

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

Consolidated Financial Statements with Report of Independent Auditors

For the years ended June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Swords to Plowshares: Veterans Rights Organization adopted a change in accounting principle for financial reporting, primarily related to the presentation of net assets and required disclosures related to liquidity and functional expenses. Our opinion is not modified with respect to that matter.

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 23, 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 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

Petaluma, California
December 23, 2019

**SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,464,887	\$ 1,247,348
Tenant security deposits	254,167	233,943
Pledges receivable	350,000	-
Grants and contracts receivable	964,192	1,205,989
Due from affiliate	104,831	118,486
Other receivables	50,971	231,880
Investments	300,703	1,333,792
Prepaid expenses	148,256	157,977
Total current assets	4,638,007	4,529,415
Property and equipment, net	4,060,403	1,866,083
Investment in affordable housing partnerships	444,163	444,194
Other assets		
Operating reserves	532,210	446,604
Replacement reserves	249,190	256,702
Deposits	75,515	51,931
	856,915	755,237
Total assets	\$ 9,999,488	\$ 7,594,929
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 508,806	\$ 401,183
Construction payable	303,971	-
Tenant security deposits payable	255,018	239,537
Representative payee liability	111,204	49,735
Accrued expenses	568,077	525,191
Total liabilities	1,747,076	1,215,646
Net assets		
Without donor restrictions	4,638,298	3,593,380
With donor restrictions	3,614,114	2,785,903
Total net assets	8,252,412	6,379,283
Total liabilities and net assets	\$ 9,999,488	\$ 7,594,929

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Grants and contributions	\$ 369,739	\$ 2,657,596	\$ 3,027,335
Government grants and contracts	15,821,863	-	15,821,863
Program fee income	1,655,201	-	1,655,201
Special event revenue net of \$131,517 of expenses	320,120	-	320,120
Investment income	35,902	-	35,902
Management and other fees	112,208	-	112,208
Development fee	75,000	-	75,000
Reimbursable expenses from limited partnership	1,081,457	-	1,081,457
Other income	16,938	-	16,938
	<u>19,488,428</u>	<u>2,657,596</u>	<u>22,146,024</u>
Net assets released from restrictions	1,829,385	(1,829,385)	-
Total revenue and other support	<u>21,317,813</u>	<u>828,211</u>	<u>22,146,024</u>
EXPENDITURES			
Program services	16,777,512	-	16,777,512
Management and general	2,721,484	-	2,721,484
Fundraising	773,899	-	773,899
Total expenditures	<u>20,272,895</u>	<u>-</u>	<u>20,272,895</u>
CHANGE IN NET ASSETS	1,044,918	828,211	1,873,129
NET ASSETS AT BEGINNING OF YEAR	<u>3,593,380</u>	<u>2,785,903</u>	<u>6,379,283</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,638,298</u>	<u>\$ 3,614,114</u>	<u>\$ 8,252,412</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
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
	<u>16,732,694</u>	<u>1,980,494</u>	<u>18,713,188</u>
Net assets released from restrictions	<u>2,210,419</u>	<u>(2,210,419)</u>	<u>-</u>
Total revenue and other support	<u>18,943,113</u>	<u>(229,925)</u>	<u>18,713,188</u>
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	<u>18,613,481</u>	<u>-</u>	<u>18,613,481</u>
CHANGE IN NET ASSETS	329,632	(229,925)	99,707
NET ASSETS AT BEGINNING OF YEAR	<u>3,263,748</u>	<u>3,015,828</u>	<u>6,279,576</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,593,380</u>	<u>\$ 2,785,903</u>	<u>\$ 6,379,283</u>

