SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2018 and 2017

with

Report of Independent Auditors

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NOVOGRADAC
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CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Swords to Plowshares: Veterans Rights Organization and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Swords to Plowshares: Veterans Rights Organization (a California non-profit public benefit corporation) and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The schedule of the status of prior audit findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2018, 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.

Novogradac & Company LLP

San Rafael, California
December 21, 2018

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,247,348	$ 1,500,666
Tenant security deposits	233,943	211,798
Pledges receivable	-	500,000
Grants and contracts receivable	1,205,989	1,103,405
Due from affiliate	118,486	113,969
Other receivables	231,880	7,313
Investments	1,333,792	1,070,159
Prepaid expenses	157,977	242,747
Total current assets	4,529,415	4,750,057
Property and equipment, net	1,866,083	1,761,433
Investment in affordable hosuing partnerships	444,194	364,228
Other assets		
Operating reserves	446,604	394,014
Replacement reserves	256,702	227,005
Deposits	51,931	51,931
	755,237	672,950
Total assets	$ 7,594,929	$ 7,548,668
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 401,183	$ 328,906
Tenant security deposits payable	239,537	209,720
Representative payee liability	49,735	54,314
Accrued expenses	525,191	586,203
Residual receipts note payable and accrued interest	-	89,949
Total liabilities	1,215,646	1,269,092
Net assets		
Unrestricted	3,593,380	3,263,748
Temporarily restricted	2,738,368	2,968,293
Permanently restricted	47,535	47,535
Total net assets	6,379,283	6,279,576
Total liabilities and net assets	$ 7,594,929	$ 7,548,668

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Grants and contributions	$ 570,044	$ 1,980,494	$ -	$ 2,550,538
Government grants and contracts	13,208,830	-	-	13,208,830
Program fee income	1,338,619	-	-	1,338,619
Special event revenue net of $167,117 of expenses	337,813	-	-	337,813
Investment income	30,268	-	-	30,268
Management and other fees	87,554	-	-	87,554
Development fee	61,250			61,250
Reimbursable expenses from limited partnership	1,090,748	-	-	1,090,748
Other income	7,568	-	-	7,568
	16,732,694	1,980,494	-	18,713,188
Net assets released from restrictions	2,210,419	(2,210,419)	-	-
Total revenue and other support	18,943,113	(229,925)	-	18,713,188
EXPENDITURES				
Program services	15,864,906	-	-	15,864,906
Management and general	2,181,365	-	-	2,181,365
Fundraising	567,210	-	-	567,210
Total expenditures	18,613,481	-	-	18,613,481
CHANGE IN NET ASSETS	329,632	(229,925)	-	99,707
NET ASSETS AT BEGINNING OF YEAR	3,263,748	2,968,293	47,535	6,279,576
NET ASSETS AT END OF YEAR	$ 3,593,380	$ 2,738,368	$ 47,535	$ 6,379,283

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Grants and contributions	$ 617,139	$ 2,222,334	$ -	$ 2,839,473
Government grants and contracts	14,328,239	-	-	14,328,239
Program fee income	1,175,474	-	-	1,175,474
Special event revenue net of $159,124 of expenses	316,678	-	-	316,678
Investment income	29,436	-	-	29,436
Management and other fees	90,853	-	-	90,853
Development fee	276,250	-	-	276,250
Reimbursable expenses from limited partnership	945,817	-	-	945,817
Other income	12,552	-	-	12,552
	17,792,438	2,222,334	-	20,014,772
Net assets released from restrictions	2,305,542	(2,305,542)	-	-
Total revenue and other support	20,097,980	(83,208)	-	20,014,772
EXPENDITURES				
Program services	17,535,173	-	-	17,535,173
Management and general	1,819,592	-	-	1,819,592
Fundraising	498,193	-	-	498,193
Total expenditures	19,852,958	-	-	19,852,958
CHANGE IN NET ASSETS	245,022	(83,208)	-	161,814
NET ASSETS AT BEGINNING OF YEAR	3,018,726	3,051,501	47,535	6,117,762
NET ASSETS AT END OF YEAR	$ 3,263,748	$ 2,968,293	$ 47,535	$ 6,279,576

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services						Supporting Services		
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Program Services Total	Management & General	Fundraising	Total
Salaries	$ 743,263	$ 638,800	$ 1,795,281	$ 3,547,061	$ 410,263	$ 7,134,668	$ 1,568,238	$ 365,952	$ 9,068,858
Payroll taxes and benefits	228,788	161,874	539,282	1,280,684	95,554	2,306,182	300,755	88,828	2,695,765
Total personnel costs	972,051	800,674	2,334,563	4,827,745	505,817	9,440,850	1,868,993	454,780	11,764,623
Professional services	2,258	6,883	18,336	318,957	20,226	366,660	82,286	35,377	484,323
Client support	237,301	101	1,418,822	357,671	3,111	2,017,006	-	710	2,017,716
Grant awards	-	25,000	-	-	-	25,000	-	-	25,000
Occupancy	103,098	106,812	281,432	2,007,651	45,941	2,544,934	92,002	24,979	2,661,915
Insurance	6,215	17,315	15,572	93,761	1,583	134,446	4,884	1,420	140,750
Other expenses	51,955	49,665	172,535	581,431	50,242	905,828	111,686	43,930	1,061,444
Depreciation	20,438	25,000	58,433	315,700	10,611	430,182	21,514	6,014	457,710
Total expenses	$ 1,393,316	$ 1,031,450	$ 4,299,693	$ 8,502,916	$ 637,531	$ 15,864,906	$ 2,181,365	$ 567,210	$ 18,613,481

