

Swords to Plowshares:  
Veterans Rights Organization  
and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

June 30, 2015 with comparative totals for 2014

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## INDEPENDENT AUDITORS' REPORT

Board of Directors

Swords to Plowshares: Veterans Rights Organization and Subsidiary

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Swords to Plowshares: Veterans Rights Organization and Subsidiary (a California non-profit public benefit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Swords to Plowshares: Veterans Rights Organization and Subsidiary as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (continued)

**Report on Summarized Comparative Information**

We have previously audited Swords to Plowshares: Veterans Rights Organization and Subsidiary's 2014 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated November 5, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015, on our consideration of Swords to Plowshares: Veterans Rights Organization and Subsidiary'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 Swords to Plowshares: Veterans Rights Organization and Subsidiary's internal control over financial reporting and compliance.

*DZH Phillips LLP*

San Francisco, California  
November 17, 2015

Swords to Plowshares: Veterans Rights Organization and Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2015 with comparative totals for 2014

	<b>ASSETS</b>	
	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (including cash segregated for representative payee clients of \$56,812 and \$156,428, respectively)	\$ 1,610,729	\$ 2,094,547
Grants and contracts receivable	1,281,973	714,512
Pledges receivable - net	-	100,000
Due from affiliate	71,366	72,223
Other receivables	28,147	7,520
Investments	874,257	1,060,795
Prepaid expenses	177,447	178,487
Total current assets	<u>4,043,919</u>	<u>4,228,084</u>
PROPERTY AND EQUIPMENT - net	2,173,159	1,897,684
INVESTMENT IN LIMITED PARTNERSHIP	365,000	365,000
<b>OTHER ASSETS</b>		
Operating reserves	334,690	276,367
Replacement reserves	301,367	246,312
Deposits	51,931	47,699
	<u>687,988</u>	<u>570,378</u>
Total assets	<u>\$ 7,270,066</u>	<u>\$ 7,061,146</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 449,410	\$ 303,000
Tenant security deposits payable	153,991	36,471
Representative payee liability	56,772	156,428
Accrued expenses	592,704	445,371
Residual receipts note payable - current portion	69,095	106,508
Total current liabilities	<u>1,321,972</u>	<u>1,047,778</u>
<b>LONG-TERM LIABILITIES</b>		
Residual receipts note payable - long term	<u>66,780</u>	<u>121,285</u>
Total liabilities	1,388,752	1,169,063
COMMITMENTS	-	-
<b>NET ASSETS</b>		
Unrestricted	2,863,568	2,278,513
Temporarily restricted	2,970,211	3,566,035
Permanently restricted	47,535	47,535
Total net assets	<u>5,881,314</u>	<u>5,892,083</u>
Total liabilities and net assets	<u>\$ 7,270,066</u>	<u>\$ 7,061,146</u>

The accompanying notes are an integral part of this statement.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2015 with comparative totals for 2014

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and support:					
Grants and contributions	\$ 776,654	\$ 1,439,400	\$ -	\$ 2,216,054	\$ 3,253,486
Government grants and contracts	12,102,954	-	-	12,102,954	7,236,249
Program fee income	887,878	-	-	887,878	606,570
Income from special events - net of direct expenses of \$166,578 in 2015 and \$115,686 in 2014	219,115	-	-	219,115	139,517
Investment income	14,462	-	-	14,462	27,980
Other income	864,593	-	-	864,593	880,767
	<u>14,865,656</u>	<u>1,439,400</u>	<u>-</u>	<u>16,305,056</u>	<u>12,144,569</u>
Net assets released from restrictions	2,035,224	(2,035,224)	-	-	-
Total revenues and support	<u>16,900,880</u>	<u>(595,824)</u>	<u>-</u>	<u>16,305,056</u>	<u>12,144,569</u>
Expenses:					
Program services	14,420,954	-	-	14,420,954	10,658,376
Management and general	1,458,074	-	-	1,458,074	1,239,589
Fundraising	436,797	-	-	436,797	408,752
Total expenses	<u>16,315,825</u>	<u>-</u>	<u>-</u>	<u>16,315,825</u>	<u>12,306,717</u>
CHANGE IN NET ASSETS	585,055	(595,824)	-	(10,769)	(162,148)
Net assets - beginning of year	<u>2,278,513</u>	<u>3,566,035</u>	<u>47,535</u>	<u>5,892,083</u>	<u>6,054,231</u>
Net assets - end of year	<u>\$ 2,863,568</u>	<u>\$ 2,970,211</u>	<u>\$ 47,535</u>	<u>\$ 5,881,314</u>	<u>\$ 5,892,083</u>

