

Family Supportive Housing, Inc.

Financial Statements
and Other Audit Report

September 30, 2016
(With Comparative Totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Family Supportive Housing, Inc.
San Jose, California

We have audited the accompanying financial statements of Family Supportive Housing, Inc. (a California Nonprofit Public Benefit Corporation) (the "Organization"), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Family Supportive Housing, Inc. as of September 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 U.S.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Family Supportive Housing, Inc.'s 2015 financial statements, and our report dated January 15, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

January 20, 2017

Family Supportive Housing, Inc.
Statement of Financial Position
September 30, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,112,958	\$ 888,804
Restricted cash - current portion	-	3,439
Pledges receivable	780	5,449
Grants receivable	268,156	159,614
Security deposits	176	8,096
Prepaid expenses	46,663	57,466
Total current assets	1,428,733	1,122,868
Property and equipment, net	12,387,337	12,561,894
Other assets		
Housing program deposits	23,475	28,270
Tenant savings	14,149	20,115
Tenant security deposits	11,217	14,243
Restricted cash - net of current portion	223,626	223,178
Total other assets	272,467	285,806
Total assets	\$ 14,088,537	\$ 13,970,568
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 11,937	\$ 15,388
Accrued liabilities	61,759	95,587
Total current liabilities	73,696	110,975
Tenant security deposits	11,217	14,243
Total liabilities	84,913	125,218
Net assets		
Unrestricted		
Operating fund	1,332,593	948,813
Property and equipment fund	12,387,337	12,561,894
Total unrestricted	13,719,930	13,510,707
Temporarily restricted	283,694	334,643
Total net assets	14,003,624	13,845,350
Total liabilities and net assets	\$ 14,088,537	\$ 13,970,568

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

Family Supportive Housing, Inc.
Statement of Activities
For the Year Ended September 30, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
	<u>Operating Fund</u>	<u>Property and Equipment Fund</u>			
Support and revenue					
Donations	\$ 1,434,068	\$ 22,772	\$ 15,958	\$ 1,472,798	\$ 1,107,417
Government grants	599,620	-	-	599,620	739,149
In-kind contributions	341,729	-	-	341,729	186,207
Special events, net	169,489	-	-	169,489	182,817
Transitional Housing Program - tenant rents	71,143	-	-	71,143	86,012
Program fees	55,306	-	-	55,306	46,322
Other revenue	25,260	-	-	25,260	9,336
Interest	2,851	-	-	2,851	2,311
Net assets released from restriction	<u>66,907</u>	<u>-</u>	<u>(66,907)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,766,373</u>	<u>22,772</u>	<u>(50,949)</u>	<u>2,738,196</u>	<u>2,359,571</u>
Functional expenses					
Program services					
Shelter Program	1,351,261	167,730	-	1,518,991	1,241,705
Transitional Housing Program	576,976	5,920	-	582,896	648,926
Voyager Child Development Program	<u>98,447</u>	<u>9,866</u>	<u>-</u>	<u>108,313</u>	<u>55,500</u>
Total program services	<u>2,026,684</u>	<u>183,516</u>	<u>-</u>	<u>2,210,200</u>	<u>1,946,131</u>
Support services					
Management and general	190,257	7,893	-	198,150	221,999
Fundraising	<u>165,652</u>	<u>5,920</u>	<u>-</u>	<u>171,572</u>	<u>197,644</u>
Total support services	<u>355,909</u>	<u>13,813</u>	<u>-</u>	<u>369,722</u>	<u>419,643</u>
Total functional expenses	<u>2,382,593</u>	<u>197,329</u>	<u>-</u>	<u>2,579,922</u>	<u>2,365,774</u>
Change in net assets	383,780	(174,557)	(50,949)	158,274	(6,203)
Net assets, beginning of year	<u>948,813</u>	<u>12,561,894</u>	<u>334,643</u>	<u>13,845,350</u>	<u>13,851,553</u>
Net assets, end of year	<u>\$ 1,332,593</u>	<u>\$ 12,387,337</u>	<u>\$ 283,694</u>	<u>\$ 14,003,624</u>	<u>\$ 13,845,350</u>

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

Family Supportive Housing, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2016
(With Comparative Totals for 2015)

