October 23, 2019, the date which these consolidated financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2019 that require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

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

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through 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				
Pass-through programs from:				
City of San Jose-CDBG	14.218	CPS-15-012D-CDBG	$ -	$ 178,663
City of San Jose-ESG	14.218	CPS-18-002-CDBG	-	400,973
City of San Jose-HALA	14.218	CPS-18-002	-	45,525
Total - U.S. Department of Housing and Urban Development			-	625,161
U.S. Department of Veterans Affairs				
VA Homeless Providers Grant and Per Diem Program				
VA Per Diem Beds	64.024	HFSC272-0289-640-LD-18-0	-	290,684
VA Emergency Shelter Program	64.024	VA261-17-C-0179/36C26118D0115	-	364,950
VA Special Conditions	64.024	VA261-17-C-0180/36C26118D0114	-	191,730
VA Direct Programs				
VA Supportive Services for Veteran Families	64.033	12-CA-010	-	29,779
VA Supportive Services for VA Families	64.033	18-CA-344 & 19-CA-010	927,148	1,956,582
Total - U.S. Department of Veterans Affairs			927,148	2,833,725
U.S. Department of Homeland Security				
FEMA: Emergency Food and Shelter National Board Program				
Pass-through program from:				
FEMA	97.024	N/A	-	50,114
Second Harvest Food Bank	97.024	Donated Food Value	-	39,210
Total - U.S. Department of Health and Human Services			-	89,324
Total Current Year Expenditure of Federal Awards			$ 927,148	$ 3,548,210

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

For the year ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Prior Year Federal Awards Requiring Continuing Compliance			
U.S. Department of Housing and Urban Development:			
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
City of Gilroy	14.218		30,000
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
			$ 6,490,162

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Prior Years' Expenditures

The accompanying schedule of expenditures of federal awards includes $6,490,162 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. The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of HomeFirst Services of Santa Clara County Incorporated (a California nonprofit public benefit corporation) and Subsidiary ("HomeFirst" or the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019, 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 October 23, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of HomeFirst's internal control. Accordingly, we do not express an opinion on the effectiveness of the HomeFirst's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BPM LLP

San Jose, California
October 23, 2019

BPM

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

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

Report on Compliance for Each Major Federal Program

We have audited HomeFirst Services of Santa Clara County Incorporated and Subsidiary's ("HomeFirst") 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, 2019. HomeFirst's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HomeFirst's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HomeFirst's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, HomeFirst complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-001. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of HomeFirst is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HomeFirst's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HomeFirst's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BPM LLP

San Jose, California
October 23, 2019

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

Schedule of Federal Findings and Questioned Costs

For the year ended June 30, 2019

Section I – Summary of Audit Results

Consolidated Financial Statements

1.	Type of auditors' report issued:	Unmodified
2.	Internal control over financial reporting	
	a. Material weaknesses identified?	No
	b. Significant deficiencies identified?	None reported
3.	Noncompliance material to consolidated financial statements noted?	No

Federal Awards

4.	Internal control over major programs:	
	a. Material weaknesses identified?	No
	b. 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:	

CFDA Number	Name of Federal Program or Cluster
64.033	VA Supportive Services for Veteran Families
64.024	VA Homeless Providers Grant and Per Diem Program
14.218	Community Development Block Grants
14.239	Home Investment Partnerships Program

8.	Dollar threshold used to distinguish between type A and type B program	$750,000
9.	Auditee qualified as low-risk auditee?	No

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 Findings

Finding 2007-001 has been discussed and a payment plan has been approved with HUD (Note 7).