

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY  
INCORPORATED AND SUBSIDIARY**

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**REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS  
AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2017 and 2016

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY  
INCORPORATED AND SUBSIDIARY**

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## INDEPENDENT AUDITORS' REPORT

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

### *Report on the 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, 2017 and 2016, 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, 2017 and 2016, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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.

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 5 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 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 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 31, 2017, on our consideration of HomeFirst's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HomeFirst's internal control over financial reporting and compliance.

BPM 22P

E. Palo Alto, California  
October 31, 2017

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY  
INCORPORATED AND SUBSIDIARY  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

June 30, 2017

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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 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 financial statements include the consolidated Statement of Financial Position, the consolidated Statement of Activities, the consolidated Statement of Functional Expenses, consolidated Statement of Cash Flows, and the notes to the financial statements.

The summary HomeFirst consolidated Statement of Financial Position for the year ended June 30, 2017 compared to June 30, 2016 is presented below:

	2017	2016	\$ Change	% Change
<b>Condensed Statement of Financial Position</b>				
<b>Assets:</b>				
Current assets	\$ 1,835,519	\$ 4,947,446	\$ (3,111,927)	-62.9%
Long-term and other assets	24,177,497	24,876,867	(699,370)	-2.8%
Total assets	<u>26,013,016</u>	<u>29,824,313</u>	<u>(3,811,297)</u>	<u>-12.8%</u>
<b>Liabilities:</b>				
Current liabilities	1,736,495	6,240,075	(4,503,580)	-72.2%
Long-term liabilities	7,026,090	6,644,545	381,545	5.7%
Total liabilities	<u>8,762,585</u>	<u>12,884,620</u>	<u>(4,122,035)</u>	<u>-32.0%</u>
Net Assets	<u>17,250,431</u>	<u>16,939,693</u>	<u>310,738</u>	<u>1.8%</u>
Total liabilities and net assets	<u>\$ 26,013,016</u>	<u>\$ 29,824,313</u>	<u>\$ (3,811,297)</u>	<u>-12.8%</u>

In July 2016, the Organization closed the Eight Trees Apartments sale transaction and recognized the non-cash gain in the amount of \$1,116,242. The sale of this property is the primary contributor to significant decrease in the current liabilities as of June 30, 2017. A second contributor for the year over year change in current liabilities is the decrease in the HUD liability reported at \$1,200,304 as of June 30, 2016. During the fiscal year the organization submitted documentation to HUD that allowed the organization to reduce the liability by \$860,411 which was recognized as non-operating income. The result of these major activities during the year increased the current ratio from 0.79 as of June 30, 2016 to 1.06 as of June 30, 2017.

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY  
INCORPORATED AND SUBSIDIARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2017

The summary HomeFirst consolidated Statement of Activities for the year ended June 30, 2017 compared to June 30, 2016 is presented below:

	2017	2016	\$ Change	% Change
Condensed Statement of Financial Activities				
Total Revenue	\$ 12,997,919	\$ 12,349,458	\$ 648,461	5.3%
Expenses				
Program services	11,976,474	11,568,733	407,741	3.5%
Supportive services	2,639,706	2,710,889	(71,183)	-2.6%
Total expenses	14,616,180	14,279,622	336,558	2.4%
Change in net assets from operations	(1,618,261)	(1,930,164)	311,903	-16.2%
Decrease in government liability	860,411	-	860,411	100.0%
Net gain on asset disposals	1,068,588	-	1,068,588	100.0%
Change in net assets	<u>\$ (549,673)</u>	<u>\$ (1,930,164)</u>	<u>\$ 1,380,491</u>	<u>-71.5%</u>

In addition to the non-recurring transactions HomeFirst incurred depreciation expense in the amount of \$1,061,588 and forgivable non-cash interest expense in the amount of \$257,377. Below is Management's analysis of pro-forma income from operations for the year ended June 30, 2017 excluding depreciation, non-cash interest, and non-recurring transactions:

Change in net assets	\$ (549,673)
Less:	
Depreciation	1,061,588
Non-cash interest expense	257,377
Eight Trees Apartments property taxes refund	(204,698)
Decrease in government liability	(860,411)
Net gain on asset disposals	<u>(1,068,588)</u>
Pro-forma Income from Operations	<u>\$ (1,364,405)</u>

During the fiscal year ended June 30, 2017 management continued its investment in significant 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 16% in fiscal year 2016 and 15% in fiscal year 2017.

