HomeFirst Services of Santa Clara County Incorporated and Subsidiary

Report on Audits of Consolidated Financial Statements

for the years ended June 30, 2015 and 2014

HomeFirst Services of Santa Clara County Incorporated and Subsidiary

Contents

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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 Consolidated 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, 2015 and 2014, and the consolidated related 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 Consolidated Financial Statements

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

Auditors' 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 the 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 of 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the 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 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 State of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2016, on our consideration of HomeFirst's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HomeFirst's internal control over financial reporting and compliance.

Burr Pilger Mayer, Inc.

San Jose, California
February 12, 2016

HOMEFIRST SERVICES OF SANTA CLARA COUNTY INCORPORATED AND SUBSIDIARY

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as of June 30, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,230	$ 608,067
Government grants receivable, less allowance for doubtful accounts of $0 and $1,801 at 2015 and 2014, respectively	1,938,120	832,380
Accrued receivables, less allowance for doubtful accounts of $93,730 and $0 at 2015 and 2014, respectively	847,874	48,000
Other receivables, less allowance for doubtful accounts of $0 and $4,871 at 2015 and 2014, respectively	24,773	18,876
Current portion of contributions receivable	98,980	116,450
Prepaid expenses	18,260	117,449
Restricted cash	39,777	39,569
Total current assets	2,974,014	1,780,791
PROPERTY AND EQUIPMENT:		
Property and equipment, net	27,950,695	28,445,768
OTHER ASSETS:		
Projects in development	545,920	804,998
Investment in partnerships	220	220
Long term investments - endowment	110,484	93,257
Other assets	20,431	20,943
Total other assets	677,055	919,418
TOTAL ASSETS	$ 31,601,764	$ 31,145,977

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 FINANCIAL POSITION, CONTINUED
as of June 30, 2015 and 2014

	2015	2014
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 719,287	$ 131,485
Government grant repayment liability	1,200,304	1,200,304
Accrued payroll and related liabilities	289,114	258,790
Current portion of mortgages and notes payable	236,107	148,688
Other liabilities	161,967	197,681
Total current liabilities	2,606,779	1,936,948
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Accrued interest	3,486,955	3,210,681
Mortgages and notes payable	6,537,945	6,743,339
Total long-term liabilities, net of current portion	10,024,900	9,954,020
Tenant security deposits	100,228	85,509
Total liabilities	12,731,907	11,976,477
NET ASSETS:		
Unrestricted net assets:		
Restricted cash	39,777	39,569
Board designated for property maintenance	362,010	297,010
Long-term investment	220	220
Undesignated	10,610,353	10,730,757
Total unrestricted net assets	11,012,360	11,067,556
Temporarily restricted net assets	7,771,253	8,015,700
Permanently restricted net assets	86,244	86,244
Total net assets	18,869,857	19,169,500
TOTAL LIABILITIES AND NET ASSETS	$ 31,601,764	$ 31,145,977

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, 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support:				
Government grants	$ 7,825,701	$ -	$ -	$ 7,825,701
Private grants and contributions	812,411	208,598	-	1,021,009
Donated goods, services, and rent	649,748	-	-	649,748
Rental income	1,185,445	-	-	1,185,445
Special events (net of direct expenses of $76,083)	69,490	-	-	69,490
Interest income	266,137	-	-	266,137
Other support and revenue	272,913	-	-	272,913
Total revenue and other support	11,081,845	208,598	-	11,290,443
Net assets released from restrictions	453,045	(453,045)	-	-
Total revenue and other support released from restrictions	11,534,890	(244,447)	-	11,290,443
Expenses:				
Program services	10,641,683	-	-	10,641,683
Supporting services				
Management and general expenses	391,915	-	-	391,915
Fundraising	556,488	-	-	556,488
Total supporting services	948,403	-	-	948,403
Total expenses	11,590,086	-	-	11,590,086
Change in net assets	(55,196)	(244,447)	-	(299,643)
Net assets at beginning of year	11,067,556	8,015,700	86,244	19,169,500
Net assets at end of year	$ 11,012,360	$ 7,771,253	$ 86,244	$ 18,869,857

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, 2014

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support:				
Government grants	$ 5,991,874	$ -	$ -	$ 5,991,874
Private grants and contributions	762,291	907,900	-	1,670,191
Donated goods, services, and rent	1,345,131	-	-	1,345,131
Rental income	1,186,801	-	-	1,186,801
Special events (net of direct expenses of $83,381)	159,196	-	-	159,196
Interest income	236,961	-	-	236,961
Other support and revenue	181,076	-	-	181,076
Total revenue and other support	9,863,330	907,900	-	10,771,230
Net assets released from restrictions	927,749	(927,749)	-	-
Total revenue and other support released from restrictions	10,791,079	(19,849)	-	10,771,230
Expenses:				
Program services	9,382,299	-	-	9,382,299
Supporting services				
Management and general expenses	843,918	-	-	843,918
Fundraising	570,364	-	-	570,364
Total supporting services	1,414,282	-	-	1,414,282
Total expenses	10,796,581	-	-	10,796,581
Change in net assets	(5,502)	(19,849)	-	(25,351)
Net assets at beginning of year, as restated	11,073,058	8,035,549	86,244	19,194,851
Net assets at end of year	$ 11,067,556	$ 8,015,700	$ 86,244	$ 19,169,500

