

Swords to Plowshares:  
Veterans Rights Organization  
and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

June 30, 2016 with comparative totals for 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Swords to Plowshares: Veterans Rights Organization (a California non-profit public benefit corporation) and Subsidiaries (the “Organization”), which comprise the consolidated statement of financial position as of June 30, 2016, 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 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.

INDEPENDENT AUDITORS' REPORT (continued)

**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 Subsidiaries as of June 30, 2016, 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.

**Report on Summarized Comparative Information**

We have previously audited Swords to Plowshares: Veterans Rights Organization and Subsidiaries' 2015 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated November 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 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 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 4, 2016, on our consideration of Swords to Plowshares: Veterans Rights Organization and Subsidiaries' 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 Subsidiaries' internal control over financial reporting and compliance.

*DZH Phillips LLP*

San Francisco, California  
November 4, 2016

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016 with comparative totals for 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (including cash segregated for representative payee clients of \$61,210 and \$56,812, respectively)	\$ 1,530,819	\$ 1,453,699
Cash - restricted	190,448	157,030
Grants and contracts receivable	1,393,979	1,281,973
Due from affiliate (Note L)	103,297	71,366
Other receivables	16,138	28,147
Investments (Note C)	888,148	874,257
Prepaid expenses	266,220	177,447
Total current assets	<u>4,389,049</u>	<u>4,043,919</u>
PROPERTY AND EQUIPMENT - net (Note D)	2,035,649	2,173,159
INVESTMENT IN LIMITED PARTNERSHIPS (Note L)	364,257	365,000
<b>OTHER ASSETS</b>		
Operating reserves (Note E)	335,452	334,690
Replacement reserves (Note E)	309,021	301,367
Deposits	51,931	51,931
	<u>696,404</u>	<u>687,988</u>
Total assets	<u>\$ 7,485,359</u>	<u>\$ 7,270,066</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 459,851	\$ 449,410
Tenant security deposits payable	190,349	153,991
Representative payee liability	57,662	56,772
Accrued expenses	578,371	592,704
Residual receipts note payable - current portion (Note G)	81,364	69,095
Total current liabilities	<u>1,367,597</u>	<u>1,321,972</u>
<b>LONG-TERM LIABILITIES</b>		
Residual receipts note payable - long term (Note G)	-	66,780
Total liabilities	<u>1,367,597</u>	<u>1,388,752</u>
<b>COMMITMENTS</b>	-	-
<b>NET ASSETS</b>		
Unrestricted	3,018,726	2,863,568
Temporarily restricted (Note I)	3,051,501	2,970,211
Permanently restricted (Note J)	47,535	47,535
Total net assets	<u>6,117,762</u>	<u>5,881,314</u>
Total liabilities and net assets	<u>\$ 7,485,359</u>	<u>\$ 7,270,066</u>

The accompanying notes are an integral part of this statement.

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2016 with comparative totals for 2015

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Revenues and support:					
Grants and contributions	\$ 493,243	\$ 2,819,706	\$ -	\$ 3,312,949	\$ 2,216,054
Government grants and contracts	13,425,033	-	-	13,425,033	12,139,785
Program fee income	1,126,836	-	-	1,126,836	851,047
Income from special events - net of direct expenses of \$169,850 in 2016 and \$166,578 in 2015	269,492	-	-	269,492	219,115
Investment income (Note B)	10,678	-	-	10,678	14,462
Management and other fees (Note L)	88,346	-	-	88,346	120,577
Reimbursable expenses from limited partnership (Note L)	845,162	-	-	845,162	728,428
Other income	25,122	-	-	25,122	15,588
	<u>16,283,912</u>	<u>2,819,706</u>	<u>-</u>	<u>19,103,618</u>	<u>16,305,056</u>
Net assets released from restrictions	2,738,416	(2,738,416)	-	-	-
Total revenues and support	<u>19,022,328</u>	<u>81,290</u>	<u>-</u>	<u>19,103,618</u>	<u>16,305,056</u>
Expenses:					
Program services	16,754,744	-	-	16,754,744	14,420,954
Management and general	1,649,810	-	-	1,649,810	1,458,074
Fundraising	462,616	-	-	462,616	436,797
Total expenses	<u>18,867,170</u>	<u>-</u>	<u>-</u>	<u>18,867,170</u>	<u>16,315,825</u>
CHANGE IN NET ASSETS	155,158	81,290	-	236,448	(10,769)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 3,018,726</u>	<u>\$ 3,051,501</u>	<u>\$ 47,535</u>	<u>\$ 6,117,762</u>	<u>\$ 5,881,314</u>

The accompanying notes are an integral part of this statement.