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services						Supporting Services		
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Program Services Total	Management & General	Fundraising	Total
Salaries	$ 762,150	$ 592,463	$ 1,960,192	$ 4,021,780	$ 384,844	$ 7,721,429	$ 1,227,430	$ 335,912	$ 9,284,771
Payroll taxes and benefits	213,197	129,074	545,321	1,341,644	81,578	2,310,814	244,393	75,872	2,631,079
Total personnel costs	975,347	721,537	2,505,513	5,363,424	466,422	10,032,243	1,471,823	411,784	11,915,850
Professional services	3,352	28,873	30,163	206,944	30,724	300,056	100,166	14,506	414,728
Client support	242,803	-	2,470,515	414,222	22,484	3,150,024	-	5	3,150,029
Grant awards	208,734	100,000	-	-	-	308,734	-	-	308,734
Occupancy	94,499	103,635	262,345	1,825,811	44,297	2,330,587	91,712	24,390	2,446,689
Insurance	3,770	14,839	10,994	81,253	1,040	111,896	3,042	932	115,870
Other expenses	49,751	78,932	172,004	455,533	118,098	874,318	131,363	40,562	1,046,243
Depreciation	29,027	24,923	75,797	286,983	10,585	427,315	21,486	6,014	454,815
Total expenses	$ 1,607,283	$ 1,072,739	$ 5,527,331	$ 8,634,170	$ 693,650	$ 17,535,173	$ 1,819,592	$ 498,193	$ 19,852,958

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 99,707	$ 161,814
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	457,710	454,815
Net realized and unrealized gains on investments	(18,458)	(19,478)
Loss on investment in limited partnership	34	29
(Increase) decrease in assets:		
Tenant security deposits	(22,145)	(21,350)
Pledges receivable	500,000	(500,000)
Grants and contracts receivable	(102,584)	290,574
Due from affiliate	(4,517)	(10,672)
Other receivables	(224,568)	8,826
Prepaid expenses	84,771	23,472
Increase (decrease) in liabilities:		
Accounts payable	72,277	(130,945)
Tenant security deposits payable	29,817	19,371
Representative payee liability	(4,579)	(3,348)
Accrued expenses	(61,012)	7,832
Residual receipts accrued interest	(89,949)	8,585
Net cash provided by operating activities	716,504	289,525
CASH FLOWS FROM INVESTING ACTIVITIES		
(Deposits to) releases from operating and replacement reserves	(82,287)	23,454
Purchase of investments, net	(245,175)	(162,533)
Purchases of equipment and renovation costs	(562,360)	(180,599)
Contribution to affordable housing partnerships, net	(80,000)	-
Net cash used in investing activities	(969,822)	(319,678)
Net decrease in cash and cash equivalents	(253,318)	(30,153)
Cash and cash equivalents at beginning of year	1,500,666	1,530,819
Cash and cash equivalents at end of year	$ 1,247,348	$ 1,500,666

see accompanying notes

1. Organization

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

2. Summary of significant accounting policies

Basis of accounting
The Organization prepares its consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. The Organization's year end for tax and financial reporting purposes is June 30.

Basis of presentation
The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations that may or will be expendable by the board for any purpose in performing the Organization's primary objectives.

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that may or will be met either by the Organization's actions and/or the passage of time.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations whereby the resources are to be preserved in perpetuity.

Principles of consolidation
The consolidated financial statements include the accounts of Swords to Plowshares: Veterans Right Organization and its wholly owned subsidiaries, Swords-150 Otis, LLC, Swords-MB3E, LLC and Swords-Maceo May Apts, LLC. All intercompany transactions and balances have been eliminated in consolidation.

2. Summary of significant accounting policies (continued)

Investment in partnerships – equity method

The Organization uses the equity method of accounting for its investments in 150 Otis Associates, L.P. ("150 Otis LP"), MB3E, L.P. ("MB3E LP") and Maceo May Apts, L.P. ("Maceo May Apts LP"), in which the Organization, who has a 0.005% ownership interest in each partnership, serves as the administrative general partner and has significant influence over, but not control of the major operating and financial policies of the limited partnerships. Under this method, the Organization's share of income, losses, and distributions incurred by the limited partnerships is recognized as an increase or reduction of the carrying value of the investments. Impairment losses other than temporary impairment are recorded even if it reduces the investment more than what would have been recognized in the normal application of the equity method.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or fewer at the date of acquisition.