The accompanying notes are an integral part of this statement.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2015 with comparative totals for 2014

	2015									2014
	Program Services					Supporting Services				Total
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Total	Management & General	Fund Raising	Total	
Salaries	\$ 525,614	\$ 536,759	\$ 1,602,622	\$ 3,279,075	\$ 375,125	\$ 6,319,195	\$ 1,011,593	\$ 288,107	\$ 7,618,895	\$ 5,644,693
Payroll taxes and benefits	151,840	125,389	458,102	1,144,822	85,463	1,965,616	205,770	64,420	2,235,806	1,629,897
Total personnel costs	<u>677,454</u>	<u>662,148</u>	<u>2,060,724</u>	<u>4,423,897</u>	<u>460,588</u>	<u>8,284,811</u>	<u>1,217,363</u>	<u>352,527</u>	<u>9,854,701</u>	<u>7,274,590</u>
Professional services	574	8,562	11,096	150,729	6,314	177,275	49,298	4,426	230,999	164,750
Program services	291,796	650	1,795,440	434,426	265,000	2,787,312	-	-	2,787,312	2,356,903
Occupancy	95,241	108,935	234,714	1,468,546	37,274	1,944,710	85,032	23,154	2,052,896	1,294,391
Insurance	2,334	11,934	6,691	68,914	963	90,836	2,166	704	93,706	91,758
Other expenses	42,220	84,454	191,315	448,237	120,170	886,396	103,845	55,986	1,046,227	734,323
Depreciation	<u>205</u>	<u>331</u>	<u>833</u>	<u>248,245</u>	<u>-</u>	<u>249,614</u>	<u>370</u>	<u>-</u>	<u>249,984</u>	<u>390,002</u>
Total expenses	<u>\$ 1,109,824</u>	<u>\$ 877,014</u>	<u>\$ 4,300,813</u>	<u>\$ 7,242,994</u>	<u>\$ 890,309</u>	<u>\$ 14,420,954</u>	<u>\$ 1,458,074</u>	<u>\$ 436,797</u>	<u>\$ 16,315,825</u>	<u>\$ 12,306,717</u>

The accompanying notes are an integral part of this statement.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2015 with comparative totals for 2014

	<u>2015</u>	<u>2014</u>
Cash flows provided by (used in) operating activities:		
Change in net assets	\$ (10,769)	\$ (162,148)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	249,984	390,002
Net realized and unrealized gains on investments	(6,065)	(18,962)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(567,461)	(72,805)
Pledges receivable	100,000	56,147
Employee and other receivables	(20,627)	61,062
Developer fee receivable	-	422,500
Due from affiliate	857	70,392
Prepaid expenses	1,040	(62,225)
Deposits	(4,232)	(33,224)
Accounts payable and accrued expenses	293,743	174,635
Tenant security deposits payable	117,520	6,103
Representative payee liability	(99,656)	7,195
Net cash provided by operating activities	<u>54,334</u>	<u>838,672</u>
Cash flows provided by (used in) investing activities:		
Deposit releases from operating and replacement reserves	(113,378)	(35,073)
Purchases of investments	(59,086)	(662,720)
Proceeds on maturities of investments	251,689	662,235
Purchases of equipment and renovation costs	(525,459)	(140,604)
Net cash used in investing activities	<u>(446,234)</u>	<u>(176,162)</u>
Cash flows used in financing activities:		
Payments on notes payable	(91,918)	(63,249)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(483,818)	599,261
Cash and cash equivalents - beginning of year	<u>2,094,547</u>	<u>1,495,286</u>
Cash and cash equivalents - end of year	<u>\$ 1,610,729</u>	<u>\$ 2,094,547</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 9,382</u>	<u>\$ 8,585</u>