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016 with comparative totals for 2015

	2016								2015	
	Program Services					Supporting Services			Total	Total
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Total	Management & General	Fundraising		
Salaries	\$ 633,047	\$ 475,813	\$ 2,050,889	\$ 3,924,498	\$ 506,685	\$ 7,590,932	\$ 1,151,232	\$ 313,327	\$ 9,055,491	\$ 7,618,895
Payroll taxes and benefits	163,244	100,197	542,255	1,201,260	109,176	2,116,132	221,963	65,820	2,403,915	2,235,806
Total personnel costs	796,291	576,010	2,593,144	5,125,758	615,861	9,707,064	1,373,195	379,147	11,459,406	9,854,701
Professional services	-	38,530	-	116,357	7,475	162,362	46,864	3,340	212,566	230,999
Client support	271,549	1,950	1,715,457	389,560	10,476	2,388,992	176	-	2,389,168	2,479,395
Grant awards	191,266	-	-	-	770,000	961,266	-	-	961,266	307,917
Occupancy	96,006	104,771	274,922	1,699,211	45,304	2,220,214	93,287	25,095	2,338,596	2,052,896
Insurance	2,897	14,244	8,977	72,615	1,460	100,193	2,943	865	104,001	93,706
Other expenses	40,022	59,114	194,682	511,366	68,510	873,694	121,042	50,773	1,045,509	1,046,227
Depreciation	18,265	14,166	46,804	255,647	6,077	340,959	12,303	3,396	356,658	249,984
Total expenses	\$ 1,416,296	\$ 808,785	\$ 4,833,986	\$ 8,170,514	\$ 1,525,163	\$ 16,754,744	\$ 1,649,810	\$ 462,616	\$ 18,867,170	\$ 16,315,825

The accompanying notes are an integral part of this statement.

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2016 with comparative totals for 2015

	<u>2016</u>	<u>2015</u>
Cash flows provided by (used in) operating activities:		
Change in net assets	\$ 236,448	\$ (10,769)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	356,658	249,984
Net realized and unrealized gains on investments	(976)	(6,065)
Loss on investment in limited partnership	743	-
Changes in operating assets and liabilities:		
Cash - restricted	(33,418)	(119,657)
Grants and contracts receivable	(112,006)	(567,461)
Pledges receivable	-	100,000
Employee and other receivables	12,009	(20,627)
Due from affiliate	(31,931)	857
Prepaid expenses	(88,773)	1,040
Deposits	-	(4,232)
Accounts payable and accrued expenses	(3,892)	293,743
Tenant security deposits payable	36,358	117,520
Representative payee liability	890	(99,656)
Net cash provided by operating activities	<u>372,110</u>	<u>(65,323)</u>
Cash flows provided by (used in) investing activities:		
Deposit releases from operating and replacement reserves	(8,416)	(113,378)
Purchases of investments	(1,016,537)	(59,086)
Proceeds on maturities of investments	1,003,622	251,689
Purchases of equipment and renovation costs	(219,148)	(525,459)
Net cash used in investing activities	<u>(240,479)</u>	<u>(446,234)</u>
Cash flows used in financing activities:		
Payments on notes payable	<u>(54,511)</u>	<u>(91,918)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,120	(603,475)
Cash and cash equivalents - beginning of year	<u>1,453,699</u>	<u>2,057,174</u>
Cash and cash equivalents - end of year	<u>\$ 1,530,819</u>	<u>\$ 1,453,699</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 7,788</u>	<u>\$ 9,382</u>

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

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

Nature of activities

Founded in 1974, Swords to Plowshares: Veterans Rights Organization and Subsidiaries (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 subsidiaries, Swords-150 Otis, LLC and Swords-MB3E, LLC. All intercompany transactions and balances have been eliminated in consolidation.

On January 19, 2016, the Organization formed a wholly-owned subsidiary, Swords-MB3E, LLC. There was no financial activity in this LLC during the year ended June 30, 2016 (refer to Note L).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

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

Description of net assets (continued)

*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.

