HomeFirst Services of Santa Clara County Incorporated and Subsidiary

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

June 30, 2018 and 2017

HOMEFIRST SERVICES OF SANTA CLARA COUNTY
INCORPORATED AND SUBSIDIARY

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BPM

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HomeFirst Services of Santa Clara County Incorporated and Subsidiary ("HomeFirst"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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 auditors' 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Organization has suffered a negative change in net assets in fiscal year 2018 and had negative cash flows from operating activities in fiscal years 2018 and 2017. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 2. 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 26, 2018, 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

Menlo Park, California
October 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

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 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 4,000 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, the Consolidated Statements of Activities, the 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, 2018 compared to June 30, 2017 is presented below:

	2018	2017	$ Change	% Change
Condensed Consolidated Statements of Financial Position				
Assets:				
Current assets	$ 2,033,636	$ 1,835,519	$ 198,117	10.8%
Long-term and other assets	23,118,981	24,177,497	(1,058,516)	-4.4%
Total assets	$ 25,152,617	$ 26,013,016	$ (860,399)	-3.3%
Liabilities:				
Current liabilities	$ 1,991,921	$ 1,736,495	$ 255,426	14.7%
Long-term liabilities	7,148,003	7,026,090	121,913	1.7%
Total liabilities	9,139,924	8,762,585	377,339	4.3%
Net Assets	16,012,693	17,250,431	(1,237,738)	-7.2%
Total liabilities and net assets	$ 25,152,617	$ 26,013,016	$ (860,399)	-3.3%

During the fiscal year 2018, the Organization submitted further documentation to HUD that allowed the Organization to reduce the government liability by $135,496, which was recognized as non-operating income (Note 7).

The condensed HomeFirst Consolidated Statement of Activities for the year ended June 30, 2018 compared to the year ended June 30, 2017 is presented below:

	2018	2017	$ Change	% Change
Condensed Consolidated Statement of Financial Activities				
Total revenue	$ 14,137,429	$ 12,997,919	$ 1,139,510	8.8%
Expenses				
Program services	13,057,518	11,976,474	1,081,044	9.0%
Supportive services	2,453,145	2,639,706	(186,561)	-7.1%
Total expenses	15,510,663	14,616,180	894,483	6.1%
Change in net assets from operations	(1,373,234)	(1,618,261)	245,027	-15.1%
Decrease in government liability	135,496	860,411	(724,915)	-84.3%
Net gain on asset disposals	-	1,068,588	(1,068,588)	-100.0%
Change in net assets	$ (1,237,738)	$ 310,738	$ (1,548,476)	-498.3%

In addition to the non-recurring transactions HomeFirst incurred depreciation expense in the amount of $1,080,132 and forgivable non-cash interest expense in the amount of $267,895. Below is Management's analysis of pro-forma change in net assets from operations for the year ended June 30, 2018 excluding depreciation, non-cash interest, and non-recurring transactions:

Change in net assets	$ (1,237,738)
Less:	
Depreciation	1,080,132
Non-cash interest expense	267,895
Decrease in government liability	(135,496)
Pro-forma change in net assets from operations	$ (25,207)

During the fiscal year ended June 30, 2018, 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 15% in fiscal year 2017 and 14% in fiscal year 2018.

For the year ended	Program	Management and General	Fundraising	Total
June 30, 2016	81%	16%	3%	100%
June 30, 2017	82%	15%	3%	100%
June 30, 2018	84%	14%	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, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 280,395	$ 253,246
Restricted cash	35,474	44,597
Government grants receivable	1,517,411	1,064,503
Other receivables, less allowance for doubtful accounts of $29,542 and $19,811 at 2018 and 2017, respectively	69,902	236,797
Contributions receivable	-	65,750
Prepaid expenses	130,454	170,626
Total current assets	2,033,636	1,835,519
Property and equipment, net	22,989,244	24,056,008
OTHER ASSETS:		
Investment in partnerships	220	220
Long-term investments - endowment	106,582	98,702
Other assets	22,935	22,567
Total other assets	129,737	121,489
TOTAL ASSETS	$ 25,152,617	$ 26,013,016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Line of credit	$ 350,000	$ 100,000
Current portion of mortgages and notes payable	35,577	70,085
Accounts payable and accrued expenses	679,302	687,225
Accrued payroll and related liabilities	577,741	498,521
Government grant repayment liabilities	235,112	257,914
Other liabilities	114,189	122,750
Total current liabilities	1,991,921	1,736,495
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Accrued interest	3,757,189	3,489,294
Mortgages and notes payable	3,211,955	3,247,532
Total long-term liabilities, net of current portion	6,969,144	6,736,826
Government grant repayment liabilities	102,199	214,893
Tenant security deposits	76,660	74,371
Total liabilities	9,139,924	8,762,585
NET ASSETS:		
Unrestricted net assets:		
Restricted cash	35,474	44,597
Board designated for property maintenance	362,010	362,010
Long-term investment	220	220
Undesignated	9,900,838	11,113,147
Total unrestricted net assets	10,298,542	11,519,974
Temporarily restricted net assets	5,627,907	5,644,213
Permanently restricted net assets	86,244	86,244
Total net assets	16,012,693	17,250,431
TOTAL LIABILITIES AND NET ASSETS	$ 25,152,617	$ 26,013,016