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, 2015

	2015			
	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES:				
Salaries	$ 3,748,147	$ 178,730	$ 346,377	$ 4,273,254
Payroll taxes and employee benefits	1,101,181	49,731	23,125	1,174,037
Total salaries and related expenses	4,849,328	228,461	369,502	5,447,291
OTHER EXPENSES:				
Professional fees	484,740	635	1,575	486,950
Occupancy	1,025,961	86,808	6,562	1,119,331
Donated rent	-	-	89,903	89,903
Donated goods and services	559,846	-	-	559,846
Interest expense	483,297	-	-	483,297
Financial assistance	1,224,089	1,022	-	1,225,111
Supplies	139,359	15,212	32,453	187,024
Rentals and maintenance	110,338	5,562	6,750	122,650
Telephone	203,880	5,961	1,363	211,204
Local transportation	50,453	226	6,055	56,734
Printing and publication	28,111	1,377	15,290	44,778
Allowance for bad debt	341,019	45,697	-	386,716
Other	95,320	954	11,928	108,202
Total other expenses	4,746,413	163,454	171,879	5,081,746
Depreciation and amortization	1,045,942	-	15,107	1,061,049
	$ 10,641,683	$ 391,915	$ 556,488	$ 11,590,086

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, 2014

	2014			
	Program Services	Management and General	Fundraising	Total
SALARIES AND RELATED EXPENSES:				
Salaries	$ 3,063,782	$ 482,373	$ 362,600	$ 3,908,755
Payroll taxes and employee benefits	756,126	116,565	84,864	957,555
Total salaries and related expenses	3,819,908	598,938	447,464	4,866,310
OTHER EXPENSES:				
Professional fees	10,021	109,693	32,319	152,033
Occupancy	1,032,487	598	-	1,033,085
Donated rent	139,325	-	-	139,325
Donated goods and services	659,886	-	18,260	678,146
Interest expense	497,905	5,896	-	503,801
Financial assistance	1,488,115	-	-	1,488,115
Supplies	140,970	16,464	14,640	172,074
Rentals and maintenance	-	19,799	-	19,799
Telephone	89,019	39,485	1,338	129,842
Local transportation	55,867	761	3,791	60,419
Printing and publication	1,018	1,837	25,125	27,980
Allowance for bad debt	1,801	-	-	1,801
Allowance for valuation	236,936	-	-	236,936
Other	160,255	35,366	27,427	223,048
Total other expenses	4,513,605	229,899	122,900	4,866,404
Depreciation and amortization	1,048,786	15,081	-	1,063,867
	$ 9,382,299	$ 843,918	$ 570,364	$ 10,796,581

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, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ (299,643)	$ (25,351)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,061,561	1,063,867
Non-cash gifts of property and equipment	-	(545,920)
Unrealized gain on endowment	(17,227)	-
Withdrawal of gain on endowment	-	4,909
(Increase) decrease in operating assets:		
Government grants receivable	(1,105,740)	(124,312)
Contributions receivable	17,470	(31,000)
Accrued receivables	(799,874)	55,958
Other receivables	(5,897)	86,940
Prepaid expenses	99,189	21,192
Other assets	-	1,500
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	587,802	22,682
Accrued payroll and related liabilities	30,324	(33,717)
Accrued interest	276,274	309,119
Security deposits	14,719	6,184
Other liabilities	(35,714)	(559,196)
	122,887	278,206
Net cash (used in) provided by operating activities	(176,756)	252,855
Cash flows from investing activities:		
Acquisition of property, equipment and projects in development	(306,898)	(346,988)
(Increase) in restricted cash	(208)	(14)
Net cash (used in) investing activities	(307,106)	(347,002)
Cash flows from financing activities:		
Repayments of long - term debt	(138,225)	(146,031)
Proceeds from line of credit	20,250	-
Net cash (used in) financing activities	(117,975)	(146,031)
Net (decrease) in cash and cash equivalents	(601,837)	(240,178)
Cash and cash equivalents, beginning of year	608,067	848,245
Cash and cash equivalents, end of year	$ 6,230	$ 608,067
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 198,463	$ 195,398

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 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.

In 2004, the Organization formed EHC Delmas Park, LLC ("EHC Delmas") of which it is the sole member, in order to acquire and hold land in downtown San Jose. The land has been leased to an affordable housing project.

