

Family Supportive Housing, Inc.

Financial Statements
and Other Audit Report

September 30, 2017
(With Comparative Totals for 2016)



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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, 2017, 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; 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 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 of America. 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, 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 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 2016 financial statements, and our report dated January 20, 2017 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 29, 2017

Family Supportive Housing, Inc.
Statement of Financial Position
September 30, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,516,089	\$ 1,112,958
Pledges receivable	1,187	780
Grants receivable, current	413,158	268,156
Security deposits	176	176
Prepaid expenses	<u>23,731</u>	<u>46,663</u>
Total current assets	<u>1,954,341</u>	<u>1,428,733</u>
Property and equipment, net	<u>12,193,781</u>	<u>12,387,337</u>
Other assets		
Housing program deposits	-	23,475
Tenant savings	-	14,149
Tenant security deposits	-	11,217
Restricted cash	224,073	223,626
Grants receivable, net of current portion	<u>150,000</u>	<u>-</u>
Total other assets	<u>374,073</u>	<u>272,467</u>
Total assets	<u>\$ 14,522,195</u>	<u>\$ 14,088,537</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 5,926	\$ 11,937
Accrued liabilities	<u>65,557</u>	<u>61,759</u>
Total current liabilities	71,483	73,696
Tenant security deposits	<u>-</u>	<u>11,217</u>
Total liabilities	<u>71,483</u>	<u>84,913</u>
Net assets		
Unrestricted		
Operating fund	1,611,739	1,332,593
Property and equipment fund	<u>12,193,781</u>	<u>12,387,337</u>
Total unrestricted	13,805,520	13,719,930
Temporarily restricted	<u>645,192</u>	<u>283,694</u>
Total net assets	<u>14,450,712</u>	<u>14,003,624</u>
Total liabilities and net assets	<u>\$ 14,522,195</u>	<u>\$ 14,088,537</u>

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

Family Supportive Housing, Inc.
Statement of Activities
For the Year Ended September 30, 2017
(With Comparative Totals for 2016)

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
	<u>Operating Fund</u>	<u>Property and Equipment Fund</u>			
Support and revenue					
Donations	\$ 1,424,776	\$ 3,994	\$ 405,000	\$ 1,833,770	\$ 1,472,798
In-kind contributions	430,698	-	-	430,698	341,729
Government grants	411,503	-	-	411,503	599,620
Special events, net	191,941	-	-	191,941	169,489
Program fees	40,964	-	-	40,964	55,306
Transitional Housing Program - tenant rents	29,676	-	-	29,676	71,143
Other revenue	6,897	-	-	6,897	25,260
Interest	3,512	-	-	3,512	2,851
Net assets released from restriction	<u>43,502</u>	<u>-</u>	<u>(43,502)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,583,469</u>	<u>3,994</u>	<u>361,498</u>	<u>2,948,961</u>	<u>2,738,196</u>
Functional expenses					
Program services					
Shelter Program	1,550,438	167,917	-	1,718,355	1,518,991
Transitional Housing Program	290,793	5,926	-	296,719	582,896
Voyager Child Development Program	<u>126,719</u>	<u>9,877</u>	<u>-</u>	<u>136,596</u>	<u>108,313</u>
Total program services	<u>1,967,950</u>	<u>183,720</u>	<u>-</u>	<u>2,151,670</u>	<u>2,210,200</u>
Support services					
Management and general	179,102	7,902	-	187,004	198,150
Fundraising	<u>157,271</u>	<u>5,928</u>	<u>-</u>	<u>163,199</u>	<u>171,572</u>
Total support services	<u>336,373</u>	<u>13,830</u>	<u>-</u>	<u>350,203</u>	<u>369,722</u>
Total functional expenses	<u>2,304,323</u>	<u>197,550</u>	<u>-</u>	<u>2,501,873</u>	<u>2,579,922</u>
Change in net assets	279,146	(193,556)	361,498	447,088	158,274
Net assets, beginning 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>
Net assets, end of year	<u>\$ 1,611,739</u>	<u>\$ 12,193,781</u>	<u>\$ 645,192</u>	<u>\$ 14,450,712</u>	<u>\$ 14,003,624</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, 2017
(With Comparative Totals for 2016)