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, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	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	620,538	-	-	620,538
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	13,931,166	206,263	-	14,137,429
Net assets released from restrictions	222,569	(222,569)	-	-
Total revenue and other support released from restrictions	14,153,735	(16,306)	-	14,137,429
EXPENSES:				
Program services	13,057,518	-	-	13,057,518
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	15,510,663	-	-	15,510,663
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	5,644,213	86,244	17,250,431
Net assets at end of year	$ 10,298,542	$ 5,627,907	$ 86,244	$ 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 Activities

For the year ended June 30, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support:				
Government grants	$ 8,903,258	$ -	$ -	$ 8,903,258
Private grants and contributions	1,155,678	328,779	-	1,484,457
Rental income	871,451	-	-	871,451
Service revenue	473,012			473,012
Donated goods, services, and rent	564,040	-	-	564,040
Special events (net of direct expenses of $37,600)	162,413	-	-	162,413
Interest income	285,601	-	-	285,601
Other revenue	253,687	-	-	253,687
Total revenue and other support	12,669,140	328,779	-	12,997,919
Net assets released from restrictions	2,431,336	(2,431,336)	-	-
Total revenue and other support released from restrictions	15,100,476	(2,102,557)	-	12,997,919
Expenses:				
Program services	11,976,474	-	-	11,976,474
Supporting services				
Management and general expenses	2,206,159	-	-	2,206,159
Fundraising	433,547	-	-	433,547
Total supporting services	2,639,706	-	-	2,639,706
Total expenses	14,616,180	-	-	14,616,180
Change in net assets from operations	484,296	(2,102,557)	-	(1,618,261)
Other Nonoperating Income:				
Decrease in government liability	860,411	-	-	860,411
Net gain on asset disposals	1,068,588	-	-	1,068,588
Total other changes	1,928,999	-	-	1,928,999
Change in net assets	2,413,295	(2,102,557)	-	310,738
Net assets at beginning of year	9,106,679	7,746,770	86,244	16,939,693
Net assets at end of year	$ 11,519,974	$ 5,644,213	$ 86,244	$ 17,250,431

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	529,143	-	-	529,143
Interest expense	264,530	27,132	-	291,662
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
Allowance for bad debt	317,849	2,236	-	320,085
Other	69,349	37,823	10,151	117,323
Total other expenses	5,565,385	687,192	72,525	6,325,102
Depreciation and amortization	985,102	95,030	-	1,080,132
	$ 13,057,518	$ 2,190,100	$ 263,045	$ 15,510,663

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, 2017

	2017			
	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES:				
Salaries	$ 4,898,215	$ 1,088,636	$ 239,476	$ 6,226,327
Payroll taxes and employee benefits	1,101,256	207,053	46,887	1,355,196
Total salaries and related expenses	5,999,471	1,295,689	286,363	7,581,523
OTHER EXPENSES:				
Professional fees	34,377	225,512	12,034	271,923
Contract services	364,954	122,589	40,392	527,935
Occupancy	1,304,598	83,351	12,596	1,400,545
Donated rent	3,866	71,642	14,585	90,093
Donated goods and services	473,947	-	-	473,947
Interest expense	273,058	16,222	-	289,280
Financial assistance	1,483,364	545	-	1,483,909
Supplies	318,483	48,524	27,909	394,916
Rentals and maintenance	148,484	19,860	-	168,344
Telephone	134,024	75,450	8,720	218,194
Local transportation	70,604	14,437	2,962	88,003
Staff development	31,915	17,598	2,292	51,805
Printing and publication	16,591	8,409	15,302	40,302
Allowance for bad debt	272,456	73,971	100	346,527
Other	78,205	38,849	10,292	127,346
Total other expenses	5,008,926	816,959	147,184	5,973,069
Depreciation and amortization	968,077	93,511	-	1,061,588
	$ 11,976,474	$ 2,206,159	$ 433,547	$ 14,616,180