For the year ended	Program	Management and General	Fundraising	Total
June 30, 2015	86%	10%	4%	100%
June 30, 2016	81%	16%	3%	100%
June 30, 2017	82%	15%	3%	100%

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY  
INCORPORATED AND SUBSIDIARY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2017

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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**

June 30, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 253,246	\$ 754,960
Restricted cash	44,597	32,085
Government grants receivable, less allowance for doubtful accounts of \$0 and \$32,732 at 2017 and 2016, respectively	1,064,503	1,285,871
Other receivables, less allowance for doubtful accounts of \$19,811 and \$23,869 at 2017 and 2016, respectively	236,797	19,371
Contributions receivable	65,750	4,316
Prepaid expenses	170,626	54,622
Property held for sale	-	2,796,221
Total current assets	1,835,519	4,947,446
<b>PROPERTY AND EQUIPMENT:</b>		
Property and equipment, net	23,712,466	24,212,180
Projects in development	343,542	545,920
Total property and equipment, net	24,056,008	24,758,100
<b>OTHER ASSETS:</b>		
Investment in partnerships	220	220
Long term investments - endowment	98,702	95,468
Other assets	22,567	23,079
Total other assets	121,489	118,767
<b>TOTAL ASSETS</b>	<b>\$ 26,013,016</b>	<b>\$ 29,824,313</b>

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**

June 30, 2017 and 2016

	2017	2016
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 687,225	\$ 378,061
Accrued payroll and related liabilities	498,521	449,072
Government grant repayment liability	257,914	1,333,218
Current portion of mortgages and notes payable	170,085	3,365,002
Current portion of accrued interest	-	615,131
Other liabilities	122,750	99,591
Total current liabilities	1,736,495	6,240,075
<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION:</b>		
Accrued interest	3,489,294	3,231,918
Mortgages and notes payable	3,247,532	3,317,617
Total long-term liabilities, net of current portion	6,736,826	6,549,535
Government grant repayment liability	214,893	-
Tenant security deposits	74,371	95,010
Total liabilities	8,762,585	12,884,620
<b>NET ASSETS:</b>		
Unrestricted net assets:		
Restricted cash	44,597	32,085
Board designated for property maintenance	362,010	362,010
Long-term investment	220	220
Undesignated	11,113,147	8,712,364
Total unrestricted net assets	11,519,974	9,106,679
Temporarily restricted net assets	5,644,213	7,746,770
Permanently restricted net assets	86,244	86,244
Total net assets	17,250,431	16,939,693
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 26,013,016</b>	<b>\$ 29,824,313</b>

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			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUE AND OTHER SUPPORT:</b>				
Government grants	\$ 8,903,258	\$ -	\$ -	\$ 8,903,258
Private grants and contributions	1,155,678	328,779	-	1,484,457
Donated goods, services, and rent	564,040	-	-	564,040
Rental income	871,451	-	-	871,451
Special events (net of direct expenses of \$37,600)	162,413	-	-	162,413
Interest income	285,601	-	-	285,601
Other support and revenue	726,699	-	-	726,699
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
<b>EXPENSES:</b>				
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)
<b>OTHER NONOPERATING INCOME:</b>				
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 ACTIVITIES**

for the year ended June 30, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUE AND OTHER SUPPORT:</b>				
Government grants	\$ 8,371,055	\$ -	\$ -	\$ 8,371,055
Private grants and contributions	1,177,398	285,008	-	1,462,406
Donated goods, services, and rent	748,814	-	-	748,814
Rental income	1,129,276	-	-	1,129,276
Special events (net of direct expenses of \$75,060)	436	-	-	436
Interest income	258,995	-	-	258,995
Other support and revenue	378,476	-	-	378,476
Total revenue and other support	12,064,450	285,008	-	12,349,458
Net assets released from restrictions	309,491	(309,491)	-	-
Total revenue and other support released from restrictions	12,373,941	(24,483)	-	12,349,458
<b>EXPENSES:</b>				
Program services	11,568,733	-	-	11,568,733
Supporting services				
Management and general expenses	2,277,784	-	-	2,277,784
Fundraising	433,105	-	-	433,105
Total supporting services	2,710,889	-	-	2,710,889
Total expenses	14,279,622	-	-	14,279,622
Change in net assets	(1,905,681)	(24,483)	-	(1,930,164)
Net assets at beginning of year	11,012,360	7,771,253	86,244	18,869,857
Net assets at end of year	\$ 9,106,679	\$ 7,746,770	\$ 86,244	\$ 16,939,693