Tenant security deposits, operating reserves, and replacement reserves are not considered cash and cash equivalents, and include cash held with financial institutions for refunds of tenant security deposits, funding of operating deficits, and repairs or improvements to the buildings that extend their useful lives.

Concentrations of credit risk

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. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Pledges receivable and contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional pledges to give are recorded as contributions when pledged at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

2. Summary of significant accounting policies (continued)

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

Other receivables
Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

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

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investments are made according to the finance policy adopted by the Organization's Board of Directors. The guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside advisors are utilized by the Organization for the purpose of providing investment and consulting advice.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

2. Summary of significant accounting policies (continued)

Fair value measurements

The Organization applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Organization's own assumptions.

The following tables present the Organization's assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2018 and 2017:

	June 30, 2018			
	Level 1	Level 2	Level 3	Fair Value Measurements
Investments				
Mutual funds	$ 295,924	$ -	$ -	$ 295,924
Certificates of deposit	-	1,037,868	-	1,037,868
Total investments	$ 295,924	$ 1,037,868	$ -	$ 1,333,792

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

	June 30, 2017			
	Level 1	Level 2	Level 3	Fair Value Measurements
Investments				
Mutual funds	$ 151,942	$ -	$ -	$ 151,942
Certificates of deposit	-	918,217	-	918,217
Total investments	151,942	918,217	-	1,070,159
Operating reserves				
Certificates of deposit	-	151,639	-	151,639
Total	$ 151,942	$ 1,069,856	$ -	$ 1,221,798

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

Impairment of long-lived assets
The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses for each of the years ended June 30, 2018 and 2017,

Endowment funds
In August 2008, Financial Accounting Standards Board ("FASB") provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). This guidance also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Organization is subject to the required disclosures in that the Organization classifies its unrealized gains and losses on donor-restricted endowed funds as temporarily restricted net assets. To the extent unrealized losses exceed previous unrealized gains, the unrealized losses are recorded to unrestricted net assets. Any gains in subsequent years will first offset any previous losses recorded in unrestricted net assets before recording unrealized gains and losses as temporarily restricted net assets. As of June 30, 2018 and 2017, no fund balances were below the historical gift amount.

2. Summary of significant accounting policies (continued)

Revenue recognition
Revenue resulting from special events, fees charged by the Organization, refunded grants, reimbursable expenses from 150 Otis LP and other income is recorded when earned.

Income taxes
The Organization is a non-profit corporation organized pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of the California Franchise Tax Code. As such, the Organization is exempt from taxes on its business-related income.

Swords-150 Otis, LLC, Swords-MB3E, LLC and Swords-Maceo May Apts, LLC are pass-through entities for income tax reporting purposes and, accordingly, do not pay tax on their taxable income. Instead, allocated income or loss is reported on the tax returns of the Organization. The entities are subject to a minimum franchise tax for the State of California.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and has measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Economic concentrations
The Organization receives a significant amount of revenue from managing various programs to supports its mission. These sources of funds are dependent upon the continued successful development and management of these programs.

The Organization, either as a direct owner, advisor or general partner, has an economic interest in real estate projects that are subject to business risks associated with the economy and level of unemployment in California. In addition, these projects operate in a heavily regulated environment. The operations of these projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the Department of Housing and Urban Development ("HUD"). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD and may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

2. Summary of significant accounting policies (continued)

Grant expense
Grants are recognized when all significant conditions are met, all due diligence has been completed and they are approved by staff or board committee. Grant refunds are recorded as a reduction of grant expense at the time the Organization receives or is notified of the refund.

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

Recently issued accounting pronouncements
In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The major changes revolve around net asset classifications. ASU 2016-14 eliminates the distinction between resources with permanent restrictions and those with temporary restrictions by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes: net assets with donor restrictions and net assets without donor restrictions.

In addition to the fundamental change in net asset classifications, the new standard also includes a number of specific amendments, such as the following:

- Reporting requirements of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and disclosures about underwater endowments;
- Disclosure requirements of qualitative information on how the organization manages its liquid available resources and liquidity risks;
- Reporting requirements of the investment return, net of external and direct internal investment expenses (disclosure of those netted expenses is no longer required).

ASU 2016-14 applies to all non-profit organizations and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted.