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (1,237,738)	$ 310,738
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,080,132	1,061,588
Gain on sale of assets	-	(1,116,242)
Write off of property, equipment, and projects in development	-	47,654
Decrease in government liabilities	(135,496)	(860,411)
Unrealized gain on endowment	(7,880)	(3,234)
Change in allowance for doubtful accounts	9,731	(4,058)
Change in accrued interest	267,895	274,909
(Increase) decrease in operating assets:		
Government grants receivable	(452,908)	221,368
Contributions receivable	65,750	(61,434)
Other receivables	157,164	(213,368)
Prepaid expenses	40,172	(116,004)
Other assets	(368)	512
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(7,923)	292,642
Accrued payroll and related liabilities	79,220	49,449
Security deposits	2,289	(20,639)
Other liabilities	(8,561)	23,159
Net cash used in operating activities	(148,521)	(113,371)
Cash flows from investing activities:		
Acquisition of property, equipment and projects in development	(13,368)	(407,150)
Net cash used in investing activities	(13,368)	(407,150)
Cash flows from financing activities:		
Repayments of long - term debt	(70,085)	(68,681)
Net borrowing on line of credit	250,000	100,000
Net cash provided by financing activities	179,915	31,319
Net increase (decrease) in cash, cash equivalents, and restricted cash	18,026	(489,202)
Cash, cash equivalents, and restricted cash, beginning of year	297,843	787,045
Cash, cash equivalents, and restricted cash, end of year	$ 315,869	$ 297,843

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2018 and 2017

	2018	2017
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 2,213	$ 14,742
Noncash investing activities		
Reduction of government liabilities	$ 135,496	$ 860,411
Value of property sold	$ -	$ 2,796,221
Assignment/transfer of long-term debt	-	(3,296,321)
Assignment/transfer of accrued interest	-	(632,664)
Other accrued expenses related to property held for sale	-	16,522
Gain on sale of asset	$ -	$ (1,116,242)

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.

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 Sunnyvale, 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. The provisions of these standards require the Organization to report its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. Unrestricted net assets currently include the operating fund and Board designated funds.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period. Donor restrictions expire when stipulated time restriction ends or purpose restriction is accomplished, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

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 $29,542 and $19,811 as of June 30, 2018 and 2017, 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.

Continued

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

The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which 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 temporarily 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 unrestricted, temporarily restricted, or permanently restricted 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 restricted net assets to unrestricted net assets. 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.

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, 2018 and 2017 were approximately $510 and $2,009, 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.

Reclassifications

Certain reclassifications have been made to the June 30, 2017 consolidated financial statement presentation to conform to the June 30, 2018 presentation.

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.

Financial Results and Liquidity

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 $41,715 and $99,024 as of June 30, 2018 and 2017, respectively. The Organization showed a negative change in net assets of $1,237,738 for the year ended June 30, 2018 and a positive change in net assets of $310,738 for the year ended June 30, 2017. 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. In addition, the Organization is also evaluating programs and operations to continue operations. The Organization recognizes that a large negative change in net assets is attributed to depreciation, and accrued interest expense on future forgivable loans.

Continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (958). This statement includes updates that improve the usefulness of financial statements or reduce complexities for preparers. Some of the updates include requiring all nonprofits to present expenses by function and nature; replacing traditional three classes of net assets with only two classes (those with donor-imposed restrictions and those without); and reaffirmation of existing methods of presenting operating cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. HomeFirst is currently evaluating the impact of adoption on its financial statements.

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, *Grants and Contracts* (958). The accounting for contributions has been modified to make it clearer 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. The changes in this standard are likely going to result in more transactions being treated as conditional contributions, including those that were previously considered earned revenue as exchange transactions. The new guidance is effective for fiscal years beginning after June 30, 2018 and interim periods beginning the following year. HomeFirst is in the process of evaluating the impact of the new guidance 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.