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

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

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

for the year ended June 30, 2017

	2017			
	Program Services	Management and General	Fundraising	Total
<b>SALARIES AND RELATED EXPENSES:</b>				
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	<u>5,999,471</u>	<u>1,295,689</u>	<u>286,363</u>	<u>7,581,523</u>
<b>OTHER EXPENSES:</b>				
Professional fees	399,331	348,101	52,426	799,858
Occupancy	1,304,597	83,351	12,596	1,400,544
Donated rent	3,867	71,642	14,585	90,094
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	102,519	32,035	5,254	139,808
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	<u>5,008,926</u>	<u>816,959</u>	<u>147,184</u>	<u>5,973,069</u>
Depreciation and amortization	968,077	93,511	-	1,061,588
	<u>\$ 11,976,474</u>	<u>\$ 2,206,159</u>	<u>\$ 433,547</u>	<u>\$ 14,616,180</u>

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, 2016

	2016			
	Program Services	Management and General	Fundraising	Total
<b>SALARIES AND RELATED EXPENSES:</b>				
Salaries	\$ 4,197,499	\$ 610,718	\$ 253,331	\$ 5,061,548
Payroll taxes and employee benefits	1,087,544	104,496	42,206	1,234,246
Total salaries and related expenses	5,285,043	715,214	295,537	6,295,794
<b>OTHER EXPENSES:</b>				
Professional fees and contract services	400,856	709,090	30,213	1,140,159
Occupancy	1,122,161	44,910	13,604	1,180,675
Donated rent	21,948	47,339	20,617	89,904
Donated goods and services	590,515	-	-	590,515
Interest expense	545,470	1,752	-	547,222
Financial assistance	1,478,807	2,338	-	1,481,145
Supplies	195,518	36,696	13,462	245,676
Rentals and maintenance	99,204	19,092	-	118,296
Telephone	145,524	21,826	9,212	176,562
Local transportation	78,523	25,712	7,383	111,618
Printing and publication	15,098	4,052	23,689	42,839
Allowance for bad debt	295,186	586,945	10,830	892,961
Other	246,063	36,534	8,558	291,155
Total other expenses	5,234,873	1,536,286	137,568	6,908,727
Depreciation and amortization	1,048,817	26,284	-	1,075,101
	\$ 11,568,733	\$ 2,277,784	\$ 433,105	\$ 14,279,622

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 310,738	\$ (1,930,164)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,061,588	1,075,101
Gain from property held for sale	(1,116,242)	-
Write off of property, equipment, and projects in development	47,654	-
Non-cash gift of property and equipment	-	(68,395)
Decrease in government liability	(860,411)	-
Unrealized (gain) loss on endowment	(3,234)	15,016
Change in allowance for doubtful accounts	19,811	(37,129)
(Increase) decrease in operating assets:		
Government grants receivable	221,368	1,561,121
Contributions receivable	(61,434)	94,664
Other receivables	(237,237)	(18,467)
Prepaid expenses	(116,004)	(36,362)
Other assets	512	(2,648)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	292,642	(341,226)
Government grant repayment liability	-	132,914
Accrued payroll and related liabilities	49,449	159,958
Accrued interest	274,909	360,094
Security deposits	(20,639)	(5,218)
Other liabilities	23,159	(62,376)
Net cash (used in) provided by operating activities	(113,371)	896,883
Cash flows from investing activities:		
Acquisition of property, equipment and projects in development	(407,150)	(64,412)
Net cash used in investing activities	(407,150)	(64,412)
Cash flows from financing activities:		
Repayments of long - term debt	(68,681)	(71,183)
Net borrowing (payments) on line of credit	100,000	(20,250)
Net cash provided by (used in) financing activities	31,319	(91,433)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(489,202)	741,038
Cash, cash equivalents, and restricted cash, beginning of year	787,045	46,007
Cash, cash equivalents, and restricted cash, end of year	\$ 297,843	\$ 787,045