Basis of accounting

The Organization maintains its records using the accrual method of accounting in accordance with generally accepted accounting principles in the United States of America.

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 – restricted

In accordance with regulations, the Organization must maintain deposit funds equal to the related liability for tenant security deposits. The funds are held in separate cash accounts in the name of the Organization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

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

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.

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.

The investment in a limited partnership is recorded on the equity method.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

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

Fair value measurements (continued)

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.

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 and Swords-MB3E, LLC are pass-through entities for income tax reporting purposes and, accordingly, do not pay tax on their taxable income. Instead, allocated income or loss is reported on the tax returns of the Organization. The entities are subject to a minimum franchise tax for the State of California.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

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

Income taxes (continued)

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, 2015, from which the summarized information was derived.

Reclassifications

Certain accounts in the summarized comparative information were reclassified to conform with current year presentation.

Subsequent events

Management has evaluated subsequent events through the date the consolidated financial statements are available to be issued, November 4, 2016.

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE B - INVESTMENTS

At June 30, 2016, 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	\$ 123,192	\$ 94,799	\$ 28,393
Certificates of deposit	<u>764,956</u>	<u>764,956</u>	<u>-</u>
	<u>\$ 888,148</u>	<u>\$ 859,755</u>	<u>\$ 28,393</u>

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

For the year ended June 30, 2016, the investment return was as follows:

Interest and dividend income	\$ 9,702
Realized and unrealized gains	<u>976</u>
	<u>\$ 10,678</u>

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	\$ 123,192	\$ 123,192	\$ -	\$ -
Certificates of deposit	<u>764,956</u>	<u>-</u>	<u>764,956</u>	<u>-</u>
Total investments	<u>888,148</u>	<u>123,192</u>	<u>764,956</u>	<u>-</u>
Operating reserves				
Certificates of deposit	<u>150,930</u>	<u>-</u>	<u>150,930</u>	<u>-</u>
Total	<u>\$ 1,039,078</u>	<u>\$ 123,192</u>	<u>\$ 915,886</u>	<u>\$ -</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE D - PROPERTY AND EQUIPMENT

At June 30, 2016, property and equipment consists of the following:

Leasehold improvements	\$ 4,970,992
Furniture and equipment	151,817
Land and building	761,940
Vehicles	173,715
	<u>6,058,464</u>
Less: accumulated depreciation	<u>(4,022,815)</u>
	<u>\$ 2,035,649</u>

For the year ended June 30, 2016, depreciation expense was \$356,658.

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, 2016 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

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE E - REPLACEMENT AND OPERATING RESERVES (continued)

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, 2016, and there was no balance outstanding at June 30, 2016.

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, 2016, outstanding principal, plus accrued interest of \$4,388, amounted to \$81,364. At June 30, 2016, residual receipts to be used for a loan payment in the fiscal year ending June 30, 2017 amounts to \$81,364.

At June 30, 2016, the balance is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Outstanding loan balance - current portion	<u>\$ 76,976</u>	<u>\$ 4,388</u>	<u>\$ 81,364</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

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 \$10,402 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 \$34,373 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 \$8,235 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 original term went through June 30, 2015 with fourteen one-year options to extend through June 30, 2029. The monthly rent was \$24,822 for the year ended June 30, 2016. The lease was extended to June 30, 2017.

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 \$2,725.

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE H – COMMITMENTS (continued)

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

<u>Year ending June 30,</u>	
2017	\$ 839,854
2018	773,852
2019	541,697
2020	337,714
2021	38,400
Thereafter	9,900
	<u>\$ 2,541,417</u>

For the year ended June 30, 2016, rent expense amounted to \$1,052,274.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2016, temporarily restricted net assets are restricted for the following purposes:

Forgivable Debt (Note K)	\$ 2,050,416
Veteran Services	464,766
Institute for Veteran Policy	197,934
Legal	174,192
Employment and Training	96,732
Housing	67,461
	<u>\$ 3,051,501</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE I - TEMPORARILY RESTRICTED NET ASSETS (continued)

During the year ended June 30, 2016, current year releases from donor restrictions consist of the following:

Veteran Services	\$ 1,271,078
Legal	573,055
Institute for Veteran Policy	437,379
Supportive Housing and Services Programs	207,768
Housing	127,881
Employment and Training	106,705
Planned Giving	9,550
East Bay	5,000
	<hr/>
	\$ 2,738,416

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 fund balance, which amounts to \$47,535, is too small to generate meaningful income. Accordingly, the Organization has not formalized spending and investing policies for this fund.