The Organization's continuum of care facilitates a client's move into stable housing and employment. Programs are organized into four areas:

Chronically Homeless Services

Outreach – Provides targeted outreach and referral services for the chronically homeless in San Jose's downtown core and encampments throughout the city.

Boccardo Reception Center (BRC) – A multi-service facility open 24 hours a day, seven days a week year round, serving single adults with emergency shelter and on-site support services including mental health services, a medical clinic and medical respite program, case management, a computer lab, housing search assistance, and job search and placement assistance. It also contains a veterans' service center and ten units of transitional housing for homeless veterans.

Cold Weather Emergency Shelters – Provides emergency shelter, food, and support services for hundreds of homeless adults and families at locations in Gilroy and San Jose BRC. The shelters operate from the Monday after Thanksgiving through the end of March. In March 2014 the Sunnyvale shelter was permanently closed and the Organization continues its search to find a substitute for the shelter for Thanksgiving 2015 through the cold weather season.

Housing 1000 Care Coordination and Placement Project – In cooperation with other Santa Clara County homeless service providers, the City of San Jose, Destination: Home, and the Housing 1000 Campaign, coordinates case management and financial assistance for especially vulnerable long-term homeless individuals and families. The project also provides housing subsidies matched with case management services.

Intensive Case Management (North County) – Helps chronically homeless men, women, and families obtain and maintain permanent supportive housing and improve their health.

Continued

1. Organization, continued

Housing Services Partnership – Provides housing search assistance and financial assistance grants to prevent and end homelessness for residents of San Jose or those moving into the City of San Jose.

Housing for Homeless Addicted to Alcohol – Utilizing a "rapid re-housing" approach, this program moves individuals addicted to alcohol directly from the streets into permanent affordable housing, and provides them with intensive support services and case management.

Intensive Case Management Program – Provides chronically homeless households with the assistance they need to obtain housing, improve their self-sufficiency, and maintain their housing.

Supportive Housing Program – Provides for 18 beds and case management services for up to 90 days at the BRC for individuals with mental illnesses.

Medical Respite Program – A Collaboration between the Valley Homeless Health-Care Program (VHHP), the Hospital Council of Northern and Central California, and HomeFirst, this program provides 20 beds, medical services, and case management for homeless patients who are being discharged from participating hospitals.

Veteran Services

Veterans Emergency Shelter – Provides emergency shelter to veterans at the BRC for periods of up to 90 days, plus a wide variety of supportive services including referrals to permanent or transitional housing.

Veterans Transitional Housing – Provides for up to two years of transitional housing and comprehensive, on-site support services to up to 20 single veterans on the BRC campus.

Supportive Services for Veteran Families – Provides outreach, case management, assistance obtaining VA and other benefits, and temporary financial assistance to help homeless veteran households obtain and maintain permanent housing.

Veterans Service Center – A one-stop center and outreach program for veterans that provides access to support services including counseling, peer support groups, health care, employment assistance, life skills worships, and connection to mainstream benefits, as well as help in obtaining stable housing. In the current year the grant to fund this program was not renewed and the program is no longer operating.

Youth Services

Sobrato House Youth Center – Provides eight emergency shelter beds and basic needs assistance for transition age foster youth (ages 18-21) who are unhoused.

Continued

1. Organization, continued

Transitional Housing Placement Plus – Provides 24 months of housing in scattered sites within Santa Clara County, case management, and supportive services for youth ages 18-24 years who are aging out of the foster care system.

Transitional Housing Placement Plus – Foster Care Program (THP Plus - FC) – Provides non-minor dependents ages 18-21 in extended foster care with rental assistance to live independently in the community in a rented room or apartment.

Family Services

Boccardo Family Living Center – A multi-service transitional housing program for homeless families with children in South Santa Clara County, which includes seasonal housing for migrant farm workers with families and a four-month emergency shelter program for families that operates from December 1 through March 31.

Sobrato Family Living Center – A multi-service transitional housing program for homeless families with children in the City of Santa Clara. The facility includes eight HUD-funded units for disabled homeless adults accompanied by minor children.

Raising Income through Scholarship and Education (RISE) – Provides subsidized housing, educational scholarships, and case management for homeless families with children.

Eight Trees Apartments – A 24-unit permanent rental apartment complex in the City of Sunnyvale serving very low-income households.

2. Summary of Significant Accounting Policies

Basis of Accounting

The 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 single member owner of EHC Delmas. There were no significant intercompany accounts or transactions that required elimination.

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.

Continued

2. Summary of Significant Accounting Policies, continued

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, 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. Not included in cash are funds restricted as to their use, regardless of their liquidity, such as cash restricted for the acquisition or construction of land and buildings. 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. 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 grants and other receivables is $93,730 and $6,672 for years ended June 30, 2015 and 2014, 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.