The Organization is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

3. Investments

Securities are stated at current market value and consist of the following as of June 30, 2018 and 2017:

	2018 Cost	2018 Market Value
Mutual funds	$ 221,767	$ 295,924
Certificates of deposit	918,563	1,037,868
Total securities	$ 1,140,330	$ 1,333,792

	2017 Cost	2017 Market Value
Mutual funds	$ 97,407	$ 151,942
Certificates of deposit	919,185	918,217
Total securities	$ 1,016,592	$ 1,070,159

The following schedule summarizes the investment return and its classification in the Consolidated Statements of Activities for the years ended June 30, 2018 and 2017:

	2018	2017
Interest	$ 11,810	$ 9,958
Realized and unrealized gains	18,458	19,478
Total investment income	$ 30,268	$ 29,436

4. Property and equipment and depreciation

As of June 30, 2018 and 2017, the Organization's property and equipment consists of the following:

	2018	2017
Leasehold improvements	$ 5,700,799	$ 5,138,438
Furniture and equipment	125,318	164,971
Land and building	761,939	761,939
Vehicles	173,715	173,715
Accumulated depreciation	(4,895,688)	(4,477,630)
Net	$ 1,866,083	$ 1,761,433

For the years ended June 30, 2018 and 2017, depreciation expense was $457,710 and $454,815, respectively.

5. Replacement and other operating reserves

The Organization is required to fund certain operating and replacement reserves for its four housing programs. Monthly deposit requirements are determined based on either explicit amount or calculated amount per the respective agreements. Required monthly deposits as of June 30, 2018 are as follows:

	Monthly Amount	
Presidio – Academy Program		
Operating reserve	$	1,783
Replacement reserve	$	774
Treasure Island - Halibut		
Operating reserve	$	500
Replacement reserve	$	600
Treasure Island - Chinook		
Replacement reserve	$	336
DeMontfort Avenue		
Operating reserve	$	-
Replacement reserve	$	400

The operating reserves for DeMontfort Avenue have maintained the required balance as of June 30, 2018; therefore, monthly deposits are currently not required.

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

6. Investment in affordable housing partnerships

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

Under the limited partnership agreement, Swords-150 Otis, LLC and CCDC-150 Otis, LLC are co-general partners, with CCDC-150 Otis, LLC acting as the managing general partner and Swords-150 Otis, LLC as the administrative general partner, each with a 0.005% general partner interest, and with the remaining interest held by a limited partner. Swords-150 Otis, LLC's original investment in 150 Otis LP amounted to $365,000.

As of June 30, 2018 and 2017, Swords-150 Otis, LLC's investment in 150 Otis LP was $364,194 and $364,228, respectively.

6. Investment in affordable housing partnerships (continued)

During the year ended June 30, 2016, Swords-MB3E, LLC formed a limited partnership called MB3E, L.P. as a general partner. Swords-MB3E, LLC is co-general partner with CCDC-MB3E, LLC, which is owned by CCDC. The Organization's plans for this limited partnership are to operate a project in Mission Bay in San Francisco similar to Veterans Commons described above.

Under the MB3E LP limited partnership agreement, Swords-MB3E, LLC and CCDC-MB3E, LLC are co-general partners, with CCDC-MB3E, LLC acting as the managing general partner with 0.0051% partner interest and Swords-MB3E, LLC as the administrative general partner with a 0.0049% general partner interest, and with the remaining interest held by two initial limited partners. The two initial limited partners are CCDC and Swords to Plowshares: Veterans Rights Organization ("STP"). On December 22, 2017, the partnership agreement was amended to admit a new investor limited partner and withdraw the two initial limited partners.

As of June 30, 2018 and 2017, Swords-MB3E, LLC's investment in MB3E LP was $80,000 and $0, respectively.

During the year ended June 30, 2018, Swords-Maceo May Apts, LLC formed a limited partnership called Maceo May Apts, L.P. as a general partner. Swords-Maceo May Apts, LLC is co-general partner with CCDC-Maceo May Apts, LLC, which is owned by CCDC. The Organization's plans for this limited partnership are to operate a new 101 unit affordable housing project in San Francisco.

Under the Maceo May Apts LP limited partnership agreement, Swords-Maceo May Apts, LLC and CCDC-Maceo May Apts, LLC are co-general partners, each with a 0.005% general partner interest, and with the remaining interest held by two initial limited partners. The two initial limited partners are CCDC and STP.

The condensed combined balance sheets of 150 Otis LP and MB3E LP as of December 31, 2017 and 2016, are as follows:

	2017	2016
Total assets (primarily property and equipment)	$ 31,145,328	$ 26,424,289
Total liabilities (accounts payable and debt)	$ 10,643,465	$ 8,900,462
Partners' equity	20,501,863	17,523,827
	$ 31,145,328	$ 26,424,289

6. Investment in affordable housing partnerships (continued)

The condensed combined statements of operations of 150 Otis LP and MB3E LP for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Total revenue	$ 1,285,039	$ 1,270,234
Total expense	1,134,659	997,543
Operating income	150,380	272,691
Total other expense	840,396	851,068
Net loss	$ (690,016)	$ (578,377)

7. Related party transactions

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

Tax credit compliance fee agreement - Under the terms of this agreement, the General Partners receive an annual fee totaling $15,000 (shared equally) to advise 150 Otis LP with respect to compliance with applicable state law tax credit requirements and compliance with any and all obligations of the partnership under any agreements with lenders, to maintain all necessary office and accounting facilities and equipment, and to provide ongoing review during the compliance period of the leasing and management of the project. For each of the years ended June 30, 2018 and 2017, the Organization earned $7,500 in tax credit compliance fees, and is included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