NOTE K - FORGIVABLE DEBT

Forgivable debt consists of:

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

## NOTE K - FORGIVABLE DEBT (continued)

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>

## NOTE L - INVESTMENT IN LIMITED PARTNERSHIPS

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.

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE L - INVESTMENT IN LIMITED PARTNERSHIPS (continued)

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's original investment in 150 Otis LP amounted to \$365,000.

The Subsidiary uses the equity method of accounting for this investment. At June 30, 2016, condensed financial information of 150 Otis Associates, LP is as follows:

Total assets (primarily property and equipment)	<u>\$ 27,272,083</u>
Total liabilities (accounts payable and debt)	\$ 9,440,843
Partners' equity	<u>17,831,240</u>
	<u>\$ 27,272,083</u>

For the year ended June 30, 2016, condensed financial information of 150 Otis Associates, LP is as follows:

Total revenue	\$ 1,211,012
Total expense	<u>1,006,027</u>
Net income before depreciation and interest expense	204,985
Total other income/expense	<u>787,681</u>
Net loss	<u>\$ (582,696)</u>

At June 30, 2016, the Subsidiary's investment in 150 Otis Associates, LP amounted to \$364,257.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE L - INVESTMENT IN LIMITED PARTNERSHIPS (continued)

In addition, 150 Otis Associates, L.P. 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, 2016, the Organization earned \$7,500 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. For the year ended June 30, 2016, the Organization earned \$5,305 in asset management fees per the 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, 2016, the Organization earned \$7,195 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, 2016, the Organization earned \$57,546 in property management fees per the agreement. In addition, the Organization earned \$10,800 for bookkeeping fees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE L - INVESTMENT IN LIMITED PARTNERSHIPS (continued)

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 revenue in the Statement of Activities. For the year ended June 30, 2016, total reimbursements amounted to \$845,162. 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 \$103,297 at June 30, 2016.

The receivable from 150 Otis LP totaling \$103,297 related to \$83,298 in reimbursable expenses and \$19,999 in management fees.

Indemnification - The General Partners agreed to indemnify the investor limited partner in the event of a reduction in projected tax benefits.

Operating Deficit Guaranty – The General Partners agree and guarantee to fund operating deficits incurred by 150 Otis LP during the guaranty period, not to exceed \$625,000. The guaranty period ends 60 months after all conditions precedent to all of the limited partner capital contribution funding installments have been met.

Purchase Option – The limited partner has an option to require the Organization to purchase the limited partner's interest for \$100. The option will commence on January 1, 2023, the end of the tax credit period, and will expire on December 31, 2026, the end of the 15-year compliance period. The Organization has a right of first refusal to acquire the Project commencing on January 1, 2027, the day after the end of the 15-year compliance period, and will expire on December 31, 2027. The purchase price of the Project is the greater of \$100 or the sum of the amount sufficient to pay all secured debt, including loans by a General Partner, plus an amount sufficient to pay all debt and taxes owed to the limited partner. The Organization has an option to acquire the Project or the limited partner's interest. The option will commence on January 1, 2027, the day after the end of the 15-year compliance period, and will expire on December 31, 2028. The purchase price of the Project is the sum of any amount owed to the limited partner and the greater of the fair market value of the Project or an amount sufficient to pay all existing debt and exit taxes. The purchase price of the limited partner's interest is the sum of any amount owed to the limited partner and the greater of the fair market value of the limited partner's interest or an amount sufficient to pay all existing debt and exit taxes.

During the year ended June 30, 2016, Swords-MB3E, LLC (the "MB3E Subsidiary") formed a limited partnership called MB3E, L.P. as a general partner. Swords-MB3E, LLC is co-general partner with CCDC-MB3E, LLC. The Organization's plans for this limited partnership are to operate a Mission Bay project in San Francisco similar to the investment in the 150 Otis Associates, LP Project described above.

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2016

NOTE L - INVESTMENT IN LIMITED PARTNERSHIPS (continued)

On February 16, 2016, MB3E, LP entered into an agreement to borrow \$2,500,000 from the Successor Agency to the Redevelopment Agency of The City and County of San Francisco (“OCII”) to fund costs related to the development and management of up to 101 units of low- and moderate-income rental housing in San Francisco’s Mission Bay for formerly homeless veterans (the “Mission Bay Project”). The loan bears interest at a rate of 3% per annum and matures no later than February 16, 2019. In conjunction with the loan agreement, OCII is to pay developer fees to MB3E, LP. At June 30, 2016, total draw down against this loan amounted to \$403,229. Subsequent to year end, the Organization was paid \$113,500 in developer fees.