Projects in Development

The Organization incurs costs during the development phase of each building project undertaken. Such costs include governmental, legal and consulting fees, and actual construction costs. The Organization records these costs under the asset "project in development". Project in development costs are reclassified to property and equipment upon completion of the project.

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 market 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. The value of these donated services is not reflected in the financial statements.

Functional Expense Allocation

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of salary expense or square footage. 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, 2015 and 2014 were approximately $5,094 and $2,766, respectively.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and 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 statements.

Income Taxes and Uncertainty in Income Taxes

The Organization has reviewed and assessed tax positions taken or expected to be taken against the more-likely-than-not recognition threshold and measurement attributes for financial statement recognition.

The Organization's policy for evaluating uncertain tax positions is a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. Based on an analysis prepared by the Organization, it was determined that the tax positions taken or expected to be taken had no material effect on the recorded tax assets and liabilities of the Organization.

The Organization applies this review to all tax positions for which the statute of limitations remain open (fiscal years ended since June 30, 2011) and determined there were no material unrecognized tax benefits. There have been no related tax penalties or interest, which would be classified as tax expense in the statement of activities. As the Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal or state income taxes, the adoption of this guidance did not have a material effect on the Organization's financial statements.

Use of Estimates

The preparation of 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, 2014 financial statement presentation to conform to the June 30, 2015 presentation.

Continued

2. Summary of Significant Accounting Policies, continued

Financial Results and Liquidity

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. The Organization shows positive working capital of $367,235 at June 30, 2015 and negative working capital of $156,156 at June 30, 2014. 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.

3. Restricted Cash

Restricted cash as of June 30, consisted of the following:

	2015	2014
Youth savings program	$ 39,777	$ 39,569

4. Conditional Contribution

During fiscal year ending June 30, 2014 the Organization received a conditional contribution in which the donor's contribution was for $300,000 in two $150,000 increments. The condition includes a 1:1 challenge grant for which the funding period for the first $150,000 increment was from December 2013 through December 2014. The second $150,000 increment is for additional funds raised on the challenge grant from January 2015 through December 2015. At June 30, 2014 the Organization has met the requirements for the first $150,000 and has recorded the contribution as unrestricted contributions. At June 30, 2015 the Organization has met the requirements for the second $150,000 and has recorded the contribution as unrestricted contributions.

5. Property and Equipment, net

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

	2015	2014
Buildings	$ 27,577,886	$ 27,577,886
Land	9,539,322	9,539,322
Furniture and equipment	2,396,724	2,374,284
Building improvements	1,462,165	918,630
Motor vehicles	177,515	177,515
Land improvements	171,942	171,942
	41,325,554	40,759,579
Less accumulated depreciation	(13,374,859)	(12,313,811)
	$ 27,950,695	$ 28,445,768

Depreciation expense for the years ended June 30, 2015 and 2014 was $1,061,049 and $1,063,354, respectively.

6. Project in Development

In 2013, the Organization commenced the replacement of a storage shed at its BRC site and commenced the expansion of facilities used by its Respite Program. Construction in progress costs for the years ended June 30, 2015 and 2014 were $232,962 and $259,078, respectively. During year ending June 30, 2015 the construction was completed and an asset in the amount of $492,040 was placed in service.

In 2014, the Organization received donated computer hardware and software equipment of $545,920. The Organization was in the process of putting these donated assets into service at June 30, 2015. As such, these are included in Project in Development under other assets based on the donated asset value as provided from the donor.

7. 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 as of June 30, consisted of the following:

	2015	2014
Tully Gardens, L.P.	$ 63	$ 63
Tully Gardens II, L.P.	157	157
	$ 220	$ 220

The investments are valued at the lower of cost, where such cost approximates fair value as represented by management, or appraised value. In 2009 management 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.

8. 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. In 2008 the Organization determined that the notes, advances receivable, and accrued interest receivable are uncollectible and maintained a full reserve for uncollectible amounts as of June 30, 2015 and 2014.

8. Note and Advances Receivable – Affiliates, continued

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

		2015		2014
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, 2015 and 2014 accrued interest was $1,695,192 and $1,518,437, respectively. The partnership does not intend to draw down the balance of the note.	$	3,267,732	$	3,090,977
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, 2015 and 2014 accrued interest was $663,420 and $592,887, respectively. The partnership does not intend to draw down the balance of the note.		1,373,267		1,302,734
Less valuation allowance		(4,640,999)		(4,393,711)
	$	-	$	-

8. Note and Advances Receivable - Affiliates, continued

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

	2015	2014
Tully I	$ 334,435	$ 334,435
Less valuation allowance	(334,435)	(334,435)
	$ -	$ -

9. Government Grant Repayment Liability

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 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 has been reviewed by the Organization's management and as a result, certain questioned costs have been accrued in these financial statements. The balances of accrued questioned costs are $1,200,304 as of June 30, 2015 and 2014. Management has presented to HUD the results of its internal audit and is waiting on HUD's review of this audit and its determination of repayments that may be required of the Organization. In the opinion of the Organization's management, such accrual and disclosure of questioned costs are in compliance with the provisions of Accounting for Contingencies (see Note 17).