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

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY  
INCORPORATED AND SUBSIDIARY  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

for the years ended June 30, 2017 and 2016

	2017	2016
Supplemental disclosure of cash flows information:		
Cash paid for interest	\$ 14,742	\$ 149,505
Noncash investing activities		
Transfer of property and equipment to property held for sale	\$ -	\$ 2,796,221
Reduction of government liability	\$ 860,411	\$ -
Value of property held for sale	\$ 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.

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY**  
**INCORPORATED AND SUBSIDIARY**  
**(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

for the years ended June 30, 2017 and 2016

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**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 addition the Organization manages two Cold Weather Shelters – one in Sunnyvale and one in Gilroy – for an additional nightly capacity increase of up to 230 spaces during the months November through March. As the need arises HomeFirst provides “Pop-up Shelters” during inclement weather and also offers shelter to those left temporarily homeless due to a crisis such as fire, or a natural disaster.

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:

***I. 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 Sunnyvale. The shelters operate from the Monday after Thanksgiving through the end of March.

Care Coordination Project – In cooperation with other Santa Clara County homeless service providers, office of supportive housing, and Destination: Home, 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.

Essential Services – Provides showers, laundry service, computer lab and meal to 30 individuals per day through the City of San Jose Monday thru Friday.

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**1. Organization, continued**

***I. Chronically Homeless Services, continued***

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

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 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.

Recidivism Reduction Program – Provides case management and job skills training to eight parolees through the Santa Clara Superior Court.

***II. 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.

Veteran 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, like skills workshops, and connection to mainstream benefits, as well as help in obtaining stable housing.

***III. 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.

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.

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**1. Organization, continued**

***III. Youth Services, continued***

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.

***IV. 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 program for migrant farm workers with families that operates from May 1 through November 30.

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.

Eight Trees Apartments – A 24-unit permanent rental apartment complex in the City of Sunnyvale serving very low-income households. This property was sold in July 2016.

**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 sole 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.

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.

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**2. Summary of Significant Accounting Policies, continued**

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 \$19,811 and \$56,601 for years ended June 30, 2017 and 2016, 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.

***Property Held for Sale***

Eight Trees Apartments was used as permanent rental complex in Sunnyvale for low-income households. The property was sold during the year to another organization who acquired the land and building. As part of the transaction the debt and continuing compliance was transferred to the buyer with no recourse to HomeFirst. The property was classified as held for sale at June 30, 2016.

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**2. Summary of Significant Accounting Policies, continued**

***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.

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

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**2. Summary of Significant Accounting Policies, continued**

***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 contract value or headcount. 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.

***Advertising***

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising costs for the years ended June 30, 2017 and 2016 were approximately \$2,009 and \$4,047, 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 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, 2016 financial statement presentation to conform to the June 30, 2017 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 held for sale or the forgiven liability from government grant repayments.

***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 \$99,024 at June 30, 2017. Also, the Organization had 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.

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**2. Summary of Significant Accounting Policies, continued**

***Recent Accounting Pronouncements***

In May 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), 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 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.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (230). The amendment address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment requires that a statement of cash flow explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendment are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted and the amendment should be applied using a retrospective transition method to each period presented. HomeFirst has early adopted this ASU and accordingly have reclassified restricted cash and restricted cash equivalents to be included with cash and equivalents on the statement of cash flows for 2016.

In August 2016, the FASB issued 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); 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.