Under the MB3E limited partnership agreement, Swords-MB3E, LLC and CCDC-MB3E, LLC are co-general partners, with CCDC-MB3E, LLC acting as the managing general partner and Swords-MB3E, LLC as the administrative general partner, each with a 0.005% general partner interest, with the remaining interest held by two initial limited partners. The two initial limited partners are Chinatown Community Development Center, Inc. and Swords to Plowshares: Veterans Rights Organization.

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, 2016, total employer contributions amounted to \$319,186.

NOTE N - LITIGATION

The Organization is involved in litigation in the normal course of business. The Organization believes there will be no material negative impact on the Organization's financial position and results of operations as a result of these claims and lawsuits.

SUPPLEMENTAL INFORMATION

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Passed Through to Subrecipients
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	73548-15	7/1/15-6/30/16	\$ 81,111	\$ -
Passed through from San Francisco Housing Authority					
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/15-6/30/16	782,310	-
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/15-6/30/16	183,426	-
				<u>965,736</u>	<u>-</u>
Passed through Department of Human Services					
Section 8 Housing Subsidy	14.249	CA1243L9T011300	7/1/15-6/30/16	191,890	-
				<u>1,157,626</u>	<u>-</u>
Passed through from San Francisco City and County					
Passed through Department of Human Services					
Veterans' Academy Support Services	14.267	DPSS16000298	7/1/15-6/30/18	346,991	-
Veterans Commons	14.267	DPSS16000305	7/1/14-6/30/18	103,814	-
				<u>450,805</u>	<u>-</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2016

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</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	DPSS15000575	10/1/14-9/30/15	55,379	-
Homeless Employment Collaborative	14.267	DPSS16001187	10/1/15-9/30/16	42,953	-
250 Kearny Support Services	N/A	DPSS15001013	12/1/14-9/30/15	151,288	-
250 Kearny Support Services	N/A	DPSS16001189	10/1/15-9/30/17	459,081	-
				<u>708,701</u>	<u>-</u>
Rental Assistance and Case Mgmt - Continuum of Care	14.267	DPSS15001190	4/1/15-3/31/16	79,891	-
Rental Assistance and Case Mgmt - Continuum of Care	14.267	DPSS16001771	4/1/16-6/30/18	15,555	-
				<u>95,446</u>	<u>-</u>
36 Bed Supportive Housing Project	14.267	CA0079L9T011306	8/1/14-7/31/15	21,371	-
36 Bed Supportive Housing Project	14.267	CA0079L9T011407	8/1/15-7/31/16	235,100	-
				<u>256,471</u>	<u>-</u>
Passed through from Bar Association of San Francisco					
Legal Services	14.267	DPSS15000994	3/1/15-2/28/16	88,445	-
Legal Services	14.267	CA0064L9T011508	3/1/16-2/28/17	36,134	-
				<u>124,579</u>	<u>-</u>
Total Department of Housing and Urban Development				<u>2,874,739</u>	<u>-</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Passed Through to Subrecipients
Department of Labor					
Passed through from San Francisco City and County Workforce Development Division					
Office of Economic and Workforce Development	17.258	1358	7/1/15-6/30/16	127,500	-
Office of Economic and Workforce Development	17.258	1358	7/1/15-6/30/16	21,665	-
				149,165	-
Passed through from State of California Employment Development Department					
WIA VEAP Program	17.258	K599606	6/1/15-12/31/16	478,052	191,266
Homeless Female Veterans and Veteran with Families	17.805	HV-24825-13-60-5-6	7/1/15-6/30/16	140,020	-
Homeless Veterans Reintegration Program	17.805	HV-25965-14-60-5-6	7/1/14-3/31/16	40,673	-
Homeless Veterans Reintegration Program	17.805	HV-25965-15-60-5-6	7/1/15-6/30/16	300,000	-
Homeless Veterans Reintegration Program	17.805	HV-27448-15-60-5-6	7/1/15-6/30/16	300,000	-
				780,693	-
Total Department of Labor				1,407,910	191,266