Asset management fee agreement - Under the terms of this agreement, the General Partners are entitled to an annual cumulative general partner asset management fee in an annual amount of $10,000, payable from excess/distributable cash, and increasing 3% per year thereafter, in consideration for services performed in accordance with the partnership agreement. For the years ended June 30, 2018 and 2017, the Organization earned $5,628 and $5,464, respectively, in asset management fees, and is included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

Incentive management fee agreement - Under the terms of this agreement, the General Partners are entitled to an annual non-cumulative incentive management fee, payable from excess/distributable cash for administrative and management services. The fee shall not exceed the lesser of i) $25,000 when combined with the general partner asset management fee, or ii) 12% of the Partnership's effective gross income for such year when combined with the general partner asset management fee and the property management fee. For the years ended June 30, 2018 and 2017, the Organization earned $1,454 and $7,036, respectively, in incentive management fees, which is included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

7. Related party transactions (continued)

Property sub-management agreement - Under the terms of this agreement, CCDC-150 Otis, LLC, as the appointed property manager, appointed STP as the subagent to perform all obligations stated under the management agreement. The monthly fee is 5.75% of gross income less $1,000. The term of the agreement is for one year and remains effective on a monthly basis thereafter. For the years ended June 30, 2018 and 2017, STP earned $62,172 and $60,053, respectively, in property management fees. In addition, for each of the years ended June 30, 2018 and 2017, STP earned $10,800 for bookkeeping fees. Both fees are included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

Development fee agreement - Under the terms of this agreement, STP and CCDC earned a total development fee of $2,000,000 for services related to the development of the project. The development fee is divided between the project management fee of $1,000,000, and the at-risk developer fee of $1,000,000. The project management fee is allocated 65% to CCDC and 35% to STP, whereas the at-risk developer fee is allocated 65% to STP and 35% to CCDC. The development fee was paid in full on February 15, 2017. For the years ended June 30, 2018 and 2017, STP earned $0 and $162,500, respectively, in development fees.

Reimbursed expenses - STP also incurs expenses for the ongoing operations of the project pursuant to agreements with CCDC-150 Otis, LLC. These expenses are reimbursed by 150 Otis LP and recorded as revenue in the Statement of Activities. For the years ended June 30, 2018 and 2017, total reimbursements earned were $1,090,748 and $945,817, respectively, and are included in reimbursable expenses from limited partnership on the accompanying consolidated statements of activities and changes in net assets. Reimbursements earned but not paid are recorded as due from affiliate in the consolidated statements of financial position. As of June 30, 2018 and 2017, the related receivable from 150 Otis LP was $118,486 and $113,969, respectively.

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

Operating deficit guaranty- The General Partners agree and guarantee to fund operating deficits incurred by 150 Otis LP during the guaranty period, not to exceed $625,000. The guaranty period ends on February 2022 after all conditions precedent to all of the limited partner capital contribution funding installments have been met.

7. Related party transactions (continued)

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

MB3E LP has various agreements with CCDC-MB3E, LLC and Swords-MB3E, LLC (collectively referred to as "MB3E General Partners") as follows:

GP asset management fee agreement - Under the terms of this agreement, the MB3E General Partners are entitled to an annual cumulative general partner asset management fee in an annual amount of $21,649, payable from excess/distributable cash, and increasing 2% per year thereafter, in consideration for services performed in accordance with the partnership agreement. The GP asset management fee is distributed 50% each to CCDC-MB3E, LLC and Swords-MB3E, LLC and will commence on October 1, 2019.

Incentive management fee agreement - Under the terms of this agreement, the MB3E General Partners are entitled to an incentive management fee of up to 90% of available cash flow as defined in the incentive management agreement and the MB3E partnership agreement or $100,000, whichever is the lesser amount. The GP asset management fee and the incentive management fee combined cannot exceed 12% of cash receipts received by the Partnership in that fiscal year. The incentive management fee is distributed 50% each to CCDC-MB3E, LLC and Swords-MB3E, LLC. The fee is non-cumulative and is incurred and payable only to the extent of cash flow available in the current year. As of and for the years ended June 30, 2018 and 2017, the Organization did not earn an incentive management fee.

Development fee agreement - Under the terms of this agreement, STP and CCDC earned a total development fee of $3,500,000, subject to adjustments stipulated in the agreement, for services related to the development of the project. The unpaid balance of the development fee as of the investor limited partner's final contribution is deferred and payable from available cash flow. The development fee does not accrue interest. The development fee is distributed 50% each to CCDC-MB3E, LLC and Swords-MB3E, LLC. For the years ended June 30, 2018 and 2017, STP earned and was paid $61,250 and $113,750, respectively, in development fees.