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**3. Restricted Cash**

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

	2017	2016
Youth savings program	\$ 44,597	\$ 32,085

**4. Property and Equipment, net**

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

	2017	2016
Buildings	\$ 25,034,488	\$ 25,034,488
Land	8,181,804	8,181,804
Furniture and equipment	2,929,331	2,424,344
Building improvements	1,516,270	1,516,270
Motor vehicles	273,828	216,941
Land improvements	121,588	121,588
	38,057,309	37,495,435
Less accumulated depreciation	(14,344,843)	(13,283,255)
	\$ 23,712,466	\$ 24,212,180

Depreciation expense for the years ended June 30, 2017 and 2016 was \$1,061,588 and \$1,075,101, respectively.

As of June 30, 2016, the Organization transferred land and building in the amount of \$2,796,221, including original cost and accumulated depreciation, from property and equipment to property held for sale relating to the sale of the Eight Trees Apartments in July 2016 (see Note 9).

**5. Project in Development**

In 2014, the Organization received donated computer hardware and software equipment of \$545,920 which were in project in development as of June 30, 2016. During fiscal year 2017 the Organization placed these donated assets into service as part of furniture and equipment with \$47,654 written off to expense. As of June 30, 2017 project in development of \$295,570 and \$47,972 are related to the kitchen renovation and the clinic buildout at BRC, respectively.

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**6. 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:

	2017	2016
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. 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.

**7. 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, advances receivable, and accrued interest receivable are uncollectible and maintained a full reserve for uncollectible amounts as of June 30, 2017 and 2016.

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**7. Note and Advances Receivable – Affiliates, continued**

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

	2017	2016
<p>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, 2017 and 2016 accrued interest was \$2,077,139 and \$1,879,722, respectively. The partnership does not intend to draw down the balance of the note.</p>	\$ 3,649,679	\$ 3,452,262
<p>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, 2017 and 2016 accrued interest was \$816,384 and \$737,847 respectively. The partnership does not intend to draw down the balance of the note.</p>	1,526,231	1,447,694
<p>Less valuation allowance</p>	(5,175,910)	(4,899,956)
	\$ -	\$ -

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**7. Note and Advances Receivable - Affiliates, continued**

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

	2017	2016
Tully I	\$ 334,435	\$ 334,435
Less valuation allowance	(334,435)	(334,435)
	\$ -	\$ -

**8. 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 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 financial statements. The remaining balance of \$339,893 remains outstanding as of June 30, 2017.

The Organization has submitted a plan to HUD to reduce the remaining HUD liability balance over the next three years as follows:

<u>Year Ending June 30,</u>		
2018	\$	125,000
2019		125,000
2020		89,893
	\$	339,893

The Government Grant Repayment Liability also includes a balance of \$132,914 as of June 30, 2017 and 2016 regarding a disputed overpayment on previous County of Santa Clara grant contracts. During 2017, the Organization submitted documentation to the County to fully 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, 2017.

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**9. Mortgages and Notes Payable**

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

<b>Eight Trees Apartments</b>	2017	2016
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. Property sold in July 2016 and debt transferred to the buyer with no recourse to the Organization.	\$ -	\$ 2,061,627
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. Property sold in July 2016 and debt transferred to the buyer with no recourse to the Organization.	-	388,441
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. Property sold in July 2016 and debt transferred to the buyer with no recourse to the Organization.	-	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. Property sold in July 2016 and debt transferred to the buyer with no recourse to the Organization.	-	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%. Property sold in July 2016 and debt transferred to the buyer with no recourse to the Organization.	-	96,253

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**9. Mortgages and Notes Payable, continued**

<b>Boccardo Family Living Center</b>	2017	2016
City of Gilroy Housing and Community Development note dated April 1991, \$30,000 secured by deed of trust on the real property, bearing 2% interest. Annual payments of interest of \$600. Unpaid principal and interest due March 2020.	30,000	30,000
County of Santa Clara HOME note dated December 1996, in the amount of \$373,500, secured by deed of trust on the real property, bearing 6% interest. Payment of principal and interest shall be deferred during the term of the note. Balance due December 2026.	373,500	373,500
County of Santa Clara CDBG note dated December 1996, in the amount of \$332,552, secured by deed of trust on real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	332,552	332,552
County of Santa Clara CDBG note dated December 1996 in the amount of \$100,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	100,000	100,000
County of Santa Clara CDBG note dated December 1996 in the amount of \$50,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 2026.	50,000	50,000

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**9. Mortgages and Notes Payable, continued**

<b>Boccardo Family Living Center, continued</b>	2017	2016
<p>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.</p>	251,664	251,664
<p>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.</p>	11,750	11,750
<p><b>Sobrato Family Living Center</b> 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.</p>	100,000	100,000
<p>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.</p>	445,380	445,380
<p>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.</p>	500,000	500,000

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**9. Mortgages and Notes Payable, continued**

<b>Boccardo Reception Center</b>	2017	2016
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
<b>Sobrato House</b> 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.	105,662	174,343
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

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**9. Mortgages and Notes Payable, continued**

**Sobrato House, continued**

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.