Continued

3. Restricted Cash

Restricted cash consisted of the following as of June 30:

	2018	2017
Youth savings program	$ 35,474	$ 44,597

4. Property and Equipment, net

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

	2018	2017
Buildings	$ 25,034,488	$ 25,034,488
Land	8,181,804	8,181,804
Furniture and equipment	2,926,261	2,929,331
Building improvements	1,859,812	1,516,270
Motor vehicles	273,828	273,828
Land improvements	121,588	121,588
	38,397,781	38,057,309
Less accumulated depreciation	(15,411,903)	(14,344,843)
	22,985,878	23,712,466
Projects in development	3,366	343,542
	$ 22,989,244	$ 24,056,008

Depreciation expense for the years ended June 30, 2018 and 2017 was $1,080,132 and $1,061,588, 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. 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:

	2018	2017
Tully Gardens, L.P.	$ 63	$ 63
Tully Gardens 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, 2018 and 2017.

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

	2018	2017
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, 2018 and 2017 accrued interest was $2,285,847 and $2,077,139, respectively. The partnership does not intend to draw down the balance of the note.	$ 3,858,387	$ 3,649,679

Continued

6. Note and Advances Receivable - Affiliates

	2018	2017
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, 2018 and 2017, accrued interest was $899,258 and $816,384, respectively. The partnership does not intend to draw down the balance of the note.	1,609,105	1,526,231
Less valuation allowance	(5,467,492)	(5,175,910)
	$ -	$ -

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

	2018	2017
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, 2018.

As of June 30, 2018, the Organization recognized 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.

Continued

7. Government Grant Repayment Liabilities

In 2006, the Organization was informed by the United Stated Department of 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 a result, HUD requested that the Organization perform a review of certain Supportive Housing Grant monies received from HUD from 2003 to 2007. The amount of potential liability was reviewed by the Organization's management and, as a result, a liability of $1,200,304 was recorded by the Organization as of June 30, 2007. HUD has agreed that this liability can be reduced through the continuation of eligible services in subsequent years. During 2017, the Organization submitted documentation of these continued services totaling $860,411 which have been reviewed and accepted by HUD. That reduction in liability has been recognized as non-operating income in the June 30, 2017 consolidated financial statements. During fiscal year ended June 30, 2018, the Organization submitted documentation of continued eligible service from July 1, 2017 through February 28, 2018 in the amount of $135,496, which was accepted as payment to HUD. The Organization has a remaining liability to HUD at June 30, 2018 of $204,397, which they are currently negotiating a payment plan for the liability over the next two years.

The Government Grant Repayment Liabilities also includes a balance of $132,914 as of June 30, 2018 and 2017 regarding a disputed overpayment on previous County of Santa Clara 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, 2018.

8. Mortgages and Notes Payable

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

	2018	2017
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

8. Mortgages and Notes Payable, continued

	2018	2017
Boccardo Family Living Center, continued		
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

Continued

8. Mortgages and Notes Payable, continued

	2018	2017
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
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

Continued

8. Mortgages and Notes Payable, continued

	2018	2017
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 due December 2018.	35,577	105,662
City of Sunnyvale note dated June 2006, in the amount of $50,000, secured by deed of trust, bearing simple interest at 3%. Payments of principal and interest shall be deferred during the term of the note. Balance due June 2061.	50,000	50,000
County of Santa Clara two notes dated November 2006, in the amount of $366,197, secured by deed of trust, bearing simple interest at 6%. Payments of principal and interest shall be deferred during the term of the note. Balance due November 2036.	366,197	366,197

Continued

8. Mortgages and Notes Payable, continued

	2018	2017
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	3,247,532	3,317,617
Current portion	(35,577)	(70,085)
	$ 3,211,955	$ 3,247,532

Aggregate future annual maturities on mortgages and notes payable are as follows:

Year Ending June 30,	
2019	$ 35,577
2020	30,000
2021	-
2022	-
2023 and thereafter	3,181,955
	$ 3,247,532

10. Line of Credit

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

		2018		2017
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 October 2018. Subsequent to year end, the line was 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, 2018.	$	350,000	$	100,000

11. Restricted Net Assets

Restricted net assets are restricted due to the following as of June 30:

		2018		2017
Purpose of restriction:				
Program services	$	38,641	$	24,947
Time restricted		5,589,266		5,619,266
Total temporarily restricted net assets		5,627,907		5,644,213
Permanent restriction		86,244		86,244
Total restricted net assets	$	5,714,151	$	5,730,457

The Organization has recognized the receipt of an endowment bequest whose use is restricted to certain youth program activities (see Note 14).

