

Family Supportive Housing, Inc.

Financial Statements
and Other Audit Report

September 30, 2018
(With Comparative Totals for 2017)



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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, 2018, 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, 2018, 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 January 17, 2019, 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 the effectiveness of Family Supportive Housing, Inc.'s 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 2017 financial statements, and our report dated December 29, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

January 17, 2019

Family Supportive Housing, Inc.
Statement of Financial Position
September 30, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,498,744	\$ 1,516,089
Pledges receivable	1,219	1,187
Grants receivable, current	338,316	413,158
Security deposits	3,071	176
Prepaid expenses	<u>22,418</u>	<u>23,731</u>
Total current assets	<u>1,863,768</u>	<u>1,954,341</u>
Property and equipment, net	<u>12,009,552</u>	<u>12,193,781</u>
Other assets		
Restricted cash	213,402	224,073
Grants receivable, net of current portion	<u>-</u>	<u>150,000</u>
Total other assets	<u>213,402</u>	<u>374,073</u>
Total assets	<u>\$ 14,086,722</u>	<u>\$ 14,522,195</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 16,953	\$ 5,926
Accrued liabilities	<u>65,679</u>	<u>65,557</u>
Total current liabilities	<u>82,632</u>	<u>71,483</u>
Net assets		
Unrestricted		
Operating fund	1,559,384	1,611,739
Property and equipment fund	<u>12,009,552</u>	<u>12,193,781</u>
Total unrestricted	13,568,936	13,805,520
Temporarily restricted	<u>435,154</u>	<u>645,192</u>
Total net assets	<u>14,004,090</u>	<u>14,450,712</u>
Total liabilities and net assets	<u>\$ 14,086,722</u>	<u>\$ 14,522,195</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, 2018
(With Comparative Totals for 2017)

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
	<u>Operating Fund</u>	<u>Property and Equipment Fund</u>			
Support and revenue					
Donations	\$ 789,079	\$ -	\$ 83,000	\$ 872,079	\$ 1,833,770
Government grants	396,396	-	-	396,396	411,503
In-kind contributions	390,039	-	-	390,039	430,698
Special events, net	259,538	-	-	259,538	191,941
Program fees	39,893	-	-	39,893	40,964
Other revenue	4,425	-	-	4,425	6,897
Interest	4,284	-	-	4,284	3,512
Transitional Housing Program - tenant rents	-	-	-	-	29,676
Net assets released from restriction	<u>281,889</u>	<u>11,149</u>	<u>(293,038)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,165,543</u>	<u>11,149</u>	<u>(210,038)</u>	<u>1,966,654</u>	<u>2,948,961</u>
Functional expenses					
Program services					
Shelter Program	1,337,574	166,071	-	1,503,645	1,718,355
Transitional Housing Program	-	-	-	-	296,719
Bridges After-Care Program	394,862	5,861	-	400,723	-
Voyager Child Development Program	<u>106,878</u>	<u>9,769</u>	<u>-</u>	<u>116,647</u>	<u>136,596</u>
Total program services	<u>1,839,314</u>	<u>181,701</u>	<u>-</u>	<u>2,021,015</u>	<u>2,151,670</u>
Support services					
Management and general	186,431	7,815	-	194,246	187,004
Fundraising	<u>192,153</u>	<u>5,862</u>	<u>-</u>	<u>198,015</u>	<u>163,199</u>
Total support services	<u>378,584</u>	<u>13,677</u>	<u>-</u>	<u>392,261</u>	<u>350,203</u>
Total functional expenses	<u>2,217,898</u>	<u>195,378</u>	<u>-</u>	<u>2,413,276</u>	<u>2,501,873</u>
Change in net assets	(52,355)	(184,229)	(210,038)	(446,622)	447,088
Net assets, beginning 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>
Net assets, end of year	<u>\$ 1,559,384</u>	<u>\$ 12,009,552</u>	<u>\$ 435,154</u>	<u>\$ 14,004,090</u>	<u>\$ 14,450,712</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, 2018
(With Comparative Totals for 2017)