2017	2016
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
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**Heritage Bank of Commerce - Line of Credit**

In April 2016, the Organization entered into a line of credit agreement with Heritage bank of Commerce 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 April 2018. The line is secured by a blanket security agreement. These borrowings are subject to various covenants for which HomeFirst is in compliance with as of June 30, 2017 and 2016.

	100,000	-
Total mortgages and notes payable	3,417,617	6,682,619
Current portion	(170,085)	(3,365,002)
	\$ 3,247,532	\$ 3,317,617

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**9. Mortgages and Notes Payable, continued**

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

<u>Year Ending June 30,</u>		
2018	\$	170,085
2019		35,577
2020		30,000
2021		-
2022 and thereafter		3,181,955
	<u>\$</u>	<u>3,417,617</u>

In July 2016, the Organization sold the land and building known as Eight Trees Apartment. The property had total debt and accrued interest included on the Statement of Financial Position on the date of the sale of \$3,296,321 and \$632,664, respectively. Eight Trees Apartments had a net carrying value of \$2,796,221 creating a gain on sale of \$1,116,242. During the sale all debt and conditions of the property were transferred to the buyer with no recourse to HomeFirst.

**10. Restricted Net Assets**

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

	<u>2017</u>	<u>2016</u>
Purpose of restriction:		
Program services	\$ 24,947	\$ 101,480
Time restricted	5,619,266	7,645,290
Total temporarily restricted net assets	<u>5,644,213</u>	<u>7,746,770</u>
Permanent restriction	86,244	86,244
Total restricted net assets	<u>\$ 5,730,457</u>	<u>\$ 7,833,014</u>

The Organization has recognized the receipt of an endowment bequest whose use is restricted to certain youth program activities (see Note 16).

**11. Net Assets Released From Restrictions**

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

	<u>2017</u>	<u>2016</u>
Program services	\$ 375,315	\$ 276,157
Time restricted	2,056,021	33,334
	<u>\$ 2,431,336</u>	<u>\$ 309,491</u>

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**12. 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:

	2017	2016
Donated goods:		
Food	\$ 350,379	\$ 494,344
Property and equipment	-	68,395
Goods for clients	123,568	96,171
Total donated goods	473,947	658,910
Donated rent	90,093	89,904
Total donated food, goods, and rent	\$ 564,040	\$ 748,814

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.

**13. 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.

**14. 401(k) Plan**

The Organization sponsors the Emergency Housing Consortium 401(k) Plan (the "Plan") in which employees are eligible to participate at age 21 years or older. The costs of administering the Plan are not material. The Organization makes contributions at the discretion of management which are pre-approved by the Board of Directors. Discretionary contributions for the years ended June 30, 2017 and 2016 were \$0.

**15. Endowment Fund**

The Organization's endowment currently consists of one fund created as the result of a bequest of \$86,244 received with the stipulation that it be used for endowment purposes with income henceforth to be used for certain Youth program activities. The balance of the endowment is recorded 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.

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**15. 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.

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**15. 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, 2017 and 2016.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ -	\$ 24,240	\$ 86,244	\$ 110,484
Investment loss	-	(4,437)	-	(4,437)
Expenditures	-	(10,579)	-	(10,579)
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	<u>\$ -</u>	<u>\$ 12,458</u>	<u>\$ 86,244</u>	<u>\$ 98,702</u>

**16. Commitments and Contingencies**

***Economic Dependency***

The Organization received approximately 68% and 67% of its funding from government agencies, of which 45% and 57% is from the County of Santa Clara, 36% and 32% is from the Department of Veterans Affairs, and 19% and 11% is from the City of San Jose for the years ended June 30, 2017 and 2016, respectively. The Organization also has approximately 78% and 98% of its receivables from government agencies for the years ended June 30, 2017 and 2016, 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.