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

Founded in 1974, Swords to Plowshares: Veterans Rights Organization and Subsidiary (the "Organization") is a community-based, not-for-profit organization that provides counseling and case management, employment and training, housing, and legal assistance to homeless and low-income veterans in the San Francisco Bay Area. The agency promotes and protects the rights of veterans through advocacy, public education, and partnerships with local, state, and national entities. War causes wounds and suffering that last beyond the battlefield. The Organization's mission is to heal the wounds, to restore dignity, hope, and self-sufficiency to all veterans in need, and to significantly reduce homelessness and poverty among veterans.

A summary of the Organization's significant accounting policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of Swords to Plowshares: Veterans Rights Organization and its wholly owned subsidiary Swords-150 Otis, LLC. All intercompany transactions and balances have been eliminated in consolidation.

Basis of presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Description of net assets

*Unrestricted Net Assets*

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor restriction.

*Temporarily Restricted Net Assets*

The portion of net assets for which use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization.

*Permanently Restricted Net Assets*

The portion of net assets for which use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Organization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting

The Organization maintains its records using the accrual method of accounting.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Cash and cash equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Cash includes funds held for others totaling \$56,812 at June 30, 2015.

Grants and contracts receivable

Contracts receivable represent balances due from various governmental agencies for contract services and are stated at the amount management expects to collect from outstanding balances. Should it become necessary, management will provide for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual accounts. Balances remaining after management has used reasonable collection efforts would be written off through a charge to bad debt expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges receivable

The Organization recognizes all unconditional gifts and pledges in the period notified. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Amounts that are restricted by the donor/grantor are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Pledges receivable are reviewed for collectability, and reserves for uncollectible amounts are established when needed.

Investments

Investments consist of mutual funds which are carried at fair value based on quoted prices in active markets and certificates of deposit with original maturity dates of six months to two years are carried at cost plus accrued interest (which approximates fair value). Unrealized gains and losses and interest income are recorded in the statement of activities.

Fair value measurements

Under an accounting pronouncement for fair value measurements, the Organization is required to consider the use of market-based information over entity specific information in valuing its financial assets and liabilities measured at fair value on a recurring basis. The pronouncement establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology - unobservable and significant to the fair value measurement.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment purchased with estimated useful lives in excess of one year are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed over the estimated useful lives of the respective assets on a straight-line basis.

Functional allocation of expenses

The Organization's costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Direct costs associated with specific programs are recorded as program expenses. Indirect expenses are charged to programs and supporting services on the basis of time sheets. Management and general expenses include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Organization.

Income taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and by California Revenue and Taxation Code Section 23701(d), and accordingly, is not subject to federal and California income taxes.

Swords-150 Otis, LLC, is a pass-through entity for income tax reporting purposes and, accordingly, does not pay tax on its taxable income. Instead, allocated income or loss is reported on the tax returns of the Organization. The entity is subject to a minimum franchise tax for the State of California.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable tax authority. Management believes that any positions the Organization has taken are supported by substantial authority, and hence, do not need to be measured or disclosed in these consolidated financial statements.

Comparative financial information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management has evaluated subsequent events through the date the consolidated financial statements are available to be issued, November 17, 2015.

NOTE B - INVESTMENTS

At June 30, 2015, investments in mutual funds, stocks and certificates of deposit consist of the following:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 113,322	\$ 88,205	\$ 25,117
Certificates of deposit	<u>760,935</u>	<u>760,935</u>	<u>-</u>
	<u>\$ 874,257</u>	<u>\$ 849,140</u>	<u>\$ 25,117</u>

Certificates of deposit have original maturity dates of six to twenty four months.