7. Related party transactions (continued)

Operating deficit guaranty- The General Partners agree and guarantee to fund all operating deficits incurred by MB3E precedent to the limited partner's third capital contribution, at which point the obligation is capped at $1,250,000 and continues to be subject to the provisions listed in MB3E's partnership agreement.

8. Line of credit

The Organization has established an $86,000 line of credit with a major bank. Interest on the line is at prime rate plus 5.5%, and expires on April 2021. For the years ended June 30, 2018 and 2017, the line was not utilized and there was no balance outstanding as of June 30, 2018 and 2017.

9. Residual receipts note payable

The Organization had a residual receipts note payable to the City and County of San Francisco related to a 12-unit housing complex located on Treasure Island (Chinook). The note provided for simple interest at 3% per annum. Principal and accrued interest was payable through residual receipts from the Chinook property. The loan was paid off on August 25, 2017. For the years ended June 30, 2018 and 2017, interest expense was $0 and $8,585, respectively, and is included in other expenses on the accompanying consolidated statements of functional expenses. For the year ended June 30, 2018, estimated accrued interest of $12,973 was written off and included in other expenses on the consolidated statements of activities and changes in net assets.

The note consists of the following as of June 30,

	2018	2017
Principal balance -current portion	$ -	$ 76,976
Accrued interest	-	12,973
Total	$ -	$ 89,949

10. Forgivable debt

Forgivable debt consists of:

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

10. Forgivable debt (continued)

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

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

Management has determined that the likelihood of the Organization violating the terms of the above loan agreements is remote. Therefore, the forgivable loan proceeds totaling $2,050,416 were recorded as revenue when received, and are classified as temporarily restricted net assets (refer to Note 11). These amounts will remain in temporarily restricted net assets until the loans are forgiven. The breakdown of the forgivable debt is as follows:

Treasure Island	$ 426,586
Presidio	1,623,830
	$ 2,050,416

11. Temporarily restricted net assets

As of June 30, 2018 and 2017, temporarily restricted net assets are restricted for the following purposes:

	2018	2017
Forgivable debt (refer to Note 10)	$ 2,050,416	$ 2,050,416
Veteran services	391,545	161,420
Institute for veteran policy	169,164	296,532
Supportive housing and services programs	51,623	10,000
Legal	75,620	371,238
Employment and training	-	2,582
Housing	-	76,105
Total	$ 2,738,368	$ 2,968,293

11. Temporarily restricted net assets (continued)

During the years ended June 30, 2018 and 2017, releases from donor restrictions consist of the following:

	2018	2017
Veteran services	$ 408,555	$ 303,346
Legal	622,623	889,288
Institute for veteran policy	595,779	441,402
Supportive housing and services programs	108,377	263,000
Housing	314,283	163,356
Employment and training	72,602	235,150
Pass through to LIHTC projects	80,000	-
Health and human services	1,200	5,000
East Bay	7,000	5,000
Total	$ 2,210,419	$ 2,305,542

12. Permanently restricted net assets

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

The Organization is subject to the requirement of UPMIFA governing endowments. However, the fund balance, which amounts to $47,535 as of June 30, 2018 and 2017 for both years, is too small to generate meaningful income. Accordingly, the Organization has not formalized spending and investing policies for this fund.

13. Commitments

The Organization leases two buildings at the Presidio, which are used for the Veterans Academy Program. The lease term expires on June 30, 2037. For the years ended June 30, 2018 and 2017, the monthly rent was $11,413 and $10,896, respectively, per building and incrementally increases to $17,202 per building by the end of the lease term.

The Organization leases three floors of office space in San Francisco, which is used for intake, counseling and administrative offices. The lease term is for 5 years ending December 31, 2018. On October 10, 2018, the lease was extended to December 31, 2028. For the years ended June 30, 2018 and 2017, the monthly rent was $36,466 and $35,404, respectively, and incrementally increases to $66,583 by the end of the lease term.

The Organization leased office space in Oakland with a term of three years that ended October 31, 2017. On October 31, 2017, the Organization extended its lease to October 31, 2020. For the years ended June 30, 2018 and 2017, the monthly rent was $10,000 and $8,482, respectively.

13. Commitments (continued)

The Organization leases a building for its Safe Haven housing program. The original term went through June 30, 2015 with fourteen one-year options to extend through June 30, 2029. For the years ended June 30, 2018 and 2017, the monthly rent was \$25,790 and \$25,302, respectively. The lease was extended to June 30, 2019.

The Organization has a sublease agreement with the Treasure Island Development Authority to provide transitional and permanent housing on Treasure Island (Chinook and Halibut). The Organization is required to pay monthly common area charges and utility fees. In August 2015, the sublease was renewed to September 30, 2021. It is expected that Organization will not be required to vacate these units until replacement units have been constructed or alternative arrangements have been made for the occupants of these units. No rent is charged under this agreement, but for the years ended June 30, 2018 and 2017, the Organization was required to pay a monthly fee for common area maintenance of \$2,900 and \$2,800, respectively.