12. 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:

		2018		2017
Program services	$	192,569	$	375,315
Time restricted		30,000		2,056,021
	$	222,569	$	2,431,336

13. 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:

	2018	2017
Donated goods:		
Food	$ 421,460	$ 350,379
Goods for clients	107,683	123,568
Total donated goods	529,143	473,947
Donated rent and common area maintenance	91,395	90,093
Total donated food, goods, and rent	$ 620,538	$ 564,040

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.

14. 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.

15. 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, 2018 and 2017.

16. 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 on the Consolidated Statement of Financial Position as long-term investments. All income earned on the endowment fund investment is treated as temporarily 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.

Continued

16. Endowment Fund, continued

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 permanently restricted net assets (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 classified in permanently restricted net assets is classified as temporarily restricted net assets 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.

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.

Continued

16. Endowment Fund, continued

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, 2018 and 2017.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ -	$ 9,224	$ 86,244	$ 95,468
Investment gain	-	13,898	-	13,898
Expenditures	-	(10,664)	-	(10,664)
Endowment net assets, June 30, 2017	-	12,458	86,244	98,702
Investment gain	-	9,040	-	9,040
Expenditures	-	(1,160)	-	(1,160)
Endowment net assets, June 30, 2018	$ -	$ 20,338	$ 86,244	$ 106,582

17. Commitments and Contingencies

Economic Dependency

The Organization received approximately 70% and 68% of its funding from government agencies, of which 60% and 45% is from the County of Santa Clara, 29% and 36% is from the Department of Veterans Affairs, and 11% and 19% is from the City of San Jose for the years ended June 30, 2018 and 2017, respectively. The Organization also has approximately 96% and 78% of its receivables from government agencies for the years ended June 30, 2018 and 2017, respectively. The continuation of this funding is dependent on the respective government agencies' budget and revenue constraints.

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.

Continued

17. Commitments and Contingencies, continued

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, 2018 and 2017, the amount of the potential liability accrued in the consolidated financial statements to the federal agency was determined by management to be $204,397 and $339,893, respectively (see Note 7).

Leases

The Organization leases certain equipment under cancelable and non-cancelable operating leases which expire in October 2021. Minimum commitments under subsequent operating leases are as follows:

Year Ending June 30,	
2019	$ 13,192
2020	13,192
2021	3,298
	$ 29,682

Total rental expense for the years ended June 30, 2018 and 2017 was $165,611 and $97,731, 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 during the years ended June 30, 2018 and 2017 was $89,903. The estimated fair value of rents for these facilities was recorded as a gift-in-kind for the years ended June 30, 2018 and 2017, for the use of these facilities.

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.

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 temporarily 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.

	2018	2017
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	$ 2,559,407	$ 2,443,139

Accrued interest on the forgivable loans of $2,559,407 and $2,443,139 for the years ended June 30, 2018 and 2017, 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

17. Commitments and Contingencies, continued

Restricted Grants, continued

Balances are as follows as of June 30:

	2018	2017
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 12).

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.

Continued

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, are either directly or indirectly observable as of the reporting date 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 includes 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 summarizes 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, 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

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Pooled blended fund	$ -	$ 98,702	$ -	$ 98,702
Investment in partnership	-	-	220	220
	$ -	$ 98,702	$ 220	$ 98,922

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

18. Fair Value Measurement, continued

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

Balance as of July 1, 2016	$	220
Change in value		-
Balance as of June 30, 2017		220
Change in value		-
Balance as of June 30, 2018	$	220

There was no change in the value and no transfers in or out of Level 3 assets for the years ended June 30, 2018 and 2017.

19. Subsequent Events

In accordance with accounting standards affecting disclosures of subsequent events, the Organization evaluated subsequent events for recognition and disclosure through October 26, 2018, the date which these consolidated financial statements were available to be issued. Management concluded that, other than the items already disclosed, no material subsequent events have occurred since June 30, 2018 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, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subreceipients	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-15-012B-CDBG	$ -	$ 463,999
City of San Jose-ESG	14.218	CPS-15-012B-ESG	-	260,000
City of San Jose-LMI	14.218	CPS-15-012B-LMI	-	139,980
Total - U.S. Department of Housing and Urban Development			-	863,979
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	-	294,827
VA Emergency Shelter Program	64.024	VA261-16-C-0122	-	378,890
VA Special Conditions	64.024	VA261-15-C-0173 -Amend-P0001	-	169,554
VA Special Conditions-Mental Illness	64.024	VA261-16-C-0126	-	87,400
VA Direct Programs				
VA Supportive Services for Veteran Families	64.033	12-CA-010	-	195,627
VA Supportive Services for VA Families	64.033	C15-CA-500A	959,898	1,725,385
Total - U.S. Department of Veterans Affairs			959,898	2,851,683
U.S. Department of Homeland Security				
FEMA: Emergency Food and Shelter National Board Program				
Pass-through program from:				
Second Harvest Food Bank	97.024	N/A	-	33,127
Total - U.S. Department of Health and Human Services			-	33,127
Total Current Year Expenditure of Federal Awards			$ 959,898	$ 3,748,789

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, 2018

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

See accompanying notes to the supplementary information.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

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, 2018. 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.