10. Mortgages and Notes Payable

Mortgages and notes payable at June 30, consisted of the following:

Eight Trees Apartments	2015	2014
City of Sunnyvale note dated December 2002, in the amount of $2,600,000, secured by deed of trust on the real property, bearing 7.5% interest for payments from January 2003 through January 2018 and 9% interest for payments from February 2018 through January 2033. Monthly payments of principal and interest in the amount of $18,180 through January 2018, and $19,890 for months from February 2018 through January 2033. Balance due January 2033.	$ 2,122,653	$ 2,183,814

10. Mortgages and Notes Payable, continued

Eight Trees Apartments, continued	2015	2014
City of Sunnyvale CDBG note dated December 2002 in the amount of $400,000, secured by deed of trust on the real property, bearing 5% interest. Semi-annual payments of principal and interest of $10,500 on January 1st and June 2nd. Balance due June 2026. Units are to be affordable to households at or below 30% of Area Median Income (AMI).	388,442	389,184
City of Sunnyvale HOME note dated December 2002 in the amount of $185,000 secured by deed of trust on the real property, bearing 5% interest. Monthly payments of principal and interest of $3,924 commencing January 1, 2024. Balance due January 2033. Units are to be affordable to households at or below 50% of AMI.	185,000	185,000
City of Sunnyvale Housing Funds note dated December 2002, in the amount of $565,000, secured by deed of trust on the real property, bearing 5% interest. Payment of principal and interest shall be deferred during the term of the note. Balance due January 2033. Units are to be affordable to households at or below 50% of AMI.	565,000	565,000
City of Sunnyvale Housing Funds note dated December 2002, in the amount of $350,000, secured by deed of trust on the real property, bearing simple interest of 3%. Semi-annual payments of $16,775 due January 1st and June 2nd. Balance due June 2016. Units are to be affordable to households at or below 30% of AMI.	96,253	111,074

Continued

10. Mortgages and Notes Payable, continued

Boccardo Family Living Center	2015	2014
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. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI.	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. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI.	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. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI.	100,000	100,000

Continued

10. Mortgages and Notes Payable, continued

Boccardo Family Living Center, continued	2015	2014
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. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI.	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. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI.	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. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI.	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

10. Mortgages and Notes Payable, continued

Sobrato Family Living Center, continued	2015	2014
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
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) 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

Continued

10. Mortgages and Notes Payable, continued

Sobrato House, continued	2015	2014
Opportunity Fund (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.	184,500	246,000
City of Sunnyvale note dated June 2006, in the amount of $50,000, secured by deed of trust, bearing simple interest at 3%. Payments of principal and interest shall be deferred during the term of the note. Balance due June 2061.	50,000	50,000
County of Santa Clara two notes dated November 2006, in the amount of $366,197, secured by deed of trust, bearing simple interest at 6%. Payments of principal and interest shall be deferred during the term of the note. Balance due November 2036.	366,197	366,197
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

10. Mortgages and Notes Payable, continued

Fremont Bank - Line of Credit In October 2014, the Organization entered into a line of credit agreement with Fremont Bank with a current limit of $100,000 that matures in October 2015. The purpose of the line of credit is to supply working capital for various operating expenses. Subsequent to year-end, the Organization entered into a forbearance agreement with Fremont Bank. The interest rate is 4.75% (see Note 19).		20,249		-
Total mortgages and notes payable		6,774,052		6,892,027
Current portion		(236,107)		(148,688)
	$	6,537,945	$	6,743,339

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

Year Ending June 30,		
2016	$	236,107
2017		128,514
2018		129,989
2019		69,119
2020 and thereafter		6,210,323
	$	6,774,052

11. Restricted Net Assets

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

		2015		2014
Purpose of Restriction:				
Program services	$	92,633	$	212,080
Time restricted		7,678,620		7,803,620
Total temporarily restricted net assets		7,771,253		8,015,700
Permanent Restriction		86,244		86,244
Total restricted net assets	$	7,857,497	$	8,101,944

In 2013, the Organization recognized the receipt of an endowment bequest whose use is restricted to certain Youth program activities (see Note 16).