Minimum annual rental payments required under the above leases are as follows:

Year ending June 30,	
2019	$ 1,249,742
2020	1,369,709
2021	1,225,264
2022	1,258,549
2023	1,292,754
	$ 6,396,018

For the years ended June 30, 2018 and 2017, rent expense was \$1,134,093 and \$1,084,817, respectively, and is included in occupancy on the accompanying consolidated statements of functional expense.

14. Retirement plan

The Organization has a 403(b) retirement plan (the "403(b) Plan"). The 403(b) Plan covers substantially all Organization employees who have met a one-year service requirement, as defined. Eligible employees may contribute any portion of their compensation up to the statutory maximum amount. The Organization may make discretionary employer contributions, which are immediately vested. For the years ended June 30, 2018 and 2017, total employer contributions were \$347,250 and \$348,581, respectively.

In addition, the Organization has a 457(b) retirement plan (the "457(b) Plan"). The 457(b) Plan covers officers of the Organization and management, as defined. Eligible employees may contribute any portion of their compensation up to the statutory maximum amount. The Organization does not make any employer contributions to the 457(b) Plan.

15. Subsequent events

Subsequent events have been evaluated through December 21, 2018, which is the date the financial statements were available to be issued. Subsequent event is disclosed in Note 13.

SUPPLEMENTAL SCHEDULES

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Agent/Program Title	Catalog of Federal Domestic Assistance Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Pass Through to Subrecipients
Department of Housing and Urban Development					
Passed through from State of California					
Passed through from San Francisco City and County					
Passed through from Mayor's Office of Community Development					
Community Development Block Grant	14.218	B17MC060016 (96587-17)	7/1/17-6/30/18	$ 81,111	$ -
Passed through from San Francisco Housing Authority					
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/17-6/30/18	964,412	-
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/17-6/30/18	304,019	-
				1,268,431	-
Passed through from San Francisco City and County					
Passed through Department of Human Services					
Veterans' Academy Support Services	14.267	0000097122	7/1/15-6/30/18	346,990	-
Homeless Employment Collaborative	N/A	0000095535	7/1/17-1/31/18	47,352	-
				394,342	-

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Agent/Program Title	Catalog of Federal Domestic Assistance Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Pass Through to Subrecipients
Department of Housing and Urban Development (continued)					
Passed through from San Francisco City and County					
Passed through Department of Human Services					
Veterans Commons	N/A	0000097126	7/1/14-6/30/20	$ 108,841	$ -
250 Kearny Support Services	N/A	0000038531	10/1/16-9/30/17	66,926	-
250 Kearny Support Services	N/A	0000146811	10/1/17-9/30/18	455,743	-
250 Kearny Property Management	N/A	0000093025	7/1/17-6/30/18	413,532	-
Rental Assistance & Case Management for Veterans I	14.267	0000038545	4/1/17-3/31/18	71,846	-
Rental Assistance & Case Management for Veterans I	14.267		4/1/18-3/31/19	22,092	-
Rental Assistance & Case Management for Veterans II	N/A	0000097111	7/1/17-6/30/18	122,964	-
Project Based Subsidies	14.267	CA1243L9T011300	4/1/17-3/31/20	218,080	-
Project Based Subsidies	14.267		11/1/16-10/31/18	371,335	-
				1,851,359	-
Passed through Department of Aging and Adult Services					
Community Services Program Pilot	N/A	0000152410	1/1/18-6/30/18	58,020	-
Supportive Services and Service Connection for Veterans	N/A	0000159221	1/1/18-6/30/18	138,211	-
				196,231	-
Passed through from Bar Association of San Francisco					
Legal Services	N/A	8/9/2004	3/1/17-6/30/18	163,654	-
				163,654	-
Total Department of Housing and Urban Development				3,955,128	-

see report of independent auditors and notes to schedule of expenditures of federal awards

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Agent/Program Title	Catalog of Federal Domestic Assistance Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Pass Through to Subrecipients
Department of Labor					
Passed through from San Francisco City and County Workforce Development Division					
Office of Economic and Workforce Development	17.258	1507	7/1/17-6/30/18	$ 100,000	$ -
Office of Economic and Workforce Development	General Fund	1507	7/1/17-6/30/18	50,000	-
				150,000	-
Passed through from State of California Employment Development Department					
WIA VEAP Program	17.258	K6100435 - 1065	6/1/16-12/31/17	165,081	-
WIA VEAP Program	17.258	K6100435 - 1066	6/1/16-12/31/17	112,407	-
WIA/WIOA VEAP 15% Governer's Discretionary	17.258	K8110737 - 1128	6/1/18-12/31/19	29,591	-
				307,079	-
Homeless Female Veteran and Veteran with Families	17.805	HV30886HV7	7/1/17-6/30/18	300,000	-
Homeless Veterans Reintegration Program (SF)	17.805	HV30881HV7	7/1/17-6/30/18	377,080	-
Homeless Veterans Reintegration Program (EB)	17.805	HV30660HV7	7/1/17-6/30/18	300,000	-
				977,080	-
Total Department of Labor				1,434,159	-