	Program services				Support services			2016 Total	2015 Total
	Shelter Program	Transitional Housing Program	Voyager Child Development Program	Total program services	Management and general	Fundraising	Total support services		
Salaries and related expenses									
Salaries	\$ 637,934	\$ 116,718	\$ 69,981	\$ 824,633	\$ 108,950	\$ 100,116	\$ 209,066	\$ 1,033,699	\$ 931,357
Employee benefits	58,789	10,756	6,449	75,994	10,040	9,227	19,267	95,261	92,901
Payroll taxes	53,359	9,763	5,853	68,975	9,113	8,374	17,487	86,462	86,651
Insurance - workers' compensation	37,668	6,892	4,132	48,692	6,433	5,912	12,345	61,037	68,664
Total salaries and related expenses	787,750	144,129	86,415	1,018,294	134,536	123,629	258,165	1,276,459	1,179,573
Apartment rent	-	298,485	-	298,485	-	-	-	298,485	303,944
Depreciation	167,730	5,920	9,866	183,516	7,893	5,920	13,813	197,329	194,808
Food	173,691	19,299	-	192,990	-	-	-	192,990	178,344
Other shelter expense	191,315	-	-	191,315	-	-	-	191,315	22,858
Transitional housing expense	-	104,711	-	104,711	-	-	-	104,711	193,136
Professional fees	2,950	763	-	3,713	41,100	27,445	68,545	72,258	65,539
Utilities	42,039	1,484	2,473	45,996	1,978	1,484	3,462	49,458	46,355
Insurance - other	31,013	1,095	1,824	33,932	1,459	1,095	2,554	36,486	35,786
Repairs and maintenance	27,255	757	1,514	29,526	757	-	757	30,283	24,829
Janitorial	19,314	-	2,272	21,586	1,136	-	1,136	22,722	19,856
Office and administrative	7,330	712	712	8,754	4,793	7,901	12,694	21,448	17,680
Telephone	13,344	890	890	15,124	1,779	890	2,669	17,793	18,405
Refuse disposal	12,943	457	761	14,161	609	457	1,066	15,227	15,946
Miscellaneous	11,071	684	285	12,040	764	391	1,155	13,195	12,811
Kitchen supplies	10,621	-	-	10,621	-	-	-	10,621	11,702
Property taxes	8,006	283	471	8,760	377	282	659	9,419	8,373
Licenses and fees	3,992	-	222	4,214	221	-	221	4,435	2,440
Automobile	1,618	2,426	-	4,044	-	-	-	4,044	1,823
Payroll service fees	2,350	430	258	3,038	401	369	770	3,808	3,338
Employee benefits	2,029	371	223	2,623	347	318	665	3,288	1,680
Laundry	2,630	-	-	2,630	-	-	-	2,630	2,566
Newsletter	-	-	-	-	-	1,391	1,391	1,391	3,690
Child care	-	-	127	127	-	-	-	127	292
	<u>\$ 1,518,991</u>	<u>\$ 582,896</u>	<u>\$ 108,313</u>	<u>\$ 2,210,200</u>	<u>\$ 198,150</u>	<u>\$ 171,572</u>	<u>\$ 369,722</u>	<u>\$ 2,579,922</u>	<u>\$ 2,365,774</u>
Percentage of total	<u>59 %</u>	<u>23 %</u>	<u>4 %</u>	<u>86 %</u>	<u>7 %</u>	<u>7 %</u>	<u>14 %</u>	<u>100 %</u>	

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

Family Supportive Housing, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 158,274	\$ (6,203)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	197,329	194,808
Changes in operating assets and liabilities		
Pledges receivable	4,669	(1,699)
Grants receivable	(108,542)	30,218
Security deposits	7,920	-
Prepaid expenses	10,803	(32,644)
Housing program deposits	4,795	(2,030)
Tenant savings	5,966	(1,623)
Accounts payable	(3,451)	8,136
Accrued liabilities	(33,828)	97
Net cash provided by operating activities	243,935	189,060
Cash flows from investing activities		
Purchase of property and equipment	(22,772)	(7,317)
Change in cash restricted for shelter residence	2,991	6,856
Net cash used in investing activities	(19,781)	(461)
Net increase in cash and cash equivalents	224,154	188,599
Cash and cash equivalents, beginning of year	888,804	700,205
Cash and cash equivalents, end of year	\$ 1,112,958	\$ 888,804

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 229	\$ 221
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The accompanying notes are an integral part of these financial statements.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

1. NATURE OF OPERATIONS

Family Supportive Housing, Inc. (the "Organization") incorporated in April 1986 (under the name Concern for the Poor, Inc. dba The San Jose Family Shelter). The Organization formally changed its name in 2003. The Organization is committed to the entire family and encourages families to stay intact while addressing their needs for food, shelter, education and employment. A long held commitment to family is the guiding force of the entire Organization which resonates in the heart of everything the Organization does. There are a few options for extremely low income parents with children to live in our community and the Organization offers a respite, an opportunity to make life altering changes, and a system to aid in finding permanent housing.