For the year ended June 30, 2015, the investment return was as follows:

Interest and dividend income	\$ 8,397
Realized and unrealized gains	<u>6,065</u>
	<u>\$ 14,462</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE C - FAIR VALUE MEASUREMENTS

The Organization's assets measured at fair value consist of the following:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Mutual funds	\$ 113,322	\$ 113,322	\$ -	\$ -
Certificates of deposit	760,935	-	760,935	-
Total investments	<u>874,257</u>	<u>113,322</u>	<u>760,935</u>	<u>-</u>
Operating reserves				
Certificates of deposit	150,250	-	150,250	-
Total	<u>\$ 1,024,507</u>	<u>\$ 113,322</u>	<u>\$ 911,185</u>	<u>\$ -</u>

NOTE D - PROPERTY AND EQUIPMENT

At June 30, 2015, property and equipment consists of the following:

Leasehold improvements	\$ 4,804,817
Furniture and equipment	173,527
Land and building	761,940
Vehicles	<u>133,597</u>
	5,873,881
Less: accumulated depreciation	<u>(3,700,722)</u>
	<u>\$ 2,173,159</u>

For the year ended June 30, 2015, depreciation expense was \$249,984.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE E - REPLACEMENT AND OPERATING RESERVES

The Organization is required to fund certain operating and replacement reserves for its four housing programs. Monthly deposit requirements are determined based on either explicit amounts or calculated amounts per the respective agreements. Required monthly deposits at June 30, 2015 are as follows:

	<u>Monthly Amount</u>
Presidio - Academy Program	
Operating reserve	\$ -
Replacement reserve	\$ 774
Treasure Island - Halibut	
Operating reserve	\$ 500
Replacement reserve	\$ 600
Treasure Island - Chinook	
Replacement reserve	\$ 336
DeMontfort Street	
Operating reserve	\$ -
Replacement reserve	\$ 400

The operating reserves for the Presidio and DeMontfort Street have reached the required balance; therefore, monthly deposits are currently not required.

Operating reserve funds may be used for emergency operating needs associated with the programs. Replacement reserves may be used for replacement or repair of building components or large equipment.

NOTE F - LINE OF CREDIT

The Organization has established an \$86,000 line of credit with a major bank. Interest on the line is at the prime rate plus 5.5%. The line was not utilized throughout the year ended June 30, 2015, and there was no balance outstanding at June 30, 2015.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE G - RESIDUAL RECEIPTS NOTE PAYABLE

The Organization has a residual receipts note payable to the City and County of San Francisco related to a 12-unit housing complex located on Treasure Island (Chinook). The note provides for simple interest at 3% per annum. Principal and accrued interest is payable through residual receipts of the Chinook property. At June 30, 2015, outstanding principal plus accrued interest of \$4,388 amounted to \$135,875. At June 30, 2015, residual receipts to be used for a loan payment in the fiscal year ending June 30, 2016, amounted to \$69,095.

At June 30, 2015, the balance is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Outstanding loan balance	\$ 131,487	\$ 4,388	\$ 135,875
Less: current portion	<u>(64,707)</u>	<u>(4,388)</u>	<u>(69,095)</u>
	<u>\$ 66,780</u>	<u>\$ -</u>	<u>\$ 66,780</u>

NOTE H - COMMITMENTS

The Organization leases two buildings at the Presidio, which are used for the Presidio Academy Program. The lease term is for 10 years ending June 30, 2020. The current monthly rent is \$9,930 per building and incrementally increases to \$12,521 per building by the end of the lease term.

The Organization leases three floors of office space in San Francisco, which is used for intake, counseling and administrative offices. The lease term is for 5 years ending December 31, 2018. The current monthly rent is \$33,372 and incrementally increases to \$36,466 by the end of the lease term.

The Organization leases office space in Oakland with a term of three years ending October 31, 2017. The current monthly rent is \$7,995 and incrementally increases to \$8,482 by the end of the lease term.

The Organization leases a building for its Safe Haven housing program. The lease calls for monthly rent of \$24,532 for the year ending June 30, 2015, with fourteen additional one-year options to extend. The lease was extended to June 30, 2016.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE H - COMMITMENTS (continued)

The Organization has a sublease agreement with the Treasure Island Development Authority to provide transitional and permanent housing on Treasure Island (Chinook and Halibut). The Organization is required to pay monthly common area charges and utility fees. In August 2015, the sublease was renewed to September 30, 2021. It is expected that the Organization will not be required to vacate these units until replacement units have been constructed or alternative arrangements have been made for the occupants of these units. No rent is charged under this agreement, but the Organization is required to pay a monthly fee for common area maintenance of \$1,720.