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Agent/Program Title	Catalog of Federal Domestic Assistance Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Pass Through to Subrecipients
Department of Veterans Administration					
Homeless Veterans' Residential Treatment	64.024	VA261-16-P-2751	9/1/16-8/31/17	$ 145,337	$ -
Homeless Veterans' Residential Treatment	64.024	VA261-17-J-2755	9/1/17-8/31/18	938,564	-
				1,083,901	-
Housing Specialist Services	64.024	VA261-16-P-3153	9/29/16-9/30/17	48,074	-
Safe Haven Low Demand Housing	64.024	VA261-17-J-2583	9/30/17-9/29/18	2,052,412	-
Supportive Services for Veteran Families-Renewal	64.033	15-CA-091	10/1/16-9/30/117	277,865	-
Supportive Services for Veteran Families-SF Surge	64.033	C15-CA-501A	10/1/14-9/30/17	424,225	-
Supportive Services for Veteran Families-EB Surge	64.033	C15-CA-502A	10/1/14-9/30/17	156,452	-
Supportive Services for Veteran Families	64.033	18-CA-091	10/1/17-9/30/18	3,149,193	-
				4,007,735	-
Total Department of Veterans Administration				7,192,122	-

see report of independent auditors and notes to schedule of expenditures of federal awards

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Agent/Program Title	Catalog of Federal Domestic Assistance Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Pass Through to Subrecipients
Department of Health and Human Services					
Passed through from San Francisco City and County					
Community Mental Health Services					
S.B. McKinney PATH Grant	N/A	SFGOV-0000080245	7/1/17-12/31/17	$ 92,144	$ -
COVER Program - Sheriff's Dept	93.150	SFGOV-0000080245	7/1/17-12/31/17	88,119	-
COVER Program - Sheriff's Dept	93.150	SFGOV-0000196989	1/1/18-6/30/18	84,518	-
Fee for Service	N/A	SFGOV-0000080245	7/1/17-12/31/17	45,306	-
Fee for Service	N/A	SFGOV-0000196989	1/1/18-6/30/18	141,466	-
Total Department of Health and Human Services				451,553	-
Federal Emergency Management Agency					
Phase 34	97.024	LRO ID: 085800034	4/1/17-1/31/18	12,500	-
County of Alameda					
HACA (HUD-VASH Landlord Incentive Program)	N/A		11/1/17-3/31/18	39,969	-
Total Federal Programs				$ 13,085,431	$ -

see report of independent auditors and notes to schedule of expenditures of federal awards

1. Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the expenditures of Swords to Plowshares: Veterans Rights Organization and Subsidiaries (the "Organization") under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

For purposes of the Schedule, federal awards include all sub awards to the Organization by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

2. Summary of significant accounting policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards and "OMB Circular A-122, Cost Principles for Non-profit Organizations"*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Catalogue of Federal Domestic Assistance numbers ("CFDA No.") are provided when available.

The Organization elected not to use the 10% de minimis indirect cost rate.

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CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS 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 of
Swords to Plowshares: Veterans Rights Organization and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Swords to Plowshares: Veterans Rights Organization and Subsidiaries (a California non-profit organization) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 21, 2018.

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.

Novogradac & Company LLP

San Rafael, California
December 21, 2018

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

To the Board of Directors of
Swords to Plowshares: Veterans Rights Organization and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Swords to Plowshares: Veterans Rights Organization and Subsidiaries' (a California non-profit corporation) (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Novogradac & Company LLP

San Rafael, California
December 21, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:		Unmodified		
Internal control over financial reporting:				
Material weakness(es) identified?	____	Yes	x	No
Significant deficiency(ies) identified not considered to be material weaknesses?	____	Yes	x	None reported
Noncompliance material to financial statements noted?	____	Yes	x	No

Federal Awards

Internal Control over major programs:				
Material weakness(es) identified?	____	Yes	x	No
Significant deficiency(ies) identified not considered to be material weaknesses?	____	Yes	x	None reported
Type of auditors' report issued on compliance for major programs:		Unmodified		
Audit findings required to be reported in accordance with 2 CFR section 200.516(a)?	____	Yes	x	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
64.033	VA Supportive Services for Veteran Families Program
93.150	Projects for Assistance in Transition from Homelessness (PATH)

Dollar threshold used to distinguish between Type A and Type B programs:		$750,000		
Auditee qualified as low-risk auditee?	x	Yes	____	No

Section II - Financial Statement Findings

There were no findings noted.

Section III - Federal Award Findings and Questioned Costs

There were no findings noted.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
(UNAUDITED)
For the year ended June 30, 2018

Status of Prior Year Findings and Recommendations

There were no findings and recommendations reported in the June 30, 2017 financial statements.