2. PROGRAM SERVICES

Shelter Program

With nearly 30 years of experience working with families in need, the Organization has developed a set of services that empower families to move from homelessness to independent, self-sufficient lives in the community. The Organization's San Jose Family Shelter is the only shelter in Santa Clara County that exclusively serves homeless families. It operates 35 efficiency apartments 365 days per year; prepares 186,000 hot meals in a commercial kitchen and dining room; and provides needed medical screenings, childcare, laundry facilities, transportation assistance, and a clothes closet to clients. The Organization helps families break the cycle of poverty and homelessness by focusing attention first on meeting critical survival needs of homeless children and their parents, and then on identifying barriers to their self-sufficient living in the community.

The Organization provides supportive services for adults including life skills workshops on education, finances, nutrition, job and computer skills; parenting skills and domestic violence prevention workshops; a parents' playgroup to help adults learn about stages of child development; and a mom's group that offers parenting support and advice.

Supportive services for children include the Homework Enrichment Program, which provides daily, supervised academic assistance, skill development and enrichment activities to about a 150 children in grades K-12 each year.

Bridges AfterCare is an essential part of helping these families to maintain success, after they complete the Organization's Shelter Program. Bridges AfterCare provides an additional twelve months of case management and access to supportive services, once families are in permanent housing.

Transitional Housing Program

The Organization's GlennArt Arms Transitional Housing Program offers scattered-site apartments to homeless families throughout Santa Clara County. Qualifying families pay 30% of income and receive an array of supportive services focused on increasing income and education, to support independent living.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

2. PROGRAM SERVICES (continued)

Voyager Child Development Program

The Organization's on-site, licensed Voyager Child Development Program facility offers 16 childcare slots five days per week to families struggling to regain control of their lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of Family Supportive Housing, Inc. have been prepared on the accrual basis of accounting.

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. The Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* - include those assets which are not subject to donor-imposed stipulations and net assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. The Organization has elected to report as an increase in unrestricted net assets any restricted support received in the current reporting period for which the restrictions have been met in the current reporting period.
- *Temporarily restricted net assets* - include those assets which are subject to donor-imposed stipulations which may or will be met either by actions of the Organization and/or by the passage of time, and for which the applicable restriction was not met as of the end of the current reporting period.
- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on its cash accounts.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges receivable

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received, and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. All unconditional promises to give are receivable in less than one year. The Organization considers all unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Grants receivable

The Organization considers all grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Tenant security deposits

The Organization collects security deposits from tenants upon move-in in the Transitional Housing Program. The Organization must maintain on deposit funds equal to the related liability.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$2,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 75 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Impairment of long-lived assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the year ended September 30, 2016 there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of September 30, and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of September 30, 2016 and 2015 was \$19,619 and \$19,057, respectively.

Revenue recognition

The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

In-kind contributions

Donated equipment, donated rent and donated goods are recorded at their estimated fair value as of the date of the donation. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations (see Note 9).

Expense allocations

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. Indirect functional expenses are allocated to program and support services based on an analysis of personnel time and space utilized.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended September 30, 2016 and 2015 was \$1,125 and \$1,575 respectively.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Family Supportive Housing, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in income taxes

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the years ended September 30, 2013 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the years ended September 30, 2012 and beyond remain subject to possible examination by the Franchise Tax Board.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Comparative financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to September 30, 2016 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended September 30, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued, January 20, 2017.

4. RESTRICTED CASH

Replacement reserve

Under the terms of the conditional grant agreement with the City of San Jose, a replacement reserve was established and will be maintained until the expiration of the restriction. The Organization shall use its best efforts to fund the Replacement Reserve Account by deposits of at least two hundred (\$200) per unit per year (equal to \$7,000 per year) due annually on the first day of May. Funds held in the Replacement Reserve Account may be applied to cover any costs of replacing eligible replacement items, as defined in the agreement, in connection with the improvements.

Restricted cash consists of the following:

	2016	2015
Current		
Building a Better Future (new shelter residence capital campaign) - residual cash	\$ <u> -</u>	\$ <u> 3,439</u>
Long-term		
Building a Better Future (new shelter residence capital campaign) - replacement reserve	<u> 223,626</u>	<u> 223,178</u>
	<u>\$ 223,626</u>	<u>\$ 226,617</u>

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Building	\$ 11,368,702	\$ 11,368,702
Land	1,729,952	1,729,952
Furniture, fixtures and equipment	174,523	163,629
Software	46,920	46,920
Vehicles	41,160	41,160
Office equipment	49,226	37,347
	13,410,483	13,387,710
Accumulated depreciation	(1,023,146)	(825,816)
	\$ 12,387,337	\$ 12,561,894

Depreciation expense for the years ending September 30, 2016 and 2015 was \$197,329 and \$194,808, respectively.