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:

	2015	2014
Program services	$ 328,045	$ 727,749
Time restricted	125,000	200,000
	$ 453,045	$ 927,749

13. Donated Goods, Services and Rent

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

	2015	2014
Donated goods:		
Food	$ 430,430	$ 506,666
Technology	-	545,920
Goods for clients	129,415	153,220
Total donated goods	559,845	1,205,806
Donated rent	89,903	139,325
Total donated food, goods, and rent	649,748	1,345,131
Donated goods included in special events	-	18,260
Total donated food, goods, and rent	$ 649,748	$ 1,363,391

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 financial statements.

14. Ground Lease

Starting 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) Profit Sharing Plan

The Organization sponsors the Emergency Housing Consortium 401(k) Profit Sharing Plan (the "Plan") in which employees are eligible to participate at age 21 years or older. The costs of administering the Plan are not material. The Organization makes contributions at the discretion of management which are pre-approved by the Board of Directors. Discretionary contributions for the years ended June 30, 2015 and 2014 were approximately $16,400 and $37,500, respectively.

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 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 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 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.

Continued

16. Endowment Fund, continued

Spending Policy, continued

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

Investment Policy, Strategies, and Objectives

The Organization has adopted investment and spending policies for endowment assets that 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, 2015 and 2014.

Changes in endowment net assets for the years ended June 30, 2015 and June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2013	$ -	$ 11,922	$ 86,244	$ 98,166
Appropriated for expenditure	-	(4,909)	-	(4,909)
Endowment net assets, June 30, 2014	-	7,013	86,244	93,257
Investment return	-	17,227	-	17,227
Endowment net assets, June 30, 2015	$ -	$ 24,240	$ 86,244	$ 110,484

17. Commitments and Contingencies

Economic Dependency

The Organization received approximately 72% and 56% of its funding from government agencies, of which 41% and 40% is from the County of Santa Clara, 26% and 30% is from the Department of Veteran Affairs and 20% and 22% is from the City of San Jose for the years ended June 30, 2015 and 2014, respectively. The Organization also has approximately 94% and 87% of its receivables from government agencies for the years ended June 30, 2015 and 2014, 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.

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 the United States Department of Housing and Urban Development (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, 2015 and 2014 the amount of the potential liability accrued in the financial statements to the federal agency was determined by management to be $1,200,304 (see Note 9).

17. Commitments and Contingencies, continued

Leases

The Organization leases certain equipment under cancelable and non-cancelable operating leases which expired 2015. Subsequent to year ending June 30, 2015, the Organization entered into a new lease agreement for equipment. Minimum commitments under subsequent operating leases are as follows:

Year Ending June 30,		
2016	$	9,894
2017		13,192
2018		13,192
2019		13,192
2020 and thereafter		16,490
	$	65,960

Total rental expense for the years ending June 30, 2015 and 2014 was $83,737 and $102,681, 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 year ended June 30, 2015 and 2014 was $89,903 and $89,891, respectively. The estimated fair value of rents for these facilities was recorded as a gift-in-kind at the years ended June 30, 2015 and 2014, 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.

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 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.

17. Commitments and Contingencies, continued

Forgivable Loans, continued

		2015		2014
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 December 2015 to December 2032		2,969,673		2,969,673
Sobrato House: Various notes with due dates ranging from May 2017 to December 2022		1,075,000		1,075,000
	$	7,645,287	$	7,645,287
Accrued interest	$	2,453,102	$	2,306,834

Accrued interest on the forgivable loans of $2,453,102 for the year ending June 30, 2015 and $2,306,834 for the year ending June 30, 2014 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 not met, the partial or full repayment of the funds may be demanded by the funders. These grants are accounted for as contributions when received since management believes that they will be able to comply with the terms and conditions of these grants throughout their grant terms.

Balances as of June 30 are as follows:

		2015		2014
Boccardo Reception Center	$	1,000,000	$	1,000,000
Boccardo Family Living Center		1,158,729		1,158,729
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
	$	20,995,346	$	20,995,346

Continued

17. Commitments and Contingencies, continued

Services for Partnerships

The Organization participated in the development of Delmas Park and received certain up-front fees for its participation. In both cases, 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 14).

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. The Organization is currently involved in a lawsuit brought forth by a previous employee; however, at this time the Organization does not anticipate any out of pocket settlement related to this matter.

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.

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.

18. Fair Value Measurement, continued

The following table summarizes the financial assets and liabilities measured at fair value on a recurring as of June 30:

	Assets at Fair Value as of June 2015			
	Level 1	Level 2	Level 3	Total
Pooled blended fund	$ -	$ 110,484	$ -	$ 110,484
Investment in partnership	-	-	220	220
	$ -	$ 110,484	$ 220	$ 110,704

	Assets at Fair Value as of June 2014			
	Level 1	Level 2	Level 3	Total
Money market fund	$ 75	$ -	$ -	$ 75
Pooled blended fund	-	93,257	-	93,257
Investment in partnership	-	-	220	220
	$ 75	$ 93,257	$ 220	$ 93,552

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

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

Balance as at July 1, 2013	$ 220
Change in value	-
Balance as at June 30, 2014	220
Change in value	-
Balance as at June 30, 2015	$ 220

There was no change in the value and no transfers in or out of Level 3 asset in the year ended June 30, 2015.