BPM

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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, 2018, 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 26, 2018.

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

Menlo Park, California
October 26, 2018

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, 2018. 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, 2018.

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

Menlo Park, California
October 26, 2018

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, 2018

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
14.218	Community Development Block Grants
14.239	Home Investment Partnerships Program
10.446	Rural Community Development Initiative

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

Item 2007-001

Condition
During fiscal year ended June 30, 2006, the Organization voluntarily notified the HUD of a potential overdraw of funds for various grants relating to prior years. Following this notification, HUD subsequently asked the Organization to perform an internal audit of ten HUD grants awarded to the Organization for certain prior years, from FY 2004 to FY 2007. A preliminary internal audit report showed an approximate amount owed of $300,000 as of June 30, 2006. During fiscal year ended June 30, 2007, the Organization further identified ineligible expenses and increased such accrual by approximately $900,000 to $1,200,304. During fiscal year ended June 30, 2017, the Organization submitted documentation that was accepted by HUD, which decreased the liability by $860,411. During fiscal year ended June 30, 2018, the Organization submitted documentation of continued eligible service from July 1, 2017 through February 28, 2018 in the amount of $135,496, which was accepted by HUD. The remaining balance on the liability to HUD as of June 30, 2018 is $204,397 for which HomeFirst and HUD are negotiating a payment plan over the next two years.

Criteria
The Organization is required to draw only those federal funds that are for eligible expenses determined by the grant budget in each grant. Repayment for ineligible expenditures should be made as outlined by the Federal grantor.

Effect
The Organization has to reimburse HUD for payment of non-eligible expenses or provided additional expense and services for HUD eligible participants that are not reimbursed or charged to HUD grants.

Cause
High turnover of employees in the accounting department, lack of training regarding proper supporting documentation for government grant draws and cash flow difficulties caused the Organization to incur repayments to HUD.

Recommendation
The Organization should strengthen its internal control procedures over federal grants. It should provide adequate training to staff regarding proper grant documentation requirements and all draws should be reviewed by the Controller or CFO before going to the CEO for signature.

Management's Response
The Organization significantly strengthened its internal controls through staffing changes. The Organization has also provided staff training concerning government accounting requirements, created additional reviews of government grant draws prior to issuance, implemented accounting software that facilitates grant tracking and through the process of auditing past grants established procedures that help ensure accurate billing processes.

Current Status
The Organization completed the internal audit and submitted its findings to HUD on July 3, 2008. The remaining amount of liability for the identified ineligible expenses as of June 30, 2018 is $204,397. During fiscal year ended June 30, 2018, the Organization submitted documentation of continued eligible service from July 1, 2017 through February 28, 2018 in the amount of $135,496, which has been approved by HUD Eligible services to satisfy the remaining balance will be performed during the years ending June 30, 2019 and 2020. The Organization is waiting on HUD's final determination regarding the acceptance of the Organization's proposal for satisfaction of the liability and any potential fines or penalties.

HomeFirst
Where Homelessness Ends

HomeFirst
Where Homelessness Ends

October 26, 2018

The management and Board of HomeFirst have reviewed in detail the enclosed Schedule of Findings and Questioned Costs.

Finding: Item 2007-001- Ineligible Expenses

Potential overdraw of funds for HUD grants relating to prior years from FY 2004- FY 2007 due to lack of training regarding proper supporting documentation for government grant draws.

Name of Contact Person: Andrea Urton, Chief Executive Officer

Corrective Action:

HomeFirst concurs with the finding.

HomeFirst notes that this finding has been resolved.

The Organization significantly strengthened its internal controls through staffing changes. The Organization has also provided staff training concerning government accounting requirements, created additional reviews of government grant draws prior to issuance, implemented accounting software that facilitates grant tracking and through the process of auditing past grants established procedures that help ensure accurate billing processes.

Andrea Urton, Chief Executive Officer

James Pak, Chief Financial Officer

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