Minimum annual rental payments required under the above leases (exclusive of month to month agreements) are as follows:

Year ending June 30,

2016	\$	989,983
2017		814,059
2018		790,815
2019		541,697
2020		337,714
Thereafter		78,000
		<u>\$ 3,552,268</u>

For the year ended June 30, 2015, rent expense amounted to \$1,021,724.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2015, temporarily restricted net assets are restricted for the following purposes:

Forgivable Debt (Note K)	\$ 2,050,416
Institute for Veteran Policy	255,313
Legal	243,169
Veteran Services	195,844
Housing	85,342
Employment and Training	70,829
Supportive Housing and Services Programs	59,769
Planned Giving	9,529
	<u>\$ 2,970,211</u>

During the year ended June 30, 2015, current year releases from donor restrictions consist of the following:

Institute for Veteran Policy	\$ 612,493
Legal	241,609
Veteran Services	683,920
Housing	51,658
Employment and Training	312,353
Supportive Housing and Services Programs	85,941
Planned Giving	15,450
Veteran's Day Dinner	31,800
	<u>\$ 2,035,224</u>

NOTE J - ENDOWMENT

The Organization started an endowment fund in prior years to provide support to the Veterans Academy.

The Organization is subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governing endowments. However, the amount in the fund is too small to generate meaningful income. Accordingly, the Organization has not formalized spending and investing policies for this fund.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

## NOTE K - FORGIVABLE DEBT

Treasure Island

The Organization was granted a loan in the amount of \$426,586 from the City and County of San Francisco to develop housing located on subleased property on Treasure Island. The term of the loan is until the earlier of the termination of the sublease, including extensions and renewals for the Treasure Island property, or 50 years (2049). The Organization's obligation to repay the loan will be waived at the end of the loan term provided that the loan is not in default, as defined in the agreement. No interest will be charged on the loan unless the loan is in default. In the event of default, interest on the loan will be charged at the lesser of 10% or the maximum lawful rate, and the loan will be due and payable upon notice from the City and County of San Francisco.

Presidio

The Organization was granted a loan in an original amount of \$2,171,295 from the City and County of San Francisco, to rehabilitate two buildings in the Presidio of San Francisco to provide 102 single room occupancy units for low-income veterans' housing. The loan amount was subsequently reduced to \$2,084,930 from unused project funds. The loan was broken down into two components, a permanent loan in the amount of \$1,623,830, and an amortized loan in the amount of \$461,100. The amortized portion of the loan has been paid in full.

The term of the permanent loan is for 20 years through July 2020. At the end of the 20 year term, the loan will be forgiven if the Organization is not in default on the loan. No interest will be charged on the loan unless the loan is in default. In the event of default, interest will be charged at the lesser of 10% or the maximum lawful rate, and the loan will be due and payable upon notice from the City and County of San Francisco.

Management has determined that the likelihood of the Organization violating the terms of the above loan agreements is remote. Therefore, the forgivable loan proceeds totaling \$2,050,416 were recorded as revenue when received, and are classified as temporarily restricted net assets (refer to Note I). These amounts will remain in temporarily restricted net assets until the loans are forgiven. The breakdown of the forgivable debt is as follows:

Treasure Island	\$ 426,586
Presidio	<u>1,623,830</u>
	<u>\$ 2,050,416</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE L - INVESTMENT IN LIMITED PARTNERSHIP

The Organization's wholly-owned subsidiary has an investment in 150 Otis Associates, L.P. (150 Otis LP) a limited partnership formed by Swords-150 Otis, LLC (the "Subsidiary") and CCDC-150 Otis, LLC (formed by Chinatown Community Development Center). The limited partnership's purpose is to develop and operate 76 units of low-income housing located in San Francisco and provide supportive housing for homeless veterans and veterans at risk of homelessness (the "Project"). This Project participates in the low-income tax credit program under Section 42 of the Internal Revenue Code as modified by the State of California. Various loans, regulatory and other agreements dictate the maximum income levels of new tenants and provide rent and other restrictions through 2067.