	Program Services				Support Services			2018 Total	2017 Total
	Shelter Program	Bridges After- Care Program	Voyager Child Development Program	Total Program Services	Management and General	Fundraising	Total Support Services		
Salaries and related expenses									
Salaries	\$ 757,322	\$ 104,874	\$ 72,185	\$ 934,381	\$ 106,487	\$ 140,897	\$ 247,384	\$ 1,181,765	\$ 1,087,927
Employee benefits	91,284	12,641	8,701	112,626	12,835	16,983	29,818	142,444	119,786
Payroll taxes	63,989	8,862	6,099	78,950	8,998	11,905	20,903	99,853	87,019
Insurance - workers' compensation	31,829	4,407	3,034	39,270	4,476	5,922	10,398	49,668	56,471
Total salaries and related expenses	944,424	130,784	90,019	1,165,227	132,796	175,707	308,503	1,473,730	1,351,203
Client assistance	17,498	230,041	-	247,539	-	-	-	247,539	291,598
Depreciation	166,071	5,861	9,769	181,701	7,815	5,862	13,677	195,378	197,550
Food	147,496	26,028	-	173,524	-	-	-	173,524	167,514
Utilities	46,579	1,644	2,740	50,963	2,192	1,644	3,836	54,799	60,798
Professional fees	4,130	-	-	4,130	38,885	-	38,885	43,015	40,970
Repairs and maintenance	36,922	1,026	2,051	39,999	1,025	-	1,025	41,024	42,874
Insurance - other	28,658	1,011	1,686	31,355	1,349	1,011	2,360	33,715	33,977
Miscellaneous	23,705	473	229	24,407	1,456	281	1,737	26,144	13,023
Janitorial	18,718	-	2,200	20,918	1,101	-	1,101	22,019	21,446
Office and administrative	5,745	547	562	6,854	3,661	10,929	14,590	21,444	30,939
Telephone	14,400	960	960	16,320	1,920	960	2,880	19,200	19,043
Refuse disposal	15,106	533	888	16,527	711	533	1,244	17,771	17,077
Kitchen supplies	12,675	-	-	12,675	-	-	-	12,675	10,743
Property taxes	7,095	250	417	7,762	335	250	585	8,347	9,635
Licenses and fees	6,629	-	368	6,997	368	-	368	7,365	5,825
Child care	-	-	4,329	4,329	-	-	-	4,329	12,318
Payroll service fees	2,648	368	252	3,268	372	493	865	4,133	3,872
Employee benefits	1,851	256	177	2,284	260	345	605	2,889	4,015
Laundry	2,668	-	-	2,668	-	-	-	2,668	2,622
Automobile	627	941	-	1,568	-	-	-	1,568	1,241
Apartment rent	-	-	-	-	-	-	-	-	119,086
Transitional housing expense	-	-	-	-	-	-	-	-	44,504
	<u>\$ 1,503,645</u>	<u>\$ 400,723</u>	<u>\$ 116,647</u>	<u>\$ 2,021,015</u>	<u>\$ 194,246</u>	<u>\$ 198,015</u>	<u>\$ 392,261</u>	<u>\$ 2,413,276</u>	<u>\$ 2,501,873</u>
Percentage of total	<u>62 %</u>	<u>17 %</u>	<u>5 %</u>	<u>84 %</u>	<u>8 %</u>	<u>8 %</u>	<u>16 %</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, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (446,622)	\$ 447,088
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	195,378	197,550
Changes in operating assets and liabilities		
Pledges receivable	(32)	(407)
Grants receivable	224,842	(295,002)
Security deposits	(2,895)	650
Prepaid expenses	1,313	22,932
Housing program deposits	-	23,475
Tenant savings	-	14,149
Accounts payable	11,027	(6,011)
Accrued liabilities	122	3,148
Net cash provided by (used in) operating activities	(16,867)	407,572
Cash flows from investing activities		
Purchase of property and equipment	(11,149)	(3,994)
Net cash used in investing activities	(11,149)	(3,994)
Net increase (decrease) in cash, cash equivalents and restricted cash	(28,016)	403,578
Cash, cash equivalents and restricted cash, beginning of year	1,740,162	1,336,584
Cash, cash equivalents and restricted cash, end of year	\$ 1,712,146	\$ 1,740,162
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,498,744	\$ 1,516,089
Restricted cash	213,402	224,073
	\$ 1,712,146	\$ 1,740,162

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 304	\$ 307
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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, 2018
(With Comparative Totals for 2017)

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.

OUR VISION: All families experiencing homelessness have the support, resources and skills that they need to become self-sufficient.

OUR MISSION: To provide temporary housing and targeted support to guide families from crisis to independent lives in our community.