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Passed Through to Subrecipients
Department of Veterans Administration					
Special Needs Project - Chronically Mentally Ill	64.024	14-350-CA	10/1/14-9/30/15	85,313	-
Special Needs Project - Chronically Mentally Ill	64.024	15-350-CA	10/1/15-9/30/16	255,937	-
Special Needs Project - Frail/Elderly	64.024	14-363-CA	10/1/14-9/30/15	41,455	-
Special Needs Project - Frail/Elderly	64.024	15-363-CA	10/1/15-9/30/16	122,384	-
Homeless Veterans' Residential Treatment	64.024	VA261-12-A-0022	8/21/14-8/20/15	106,848	-
Homeless Veterans' Residential Treatment	64.024	VA261-12-A-0022	8/21/15-8/20/16	612,042	-
Homeless Veterans' Providers Grant	64.024	97-66-CA	7/1/15-6/30/16	645,295	-
				1,869,274	-
Safe Haven Low Demand Housing	64.024	VA261-13-D-0256	9/30/13-9/30/18	1,728,690	-
Supportive Services for Veteran Families-Renewal	64.033	15-CA-091	10/1/14-9/30/15	463,193	-
Supportive Services for Veteran Families-Renewal	64.033	15-CA-091	10/1/15-9/30/16	1,580,832	-
Supportive Services for Veteran Families-SF Surge	64.033	C15-CA-501A	10/1/14-9/30/17	1,453,187	-
Supportive Services for Veteran Families-EB Surge	64.033	C15-CA-502A	10/1/14-9/30/17	1,039,895	-
				4,537,107	-
VA SADH Treasure Island	64.043	VA261-12-A-0037	7/1/15-6/30/16	90,516	-
Total Department of Veterans Administration				8,225,587	-

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2016

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</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	BPHM11000050	7/1/15-6/30/16	184,288	
COVER Program - Sheriff's Dept	93.150	BPHM11000050	7/1/15-6/30/16	180,745	-
Total Department of Health and Human Services				<u>365,033</u>	<u>-</u>
Federal Emergency Management Agency					
Phase 32	97.024	LRO ID: 085800033	7/1/14-10/30/15	<u>2,130</u>	<u>-</u>
Total Federal Programs				<u>\$ 12,875,399</u>	<u>\$ 191,266</u>

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Swords to Plowshares: Veterans Rights Organization and Subsidiaries under programs of the federal government for the year ended June 30, 2016 and is presented on the accrual basis of accounting. 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 Swords to Plowshares: Veterans Rights Organization and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Swords to Plowshares: Veterans Rights Organization and Subsidiaries.

NOTE 2 – 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 as 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*

Board of Directors

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

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 Subsidiaries (a California non-profit organization) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016, 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 4, 2016.

### **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 Subsidiaries' 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 Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity'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 4, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

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

We have audited Swords to Plowshares: Veterans Rights Organization and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Swords to Plowshares: Veterans Rights Organization and Subsidiaries' major federal programs for the year ended June 30, 2016. Swords to Plowshares: Veterans Rights Organization and Subsidiaries' 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 Subsidiaries' 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 Swords to Plowshares: Veterans Rights Organization and Subsidiaries' 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 Subsidiaries' compliance.

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

In our opinion, Swords to Plowshares: Veterans Rights Organization and Subsidiaries' 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, 2016.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (continued)

**Report on Internal Control over Compliance**

Management of Swords to Plowshares: Veterans Rights Organization and Subsidiaries 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 Subsidiaries' 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 Swords to Plowshares: Veterans Rights Organization and Subsidiaries' 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.

*DZH Phillips LLP*

San Francisco, California  
November 4, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

**SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on whether the consolidated financial statements of the Swords to Plowshares: Veterans Rights Organization and Subsidiaries (a California non-profit public benefit corporation) (the "Organization") were prepared in accordance with GAAP.
2. No material weaknesses or significant deficiencies were reported during the audit of the consolidated financial statements.
3. No instances of noncompliance material to the consolidated financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies were reported during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Organization expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The programs tested as major programs were:
  - 14.267 Continuum of Care Program
  - 17.258 WIA/WIOA Adult Program
  - 17.805 Homeless Veterans Reintegration Project
  - N/A 250 Kearny Supportive Services
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Organization was determined to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No matters reported.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No matters reported.