Under the limited partnership agreement, Swords-150 Otis, LLC and CCDC-150 Otis, LLC are co-general partners, with CCDC-150 Otis, LLC acting as the managing general partner and Swords-150 Otis, LLC as the administrative general partner, each with a 0.005% general partner interest, with the remaining interest held by a limited partner.

The subsidiary uses the equity method of accounting for this investment. At June 30, 2015, condensed financial information of 150 Otis Associates, LP is as follows:

Total assets (primarily property and equipment)	<u>\$ 27,897,682</u>
Total liabilities (accounts payable and debt)	\$ 9,481,171
Partners' equity	<u>18,416,511</u>
	<u>\$ 27,897,682</u>

At June 30, 2015, the Subsidiary's investment in 150 Otis Associates, LP amounted to \$365,000. Because the Subsidiary's percentage interest in the limited partnership is only 0.005%, the Subsidiary's remaining interest in the equity and the net income of the partnership is inconsequential and therefore not recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE L - INVESTMENT IN LIMITED PARTNERSHIP (continued)

In addition, 150 Otis Associates, LP has various agreements with CCDC-150 Otis, LLC and Swords-150 Otis, LLC (collectively referred to as General Partners) as follows:

Tax Credit Compliance Fee Agreement – Under the terms of this agreement, the General Partners receive an annual fee totaling \$15,000 (shared equally) to advise 150 Otis LP with respect to compliance with applicable state law tax credit requirements and compliance with any and all obligations of the Partnership under any agreements with lenders, to maintain all necessary office and accounting facilities and equipment, and to provide ongoing review during the Compliance Period of the leasing and management of the Project. For the year ended June 30, 2015, the Organization earned \$5,000 in tax credit compliance fees per the agreement.

Asset Management Fee Agreement – Under the terms of this agreement, the General Partners are entitled to an annual cumulative general partner asset management fee in an annual amount of \$10,000, payable from excess/distributable cash, and increasing 3% per year thereafter, in consideration for services performed in accordance with the partnership agreement.

Incentive Management Fee Agreement – Under the terms of this agreement, the General Partners are entitled to an annual non-cumulative incentive management fee, payable from excess/distributable cash for administrative and management services. The fee shall not exceed the lesser of i) \$25,000 when combined with the general partner asset management fee, or ii) 12% of the Partnership's effective gross income for such year when combined with the general partner asset management fee and the property management fee. For the year ended June 30, 2015, the Organization earned \$9,238 in incentive management fees.

Property Sub-Management Agreement – Under the terms of this agreement, CCDC-150 Otis, LLC, as the appointed property manager, appointed the Organization as the sub-agent to perform all obligations stated under the management agreement. The monthly fee is 5.75% of gross income less \$1,000. The term of the agreement is for one year and shall remain effective on a monthly basis thereafter. For the year ended June 30, 2015, the Organization earned \$54,739 in property management fees per the agreement.

Reimbursed Expenses – The Organization also incurs expenses for the ongoing operations of the Project pursuant to agreements with CCDC-150 Otis, LLC. These expenses are reimbursed by 150 Otis LP and recorded as other income in the Statement of Activities. For the year ended June 30, 2015, total reimbursements amounted to \$849,005. Reimbursements earned but not paid are recorded as due from affiliate in the Statement of Financial Position. The related receivable from 150 Otis LP was \$71,366 as of June 30, 2015.

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE M - RETIREMENT PLAN

The Organization has a 403(b) retirement plan (the “Plan”). The Plan covers substantially all Organization employees who have met a one-year service requirement, as defined. Eligible employees may contribute any portion of their compensation up to the statutory maximum amount. The Organization may make discretionary employer contributions which are immediately vested. For the year ended June 30, 2015, total employer contributions amounted to \$258,651.

NOTE N - CONCENTRATIONS

For the year ended June 30, 2015, 34% of the Organization’s total grants and contributions, which equals 5% of total revenue, were from three major donors.

At June 30, 2015, 30% of the Organization’s total grants and receivable were from two major funders.