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**16. 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 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, 2017 and 2016 the amount of the potential liability accrued in the financial statements to the federal agency was determined by management to be \$339,893 and \$1,200,304, respectively (see Note 8).

***Leases***

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

<u>Year Ending June 30,</u>		
2018	\$	13,192
2019		13,192
2020		13,192
2021		3,298
	<u>\$</u>	<u>42,874</u>

Total rental expense for the years ending June 30, 2017 and 2016 was \$97,731 and \$90,900, 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, 2017 and 2016 was \$89,903 and \$89,904, respectively. The estimated fair value of rents for these facilities was recorded as a gift-in-kind for the years ended June 30, 2017 and 2016, 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.

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**16. Commitments and Contingencies, continued**

***Forgivable Loans***

The Organization received forgivable loans which were used for the development of certain projects. These loans will be forgiven if the Organization has complied with certain terms and conditions of the loan throughout the loan term. If these conditions are met, the forgivable loan and accrued interest is 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.

	2017	2016
<u>Boccardo Reception Center</u> : Various notes with due dates ranging from May 2026 to July 2027	\$ 3,600,614	\$ 3,600,614
<u>Sobrato Family Living Center</u> : Various notes with due dates ranging from January 2023 to December 2032	1,913,652	2,969,673
<u>Sobrato House</u> : Notes with due date December 2022	75,000	1,075,000
	\$ 5,589,266	\$ 7,645,287
Accrued interest	\$ 2,443,139	\$ 2,599,371

Accrued interest on the forgivable loans of \$2,443,139 for the year ending June 30, 2017 and \$2,599,371 for the year ending June 30, 2016 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.

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for the years ended June 30, 2017 and 2016

**16. Commitments and Contingencies, continued**

*Restricted Grants, continued*

Balances as of June 30 are as follows:

	2017	2016
Boccardo Reception Center	\$ 1,000,000	\$ 1,000,000
Boccardo Family Living Center	953,966	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
	\$ 20,790,583	\$ 20,995,346

*Services for Partnerships*

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

*Legal Proceedings*

The Organization is party to various legal proceedings and certain other matters that arise from time to time in the ordinary course of its business. Although litigation is inherently unpredictable, in the opinion of management the outcomes from these proceedings will not have a material adverse effect on the cash flows, financial condition or results of operations of the Organization. The Organization is currently involved in lawsuits brought forth by previous employees. The Organization incurred \$10,000 in connection with the settlement of one such dispute and does not currently anticipate additional amounts will be paid in settlements related to these matters.

**17. Fair Value Measurement**

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

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**17. Fair Value Measurement, continued**

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

- Level 1: quote prices in active markets for identical investments. Investments in Level 1 include listed equities held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.
- Level 2: pricing inputs, including broker quotes, are those other than exchange quoted prices in active markets, 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 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 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

  

Assets at Fair Value as of June 2016				
	Level 1	Level 2	Level 3	Total
Pooled blended fund	\$ -	\$ 95,468	\$ -	\$ 95,468
Investment in partnership	-	-	220	220
	\$ -	\$ 95,468	\$ 220	\$ 95,688

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.

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**17. Fair Value Measurement**, continued

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

Balance as at July 1, 2015	\$ 220
Change in value	-
Balance as at June 30, 2016	<u>220</u>
Change in value	-
Balance as at June 30, 2017	<u><u>\$ 220</u></u>

There was no change in the value and no transfers in or out of Level 3 assets in the year ended June 30, 2017 or 2016.

**18. Subsequent Events**

In accordance with accounting standards affecting disclosures of subsequent events, the Organization evaluated subsequent events for recognition and disclosure through October 31, 2017, the date which these 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, 2017 that require recognition or disclosure in the financial statements.