19. Subsequent Events

The Organization has evaluated all events occurring subsequent to June 30, 2015 through February 12, 2016, and nothing has occurred outside the normal course of business operations which requires disclosure other than the following:

As discussed in Note 10, the Organization entered into a forbearance agreement with Fremont Bank to extend the payoff period of their line of credit to February 15, 2016.

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, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	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	14.218	CPS-12-007A	$ 500,101
City of Milpitas	14.218	N/A	5,000
City of Gilroy	14.218	14-25-2621-5204-4226	10,000
Supportive Housing Program			
Scattered Site #1	14.235	CA0004L9T001205 / CA0004L9T001306	126,645
Scattered Site #2	14.235	CA0010L9T001205 / CA0010L9T001306	38,237
Permanent Housing Program (SFLC)	14.235	CA0022L9T001205 / CA0022L9T001306	59,437
Scattered Site for Chronically Homeless	14.235	CA0825B9T000900 / CA0825L9T001301	358,765
Pass-through program from County of Santa Clara	14.235	U-783	732,814
Emergency Shelter Grants (ESG) Programs			
Pass-through programs from:			
City of San Jose	14.231	ESG-14-005	85,319
City of San Jose	14.231	ESG-14-005A	82,006
Total - U.S. Department of Housing and Urban Development			1,998,324
U.S. Department of Homeland Security			
FEMA: Emergency Food and Shelter National Board Program	97.024	LRO-ID-088000-006	55,665
Pass-through program from:			
Second Harvest Food Bank	97.024	N/A	81,501
Total - U.S. Department of Homeland Security			137,166
U.S. Department of Veterans Affairs			
VA Homeless Providers Grant and Per Diem Program			
VA Per Diem Beds	64.024	640-08-66-CA, 640-10-45-CA	308,867
VA Emergency Shelter Program	64.024	VA261-12-C-0215 / VA261-13-C-0227	606,575
VA Special Conditions	64.024	VA261-12-C0193 / VA261-13-C-0218	180,180
VA Direct Programs			
VA Supportive Services for Veteran Families	64.033	12-CA-010	343,213
VA Supportive Services for VA Families	64.033	C15-CA-500A	1,021,788
Total - U.S. Department of Veterans Affairs			2,460,623
U.S. Department of Health and Human Services			
Foster Care Title IV-E			
Pass-through program from:			
State of California, Department of Social Services	93.658	2370.18.01	312,516
Health Resources and Services Administration (HRSA)			
Pass-through program from:			
City of San Jose	93.887	HRSA-001	213,992
Total - U.S. Department of Health and Human Services			526,508
Total Current Year Expenditure of Federal Awards			$ 5,122,621

See accompanying notes to the supplementary information.

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, 2015

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
City of San Jose	14.218		756,021
County of Santa Clara	14.218		500,000
City of Sunnyvale	14.218		388,441
City of San Jose	14.218		366,197
City of San Jose	14.218		300,000
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
City of Sunnyvale	14.239		185,000
Other			
U.S. Department of Agriculture	10.446		953,966
			$ 8,119,624

See accompanying notes to the supplementary information.

HOMEFIRST SERVICES OF SANTA CLARA COUNTY INCORPORATED AND SUBSIDIARY

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activity of HomeFirst Services of Santa Clara County Incorporated and Subsidiary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Prior Years' Expenditures

The accompanying schedule of expenditures of federal awards includes $8,119,624 of expenditures from prior years for which continuing compliance is required.

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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), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2016.

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 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 entity's 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency.

- 2015-001 – General Accounting Records and Finance Department Staffing

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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanied Schedule of Findings and Questioned Costs as item 2015-002.

HomeFirst's Response to Findings

HomeFirst's response to the 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

We noted certain other matters that we reported to management of HomeFirst in a separate letter dated February 12, 2016.

Burr Pilger Mayer, Inc.

San Jose, California
February 12, 2016

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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's (HomeFirst) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HomeFirst's major federal programs for the year ended June 30, 2015. HomeFirst's major federal programs are indentified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' 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 OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 major federal programs 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Question Cost as items 2015-002 and 2007-001. Our opinion on each major federal program is not modified with respect to this matter.

HomeFirst's response to the noncompliance findings indentified in our audit is described in the accompanying schedule of findings and questions costs and summary schedule of prior year findings. 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 of major federal programs 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 OMB Circular A-133, 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 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 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 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 weakness 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency.