	Program Services				Support Services			2017 Total	2016 Total
	Shelter Program	Transitional Housing Program	Voyager Child Development Program	Total Program Services	Management and General	Fundraising	Total Support Services		
Salaries and related expenses	\$ 715,640	\$ 82,083	\$ 81,431	\$ 879,154	\$ 102,759	\$ 106,014	\$ 208,773	\$ 1,087,927	\$ 1,033,699
Salaries	78,795	9,038	8,966	96,799	11,314	11,673	22,987	119,786	95,261
Employee benefits	57,241	6,565	6,513	70,319	8,219	8,481	16,700	87,019	86,462
Payroll taxes	37,147	4,261	4,227	45,635	5,334	5,502	10,836	56,471	61,037
Insurance - workers' compensation	888,823	101,947	101,137	1,091,907	127,626	131,670	259,296	1,351,203	1,276,459
Total salaries and related expenses									
Client assistance	291,598	-	-	291,598	-	-	-	291,598	191,315
Depreciation	167,917	5,926	9,877	183,720	7,902	5,928	13,830	197,550	197,329
Food	150,762	16,752	-	167,514	-	-	-	167,514	192,990
Apartment rent	-	119,086	-	119,086	-	-	-	119,086	298,485
Utilities	51,676	1,824	3,040	56,540	2,432	1,826	4,258	60,798	49,458
Transitional housing expense	-	44,504	-	44,504	-	-	-	44,504	104,711
Repairs and maintenance	38,587	1,072	2,144	41,803	1,071	-	1,071	42,874	30,283
Professional fees	4,130	-	-	4,130	33,915	2,925	36,840	40,970	72,258
Insurance - other	28,880	1,019	1,699	31,598	1,359	1,020	2,379	33,977	36,486
Office and administrative	7,641	736	752	9,129	4,937	16,873	21,810	30,939	21,448
Janitorial	18,229	-	2,145	20,374	1,072	-	1,072	21,446	22,722
Telephone	14,282	952	952	16,186	1,904	953	2,857	19,043	17,793
Refuse disposal	14,515	512	854	15,881	683	513	1,196	17,077	15,227
Miscellaneous	8,833	760	314	9,907	2,682	434	3,116	13,023	13,195
Child care	-	-	12,318	12,318	-	-	-	12,318	127
Kitchen supplies	10,743	-	-	10,743	-	-	-	10,743	10,621
Property taxes	8,190	289	482	8,961	385	289	674	9,635	9,419
Licenses and fees	5,243	-	291	5,534	291	-	291	5,825	4,435
Employee benefits	2,641	303	301	3,245	379	391	770	4,015	3,288
Payroll service fees	2,547	292	290	3,129	366	377	743	3,872	3,808
Laundry	2,622	-	-	2,622	-	-	-	2,622	2,630
Automobile	496	745	-	1,241	-	-	-	1,241	4,044
Newsletter	-	-	-	-	-	-	-	-	1,391
	<u>\$ 1,718,355</u>	<u>\$ 296,719</u>	<u>\$ 136,596</u>	<u>\$ 2,151,670</u>	<u>\$ 187,004</u>	<u>\$ 163,199</u>	<u>\$ 350,203</u>	<u>\$ 2,501,873</u>	<u>\$ 2,579,922</u>
Percentage of total	<u>69 %</u>	<u>12 %</u>	<u>5 %</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, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 447,088	\$ 158,274
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	197,550	197,329
Changes in operating assets and liabilities		
Pledges receivable	(407)	4,669
Grants receivable	(295,002)	(108,542)
Security deposits	650	7,920
Prepaid expenses	22,932	10,803
Housing program deposits	23,475	4,795
Tenant savings	14,149	5,966
Accounts payable	(6,017)	(3,451)
Accrued liabilities	3,148	(33,828)
Net cash provided by operating activities	407,566	243,935
Cash flows from investing activities		
Purchase of property and equipment	(3,994)	(22,772)
Change in cash restricted for shelter residence	(441)	2,991
Net cash used in investing activities	(4,435)	(19,781)
Net increase in cash and cash equivalents	403,131	224,154
Cash and cash equivalents, beginning of year	1,112,958	888,804
Cash and cash equivalents, end of year	\$ 1,516,089	\$ 1,112,958

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 307	\$ 229
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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, 2017
(With Comparative Totals for 2016)

1. NATURE OF OPERATIONS

Family Supportive Housing, Inc. (the "Organization") was 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.

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 offers families case management and access to FSH supportive services for as long as 24 months after they move into permanent housing. AfterCare helps the Organization's clients establish strong foundations for continued independent living and family stability.