**SUPPLEMENTARY INFORMATION**

**HOMEFIRST SERVICES OF SANTA CLARA COUNTY  
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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

for the year ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipients	Federal Expenditures
<b>Current year Expenditure of Federal Awards</b>				
<b>U.S. Department of Housing and Urban Development:</b>				
<b>Community Development Block Grants</b>				
Pass-through programs from:				
City of San Jose	14.218	CPS-15-012A	\$ -	\$ 745,887
City of San Jose	14.218	CDI-14-018	-	299,373
<b>Supportive Housing Program</b>				
Scattered Site #2	14.235	CA0022L9T001407/CA0022L9T001508	-	24,195
<i>Total - U.S. Department of Housing and Urban Development</i>			-	1,069,455
<b>U.S. Department of Veterans Affairs</b>				
<b>VA Homeless Providers Grant and Per Diem Program</b>				
VA Per Diem Beds	64.024	640-08-66-CA/640-10-45-CA	-	236,973
VA Emergency Shelter Program	64.024	VA261-16-C-0122	-	363,900
VA Special Conditions	64.024	VA261-15-C-0173 -Amend-P0001	-	164,087
VA Special Conditions- Mental Illness	64.024	VA261-16-C-0126	-	98,900
<b>VA Direct Programs</b>				
VA Supportive Services for Veteran Families	64.033	12-CA-010	-	295,836
VA Supportive Services for VA Families	64.033	C15-CA-500A	635,912	1,684,112
<i>Total - U.S. Department of Veterans Affairs</i>			635,912	2,843,808
<b>U.S. Department of Health and Human Services</b>				
<b>Foster Care Title IV-E</b>				
Pass-through program from:				
State of California, Department of Social Services	93.658	2370.18.01	-	271,219
<i>Total - U.S. Department of Health and Human Services</i>			-	271,219
<b>U.S. Department of Homeland Security</b>				
<b>FEMA: Emergency Food and Shelter National Board Program</b>				
Pass-through program from:				
Second Harvest Food Bank	97.024	N/A	-	101,686
<i>Total - U.S. Department of Health and Human Services</i>			-	101,686
<b>Total Current Year Expenditure of Federal Awards</b>			<b>\$ 635,912</b>	<b>\$ 4,286,168</b>

See accompanying notes to the supplementary information.

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED**

for the year ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>Prior Year Federal Awards Requiring Continuing Compliance</b>			
<b><i>U.S. Department of Housing and Urban Development:</i></b>			
Prior year loans and grants for which continuing compliance is required			
<b>Community Development Block Grant</b>			
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
<b>HOME Investment Partnership Program Loans</b>			
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
<b>Other</b>			
U.S. Department of Agriculture	10.446		<u>953,966</u>
			<u>\$ 6,490,162</u>

See accompanying notes to the supplementary information.

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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

for the year ended June 30, 2017

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**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, 2017. 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.



**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, 2017, and the related consolidated statements of activities, functional expenses, 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 31, 2017.

**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.

**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 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 ZP

E. Palo Alto, California  
October 31, 2017



## 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, 2017. HomeFirst's major federal programs are identified 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 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, 2017.

### ***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 Question Cost as item 2007-001. Our opinion on each major federal program is not modified with respect to this matter.

HomeFirst's responses to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questions 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 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 ZJP

E. Palo Alto, California  
October 31, 2017

**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, 2017**

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**Section I – Summary of Audit Results**

***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 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:  |               |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
64.024	VA Homeless Providers Grant and Per Diem Program
64.033	VA Supportive Services for Veteran Families
14.218	Community Development Block Grants

- |   |           |
|---|-----------|
| 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.

**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, 2017

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**Section IV – Status of Prior Year Findings**

**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. During fiscal year ending June 30, 2017 the Organization submitted documentation that was accepted by HUD which decreased the liability by \$860,411. The Organization has submitted a plan to HUD to fully satisfy the remaining \$339,893 balance during the next three 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.

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 its findings to HUD on July 3, 2008. The remaining amount of liability for the identified ineligible expenses as of June 30, 2017 is \$339,893. The \$125,000 amount that is classified as current is based upon documentation of eligible services performed during the fiscal year ended June 30, 2017 which is submitted upon completion of the annual audit. Eligible services to satisfy the remaining balance will be performed during the years ending June 30, 2018 and 2019. 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.