SUPPLEMENTAL INFORMATION

Swords to Plowshares: Veterans Rights Organization and Subsidiary

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2015

	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development				
Passed through from State of California Passed through from San Francisco City and County Passed through from Mayor's Office of Community Development Community Development Block Grant	14.218	40587	7/1/14-6/30/15	<u>\$ 81,000</u>
Passed through from San Francisco City and County Passed through from Department of Human Services Veterans Commons - 150 Otis Street	14.235	DPSS15000272	7/1/14-6/30/15	<u>101,500</u>
36 Bed Supportive Housing Project	14.235	CA0079L9T011205	8/1/13-7/31/14	22,232
36 Bed Supportive Housing Project	14.235	CA0079L9T011306	8/1/14-7/31/15	<u>235,087</u>
				<u>257,319</u>
Passed through from San Francisco Housing Authority Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/14-6/30/15	782,161
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/14-6/30/15	<u>177,264</u>
				<u>959,425</u>
Passed through from San Francisco City and County Passed through Department of Human Services San Francisco Training Partnership	14.267	DPSS14001037	4/1/14-3/31/15	<u>175,352</u>
Veterans' Academy Support Services	14.267	DPSS15000153	7/1/14-6/30/15	<u>346,991</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiary

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2015

	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development (continued)				
Passed through from San Francisco City and County Passed through Department of Human Services				
Homeless Employment Collaborative	14.267	DPSS14000594	10/1/13-9/30/14	47,156
Homeless Employment Collaborative	14.267	DPSS15000575	10/1/14-9/30/15	18,514
				<u>65,670</u>
Rental Assistance and Case Mgmt - CofC	14.267	DPSS15001190	4/1/15-3/31/16	11,781
Passed through from Bar Association of San Francisco				
Legal Services	N/A	DPSS14000950	3/1/14-2/28/15	94,920
Legal Services	N/A	DPSS15000994	3/1/15-2/28/16	70,838
				<u>165,758</u>
				<u>2,164,796</u>
Department of Labor				
Passed through from San Francisco City and County Workforce Development Division				
Office of Economic and Workforce Development	17.258	40410	7/1/14-6/30/15	150,000
Passed through from State of California Employment Development Department				
WIA VEAP Program	17.258	K391998	6/1/13-3/31/15	271,727

Swords to Plowshares: Veterans Rights Organization and Subsidiary

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2015

	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>
Department of Labor (continued)				
Homeless Female Veteran and Veteran with Families	17.805	HV-24825-13-60-5-6	7/1/14-6/30/15	150,000
Homeless Veterans Reintegration Program	17.805	HV-25965-14-60-5-6	7/1/14-6/30/15	259,327
				<u>409,327</u>
Total Department of Labor				<u>831,054</u>
Department of Veterans Administration				
Special Needs Project - Chronically Mentally Ill	64.024	13-350-CA	10/1/13-9/30/14	85,313
Special Needs Project - Chronically Mentally Ill	64.024	14-350-CA	10/1/14-9/30/15	255,937
Special Needs Project - Frail/Elderly	64.024	13-363-CA	10/1/13-9/30/14	41,455
Special Needs Project - Frail/Elderly	64.024	14-363-CA	10/1/14-9/30/15	124,364
Homeless Veterans' Residential Treatment	64.024	VA261-12-A-0022	8/21/13-8/20/14	75,964
Homeless Veterans' Residential Treatment	64.024	VA261-12-A-0022	8/21/14-8/20/15	776,638
Homeless Veterans' Providers Grant	64.024	97-66-CA	7/1/14-6/30/15	721,643
				<u>2,081,314</u>
Safe Haven Low Demand Housing	64.024	VA261-13-D-0256	9/30/13-9/29/15	<u>1,385,287</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiary