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. The program ended during the year ended September 30, 2017.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2017
(With Comparative Totals for 2016)

2. PROGRAM SERVICES (continued)

Transitional Housing Program (continued)

During this fiscal year, FSH shifted its approach and moved into a more Housing First model. The Organization's Transitional Housing Program converted into a Rapid Re-Housing Program. The Rapid Rehousing model helps families quickly move out of homelessness and into permanent housing, which is usually housing in the private market. Services to support rapid re-housing include housing search and landlord negotiation, short-term financial and rental assistance, and the delivery of home-based housing stabilization services, as needed. The Organization utilizes a relatively light-touch approach to financial assistance and supportive services, and seeks to provide just enough assistance to help people get back into housing, while being available to offer additional support or connections to other resources and programs if more help is needed.

Research suggests that rapid re-housing is more cost-effective than transitional housing. The long-term impacts of rapid re-housing are still being studied, but initial research indicates that people assisted by rapid re-housing experience higher rates of permanent housing placement and similar or lower rates of return to homelessness after the assistance ends compared to those assisted by transitional housing. Rapid re-housing solves the immediate crisis of homelessness, while connecting families or individuals with appropriate community resources to address other service needs.

Voyager Child Development Program

The Organization's on-site, licensed Voyager Child Development Program facility offers 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.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2017
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *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.

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

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2017
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

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, 2017 and 2016 was \$32,077 and \$19,619, 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.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2017
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 and 2016 was \$600 and \$1,125, respectively.

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, 2014 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the years ended September 30, 2013 and beyond remain subject to possible examination by the Franchise Tax Board.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2017
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2016, from which the summarized information was derived.

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, 2017 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, 2017. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 29, 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.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2017
(With Comparative Totals for 2016)

4. RESTRICTED CASH (continued)

Restricted cash consists of the following:

	2017	2016
Long-term		
Building a Better Future (new shelter residence capital campaign) - replacement reserve	\$ 224,073	\$ 223,626
	\$ 224,073	\$ 223,626

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Building	\$ 11,368,702	\$ 11,368,702
Land	1,729,952	1,729,952
Furniture, fixtures and equipment	178,517	174,523
Software	46,920	46,920
Office equipment	49,226	49,226
Vehicles	41,160	41,160
	13,414,477	13,410,483
Accumulated depreciation	(1,220,696)	(1,023,146)
	\$ 12,193,781	\$ 12,387,337

Depreciation expense for the years ending September 30, 2017 and 2016 was \$197,550 and \$197,329, 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, 2017 and 2016 was \$9,141,500, as follows:

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2017
(With Comparative Totals for 2016)

6. FORGIVABLE LOANS (continued)

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, 2017 and 2016 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, 2017 and 2016 was \$1,000,000. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

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, 2017 and 2016 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, 2017 and 2016 was \$500,000. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

Heritage Bank of Commerce

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, 2017 and 2016 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.
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7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Purpose restriction		
Financial education and asset building	\$ 15,715	\$ 28,206
Childcare	1,299	12,863
Homework program	-	19,447
Building a Better Future (new shelter residence capital campaign) - replacement reserve	<u>223,178</u>	<u>223,178</u>
	240,192	283,694
Time restriction		
General operations - FYE 9/30/2018	185,000	-
General operations - FYE 9/30/2019	185,000	-
General operations - FYE 9/30/2020	<u>35,000</u>	<u>-</u>
	<u>405,000</u>	<u>-</u>
	<u>\$ 1,050,192</u>	<u>\$ 283,694</u>

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

	<u>2017</u>	<u>2016</u>
Purpose restriction		
Homework program	\$ 19,447	\$ -
Financial education and asset building	12,491	-
Childcare	11,564	-
Healthy eating/healthy living	-	7,218
Building a Better Future (new shelter residence capital campaign) - replacement reserve	<u>-</u>	<u>3,439</u>
	43,502	10,657
Time restriction		
Prior year grants receivable	<u>-</u>	<u>56,250</u>
	<u>\$ 43,502</u>	<u>\$ 66,907</u>

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, 2017 and 2016 was \$430,698 and \$341,729, respectively. The total value of in-kind governmental food donations for the years ended September 30, 2017 and 2016 was \$4,200 and \$6,039, respectively.

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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.

11. LINE OF CREDIT

The Organization established a revolving line of credit with Heritage Bank of Commerce in April 2016. Borrowings under the line of credit for the fiscal years ended September 30, 2017 and 2016 were limited to a maximum of \$250,000. Interest on outstanding loans is payable monthly at the bank's prime rate plus 2.25% and will not be less than 6.0%. The credit line matured on April 7, 2017 and was extended to April 6, 2018. There was no balance outstanding on this line of credit as of September 30, 2017 and 2016.

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, 2017, 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 December 29, 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

December 29, 2017