6. FORGIVABLE LOANS

The Organization received forgivable loans which were used for the development of its new shelter residence facility. These loans are considered forgiven upon completion of the new shelter residence facility in April 2012, due to management's intent and reasonable assurance to comply with certain terms and conditions of the loans throughout the loan terms, consisting primarily of restricted use of the building living units for extremely low-income families. If default occurs, the loans will become payable in full along with accrued interest, where applicable. These loans have been accounted for as grant income and included in unrestricted net assets in April 2012, the date of the new shelter residence facility completion. The total principal balance of the forgiven loans as of September 30, 2016 and 2015 was \$9,141,500, as follows:

City of San Jose

Conditional grant funds of \$6,291,500 with a 75-year loan term bearing 0% interest. The principal outstanding balance as of September 30, 2016 and 2015 was \$6,291,500. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

County of Santa Clara

Affordable Housing Funds of \$1,000,000 with a 55-year loan term bearing 3% simple interest. The principal outstanding balance as of September 30, 2016 and 2015 was \$1,000,000. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

6. FORGIVABLE LOANS (continued)

California Department of Housing and Community Development

Emergency Housing Assistance Program funds of \$1,000,000 with a 10-year loan term bearing 3% interest. The principal outstanding balance as of September 30, 2016 and 2015 was \$1,000,000. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

Opportunity Fund Northern California

Housing Trust of Santa Clara County funds of \$500,000 with a 55-year loan term bearing 0% interest. Construction loan converted to permanent financing at completion. The principal outstanding balance as of September 30, 2016 and 2015 was \$500,000. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

Federal Home Loan Bank

Affordable Housing Program funds through Heritage Bank of \$350,000 with a 55-year loan term bearing 0% interest. The principal outstanding balance as of September 30, 2016 and 2015 was \$350,000. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Purpose restriction		
Current		
Financial education and asset building	\$ 28,206	\$ 25,000
Childcare	12,863	11,160
Homework program	19,447	8,398
Healthy eating/healthy living	-	7,218
Building a Better Future (new shelter residence capital campaign) - residual cash	<u>-</u>	<u>3,439</u>
	<u>60,516</u>	<u>55,215</u>
Time restriction		
Current		
Grants receivable	<u>-</u>	<u>56,250</u>
Total current	<u>60,516</u>	<u>111,465</u>
Long-term		
Building a Better Future (new shelter residence capital campaign) - replacement reserve	<u>223,178</u>	<u>223,178</u>
	<u>\$ 283,694</u>	<u>\$ 334,643</u>

Temporarily restricted net assets released from restriction during the year were as follows:

	<u>2016</u>	<u>2015</u>
Purpose restriction		
Building a Better Future (new shelter residence capital campaign) - replacement reserve	\$ 3,439	\$ 7,317
Financial education and asset building	-	1,976
Healthy eating/healthy living	7,218	-
Mattress covers	<u>-</u>	<u>1,668</u>
	10,657	10,961
Time restriction		
Prior year grants receivable	<u>56,250</u>	<u>68,568</u>
	<u>\$ 66,907</u>	<u>\$ 79,529</u>

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2016
(With Comparative Totals for 2015)

8. IN-KIND CONTRIBUTIONS

The Organization receives a large volume of food, clothing, donated rent and other materials for use in its programs. All items donated were recorded at estimated fair value and were used in the Shelter Program. The total value of these items for the years ended September 30, 2016 and 2015 was \$341,729 and \$186,207, respectively. The total value of in-kind governmental food donations for the years ended September 30, 2016 and 2015 was \$6,039 and \$8,386, respectively.

9. DONATED SERVICES

The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. In accordance with generally accepted accounting standards the value of these services is not reflected in the financial statements.

10. COMMITMENTS AND CONTINGENCIES

HUD funding, restrictions and audit assessments

The Organization participates in a Department of Housing and Urban Development (HUD) Supportive Housing Program. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. In connection with the HUD agreement, there are certain restrictions pertaining to occupancy and tenant eligibility. The continued governmental funding is subject to the Organization passing certain compliance audits.

Forgivable loans

See Note 6.

Transitional Housing Program Apartments

The Organization has entered into leases for apartments in conjunction with the Transitional Housing Program. The units are subleased to families participating in the program. The subleases are one-year in length and the rent is determined based upon a percentage of the family's monthly gross income. After the one-year term has expired, it is expected that the family will take over the main lease in their name and will have complete responsibility of the rental payments if they choose to stay at the unit.

OTHER AUDIT REPORT



INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Family Supportive Housing, Inc.
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America (the "U.S.") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Family Supportive Housing, Inc. (a California Nonprofit Public Benefit Corporation) (the "Organization"), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 20, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Armanino^{LLP}
San Jose, California

January 20, 2017