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2015

	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>
Department of Veterans Administration (continued)				
Supportive Services for Veteran Families-EB	64.033	14-CA-165	10/1/13-9/30/14	22,246
Supportive Services for Veteran Families-EB	64.033	14-CA-165	10/1/13-9/30/14	132,933
Supportive Services for Veteran Families-SF	64.033	13-CA-091	10/1/13-9/30/14	176,098
Supportive Services for Veteran Families-SF	64.033	13-CA-091	10/1/13-9/30/14	306,056
Supportive Services for Veteran Families-Renewal	64.033	15-CA-091	10/1/14-9/30/15	1,417,687
Supportive Services for Veteran Families-SF Surge	64.033	C15-CA-501A	10/1/14-9/30/15	1,143,420
Supportive Services for Veteran Families-EB Surge	64.033	C15-CA-502A	10/1/14-9/30/15	711,087
				<u>3,909,527</u>
VA SADH Treasure Island	64.043	VA261-12-A-0037	7/1/14-6/30/15	154,430
Total Department of Veterans Administration				<u>7,530,558</u>
Department of Health and Human Services				
Passed through from San Francisco City and County Community Mental Health Services				
S.B. McKinney PATH Grant	93.150	DPHM15000197	7/1/14-6/30/15	189,005
COVER Program - Sheriff's Dept	93.150	DPHM15000197	7/1/14-6/30/15	175,381
Total Department of Health and Human Services				<u>364,386</u>
Federal Emergency Management Agency				
Phase 32	97.024	N/A	7/1/14-10/30/15	5,870
Total Federal Programs				<u>\$ 10,896,664</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiary

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2015

NOTE A - BASIS OF PRESENTATION

The accompanying supplementary Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. The resources and related expenditures are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Under the accrual basis, revenue is recorded when realized and expenditures are recorded when incurred, without regard to the time of cash receipt or payment. The focus of the accrual basis of accounting is on the matching of revenue realized with costs incurred. Revenues for the Federal programs are received as reimbursement for specific purposes or projects and are recognized based upon eligible recorded expenditures.

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*

Board of Directors

Swords to Plowshares: Veterans Rights Organization and Subsidiary

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 Swords to Plowshares: Veterans Rights Organization and Subsidiary (a California non-profit organization) (the “Organization”), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 17, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Swords to Plowshares: Veterans Rights Organization and Subsidiary’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Swords to Plowshares: Veterans Rights Organization and Subsidiary’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 Organization’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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* (continued)

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*DZH Phillips LLP*

San Francisco, California  
November 17, 2015

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

Board of Directors

Swords to Plowshares: Veterans Rights Organization and Subsidiary

**Report on Compliance for Each Major Federal Program**

We have audited Swords to Plowshares: Veterans Rights Organization and Subsidiary's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Swords to Plowshares: Veterans Rights Organization and Subsidiary's major federal programs for the year ended June 30, 2015. Swords to Plowshares: Veterans Rights Organization and Subsidiary'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Swords to Plowshares: Veterans Rights Organization and Subsidiary's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Swords to Plowshares: Veterans Rights Organization and Subsidiary'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 Swords to Plowshares: Veterans Rights Organization and Subsidiary's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Swords to Plowshares: Veterans Rights Organization and Subsidiary's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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

**Report on Internal Control over Compliance**

Management of Swords to Plowshares: Veterans Rights Organization and Subsidiary 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 Swords to Plowshares: Veterans Rights Organization and Subsidiary'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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Swords to Plowshares: Veterans Rights Organization and Subsidiary'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 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 the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*DZH Phillips LLP*

San Francisco, California  
November 17, 2015

Swords to Plowshares: Veterans Rights Organization and Subsidiary

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2015

**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:  
 Material weakness(es) identified?      \_\_\_ yes        x   no

Significant deficiencies identified?      \_\_\_ yes        x   none reported

Noncompliance material to financial statements noted?      \_\_\_ yes        x   no

Federal Awards

Internal control over major programs:  
 Material weakness(es) identified?      \_\_\_ yes        x   no

Significant deficiencies identified?      \_\_\_ yes        x   none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are to be reported in accordance with section 510(a) of Circular A-133?      \_\_\_ yes        x   no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
17.805	Homeless Veterans Reintegration Program
64.033	Veterans Affairs Supportive Services for Veteran Families Program
93.150	Projects for Assistance in Transition from Homelessness (PATH)

Dollar threshold used to distinguish between Type A and Type B programs: \$343,631

Auditee qualified as low-risk auditee?        x   yes      \_\_\_ no

**Section II - Financial Statement Findings**

No matters reported.

**Section III - Federal Award Findings and Questioned Costs**

No matters reported.