- 2015-001 – General Accounting Records and Finance Department Staffing

HomeFirst's response to the internal control over compliance finding 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 the financial statements and, accordingly, we express no opinion on it.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Burr Pilger Mayer, Inc.

San Jose, California
February 12, 2016

Section I - Summary of Audit Results

Financial Statements

1. The Independent Auditors' Report expresses an unmodified opinion on the consolidated financial statements of HomeFirst Services of Santa Clara County.

2. Internal control over financial reporting:

- Material weaknesses identified:
  None reported
- Significant deficiencies identified that are not considered to be material weaknesses:
  Yes; 2015-001

3. No instances of noncompliance material to the consolidated financial statements of HomeFirst Services of Santa Clara County, which would be required to be reported in accordance with Government Audit Standards, were disclosed during the audit.

Federal Award

4. Internal control over major program:

- Material weaknesses identified:
  None reported
- Significant deficiencies identified that are not considered to be material weaknesses:
  Yes; 2015-001

5. The Independent Auditors' Report on Compliance for the major federal award programs for HomeFirst Services of Santa Clara County expresses an unmodified opinion on all major programs.

6. Audit findings that are required to be reported in accordance with Section 510(a) OMB Circular A-133 are reported in this Schedule.

7. The programs tested as major federal award programs include:

Name	CFDA Number
Community Development Block Grant	14.218
Supportive Housing Programs	14.235
Emergency Shelter Programs	14.231
VA Supportive Services for Veteran Families	64.033
Foster Care Services	93.658

8. The threshold used for distinguishing between Type A and B was $300,000.

9. HomeFirst did not qualify as a low-risk auditee.

Section II - Financial Statement Findings

Item 2015-001

Condition:
During the course of our audit, we noted numerous post-closing journal entries and difficulty in providing audit ready reconciliations which resulted in timing delays.

Criteria:
The number of journal entries made subsequent to the accounting recording being closed out should be minimal.

Effect:
Continued problems in receiving timely and current financial information can significantly impact senior management's abilities, such as providing relevant oversight and budgetary control, and timely addressing of any cash flow issues that may arise.

Cause:
Due to the turnover of key personnel the Organization was unable to perform an accurate review and timely close out of the financial records.

Recommendation:
In instances where there is significant turnover of key accounting personnel we recommend that the Organization hire temporary help and postpone the closing of the records if necessary until it is assured that the records are materially correct.

Views of Responsible Official:
The staffing issue in the finance department was reviewed and the approval given to hire additional personnel and reorganize responsibilities.

Section III - Federal Findings and Questioned Costs

Item 2015-002

Supportive Housing Programs - CFDA Number 14-235

Grant Numbers -	CA0004L9T001205 / CA0004L9T001205 / CA0825B9T000900
Program Titles -	201 HUD Scattered Site #1 / 200 HUD Scattered Site #2 / 206 HUD Permanent Housing Program (SFLC)/ 211 HUD Scattered Site Chronically Homeless

Condition:
During testing of reporting requirements of major programs it was noted the Organization had yet to submit Annual Progress Reports (APRs) to HUD for the Scattered Site #1 (due May 20, 2015), Scattered Site #2 (due August 29, 2015), Permanent Housing (SFLC) (due September 28, 2015, and Scattered Site Chronically Homeless programs (due September 28, 2015) as of report date.

Criteria:
Based on review of related grant agreements the Annual Progress Reports are due within 90 days of the end of the program year.

Effect:
If the Organization fails to submit an APR within this deadline, HUD may terminate the renewal of any grant and require the recipient to repay the renewal grant. A late annual report may cause the Organization not to receive the requested funding for the current year or when they reapply for a grant.

Cause:
The condition was caused by turnover in the program managers and report compliance personnel for which there are more reports than staff available to complete the reports.

Recommendation:
We recommend the Organization formally identify and track all reporting requirements and due dates, and designate employees responsible for timely reporting.

Views of Responsible Official:
The Organization has clarified who is responsible for compliance reporting in the absence of a Program Officer and completing the reports on a timely basis.

HOMEFIRST SERVICES OF SANTA CLARA COUNTY INCORPORATED AND SUBSIDIARY

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

for the year ended June 30, 2015

Item 2007-001

Condition
During fiscal year ending June 30, 2006, the Organization voluntarily notified the Department of Housing and Urban Development (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 ending June 30, 2007, the Organization further identified ineligible expenses and increased such accrual by approximately $900,000 to $1,200,304. This amount may change as the internal audit is finalized and accepted by HUD.

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.

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 Compliance Manager 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 to HUD on July 3, 2008. The total of identified ineligible expenses as per the internal audit as of June 30, 2015 and June 30, 2014 is approximately $1.2 Million which was accrued a liability as of June 30, 2007. The Organization is waiting on HUD's review of the internal audit and its final determination regarding the timing and amount of the Organization's repayment obligation.