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 After-Care Program

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

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2018
(With Comparative Totals for 2017)

2. PROGRAM SERVICES (continued)

Bridges After-Care Program (continued)

The Organization's Rapid Re-Housing Program provides short-term rental assistance and services tailored to the needs of the client. The goals are to help people obtain housing quickly, increase self-sufficiency, and stay housed. Rapid re-housing is a solution to homelessness designed to help families to quickly exit homelessness and return to permanent housing.

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.

Initial research on the Rapid Re-Housing program 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

For more than 10 years, the Voyager Child Development Program has provided children age five and younger with opportunities for play and intensive learning, producing meaningful improvements in the cognitive, social, language, self-help, and motor skills of the children the Organization serves.

Voyager delivers long term benefits by engaging children in structured early learning activities; expanding access to preschool services to families who could not otherwise afford them; using place-based strategies to make services convenient for families; offering family support and education programs that teach parents how to promote learning and early literacy, foster positive parent-child interactions, and encourage use of effective parenting practices; ensuring that children have access to preventative health services, and that children with health needs receive appropriate care.

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 in accordance with generally accepted accounting principles.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2018
(With Comparative Totals for 2017)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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.
- *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 credit 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.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2018
(With Comparative Totals for 2017)

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, 2018 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, 2018 and 2017 was \$35,339 and \$32,077, 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.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2018
(With Comparative Totals for 2017)

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.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended September 30, 2018 and 2017 was \$1,086 and \$600, 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, 2015 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the years ended September 30, 2014 and beyond remain subject to possible examination by the Franchise Tax Board.

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2018
(With Comparative Totals for 2017)

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, 2017, from which the summarized information was derived.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to September 30, 2018 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, 2018. Subsequent events have been evaluated through January 17, 2019, the date the financial statements became available to be issued.

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, 2018
(With Comparative Totals for 2017)

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Building	\$ 11,368,702	\$ 11,368,702
Land	1,729,952	1,729,952
Furniture, fixtures and equipment	189,666	178,517
Office equipment	49,226	49,226
Software	46,920	46,920
Vehicles	41,160	41,160
	13,425,626	13,414,477
Accumulated depreciation	(1,416,074)	(1,220,696)
	\$ 12,009,552	\$ 12,193,781

Depreciation expense for the years ending September 30, 2018 and 2017 was \$195,378 and \$197,550, 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, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017 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, 2018
(With Comparative Totals for 2017)

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, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017 was \$350,000. As mentioned above, this loan was considered forgiven upon completion of the new shelter residence facility in April 2012.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Purpose restriction		
Homework program	\$ 3,124	\$ -
Financial education and asset building	-	15,715
Childcare	-	1,299
Building a Better Future (new shelter residence capital campaign) - replacement reserve	<u>212,030</u>	<u>223,178</u>
	215,154	240,192
Time restriction		
General operations - FYE 9/30/2018	-	185,000
General operations - FYE 9/30/2019	185,000	185,000
General operations - FYE 9/30/2020	<u>35,000</u>	<u>35,000</u>
	<u>220,000</u>	<u>405,000</u>
	<u>\$ 435,154</u>	<u>\$ 645,192</u>

Family Supportive Housing, Inc.
Notes to Financial Statements
September 30, 2018
(With Comparative Totals for 2017)

7. TEMPORARILY RESTRICTED NET ASSETS (continued)

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

	2018	2017
Purpose restriction		
Childcare	\$ 46,299	\$ 11,564
Homework program	34,876	19,447
Financial education and asset building	15,715	12,491
Building a Better Future (new shelter residence capital campaign) - replacement reserve	11,148	-
	108,038	43,502
Time restriction		
Prior year grants receivable	185,000	-
	\$ 293,038	\$ 43,502

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 and the Bridges After-Care Program. The total value of these items for the years ended September 30, 2018 and 2017 was \$390,039 and \$430,698, respectively. The total value of in-kind governmental food donations for the years ended September 30, 2018 and 2017 was \$3,956 and \$4,200, 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

Forgivable loans

See Note 6.

Family Supportive Housing, Inc.
Notes to Financial Statements
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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, 2018 and 2017 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%. The credit line matured on April 7, 2018 and was extended to April 6, 2019. There was no balance outstanding on this line of credit as of September 30, 2018 and 2017.

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, 2018, 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 17, 2019.

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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

January 17, 2019