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services					Supporting Services			Total
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Program Services Total	Management & General	Fundraising	
Salaries	\$ 693,690	683,905	1,795,266	3,574,570	419,871	\$ 7,167,302	\$ 1,775,896	421,235	\$ 9,364,433
Payroll taxes and benefits	211,303	166,705	540,285	1,286,032	94,489	2,298,814	365,073	96,706	2,760,593
Total personnel costs	<u>904,993</u>	<u>850,610</u>	<u>2,335,551</u>	<u>4,860,602</u>	<u>514,360</u>	<u>9,466,116</u>	<u>2,140,969</u>	<u>517,941</u>	<u>12,125,026</u>
Professional services	11	4,471	392	538,470	21,421	564,765	104,176	89,020	757,961
Client support	179,454	15	2,029,450	357,529	29	2,566,477	-	-	2,566,477
Occupancy	116,369	129,766	323,060	2,028,301	57,478	2,654,974	122,426	34,838	2,812,238
Insurance	6,863	17,328	17,716	97,924	1,630	141,461	7,207	1,572	150,240
Professional Development & Conferences	15,533	30,601	47,549	72,631	26,691	193,005	48,118	9,982	251,105
Supplies	33,850	13,346	67,152	218,294	12,309	344,951	66,027	11,633	422,611
Property Management	-	-	-	175,299	-	175,299	-	-	175,299
Bank & Payroll Service Fees	75	-	6,776	5,486	94	12,432	89,586	15,316	117,334
Printing & Outreach	8,471	6,251	11,339	25,704	8,418	60,183	67,182	86,242	213,607
Other expenses	9,418	10,892	27,168	146,330	18,894	212,702	63,219	4,079	280,000
Depreciation	6,232	13,230	31,771	328,286	5,628	385,147	12,574	3,276	400,997
Total expenses	<u>\$ 1,281,270</u>	<u>\$ 1,076,510</u>	<u>\$ 4,897,924</u>	<u>\$ 8,854,856</u>	<u>\$ 666,952</u>	<u>\$ 16,777,512</u>	<u>\$ 2,721,484</u>	<u>\$ 773,899</u>	<u>\$ 20,272,895</u>

see accompanying notes

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

	Program Services					Supporting Services			Total
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Program Services Total	Management & General	Fundraising	
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	<u>972,051</u>	<u>800,674</u>	<u>2,334,563</u>	<u>4,827,745</u>	<u>505,817</u>	<u>9,440,850</u>	<u>1,868,993</u>	<u>454,780</u>	<u>11,764,623</u>
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
Professional Development & Conferences	8,585	18,412	30,793	70,779	28,636	157,204	23,228	11,611	192,043
Supplies	22,964	14,405	76,789	202,974	7,753	324,885	42,984	11,200	379,069
Property Management	-	-	-	123,467	-	123,467	-	-	123,467
Bank & Payroll Service Fees	-	-	6,178	801	-	6,980	5,824	6,394	19,198
Printing & Outreach	10,985	5,940	24,801	29,326	1,420	72,473	15,491	8,491	96,454
Other expenses	9,421	10,908	33,975	154,085	12,433	220,821	24,159	6,235	251,214
Depreciation	20,438	25,000	58,433	315,700	10,611	430,182	21,514	6,014	457,710
Total expenses	<u>\$ 1,393,316</u>	<u>\$ 1,031,450</u>	<u>\$ 4,299,693</u>	<u>\$ 8,502,916</u>	<u>\$ 637,531</u>	<u>\$ 15,864,906</u>	<u>\$ 2,181,365</u>	<u>\$ 567,210</u>	<u>\$ 18,613,481</u>

see accompanying notes

**SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,873,129	\$ 99,707
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	400,997	457,710
Net realized and unrealized gains on investments	(13,778)	(18,458)
Loss on investment in limited partnership	31	34
(Increase) decrease in assets:		
Tenant security deposits	(20,224)	(22,145)
Pledges receivable	-	500,000
Grants and contracts receivable	(108,203)	(102,584)
Due from affiliate	13,655	(4,517)
Other receivables	180,909	(224,568)
Prepaid expenses	9,721	84,771
Increase (decrease) in liabilities:		
Accounts payable	107,623	72,277
Tenant security deposits payable	15,481	29,817
Representative payee liability	61,469	(4,579)
Accrued expenses	42,886	(61,012)
Residual receipts accrued interest	-	(89,949)
Net cash provided by operating activities	2,563,696	716,504
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits to operating and replacement reserves	(101,678)	(82,287)
Sale (purchase) of investments, net	1,046,867	(245,175)
Purchases of property and equipment	(2,291,346)	(562,360)
Contribution to affordable housing partnerships, net	-	(80,000)
Net cash used in investing activities	(1,346,157)	(969,822)
Net increase (decrease) in cash and cash equivalents	1,217,539	(253,318)
Cash and cash equivalents at beginning of year	1,247,348	1,500,666
Cash and cash equivalents at end of year	\$ 2,464,887	\$ 1,247,348
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Increase in property, equipment and construction costs payable	\$ 303,971	\$ -

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained 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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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).

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.

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).

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

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, 2019 and 2018:

		June 30, 2019			Fair Value
		Level 1	Level 2	Level 3	Measurements
Investments					
	Mutual funds	\$ 251,310	\$ -	\$ -	\$ 251,310
	Certificates of deposit	-	49,393	-	49,393
	Total investments	\$ 251,310	\$ 49,393	\$ -	\$ 300,703

		June 30, 2018			Fair Value
		Level 1	Level 2	Level 3	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

Certificates of deposits are classified within Level 2 of the fair market value hierarchy because the fair value of the certificates of deposit is based on interest rates, maturity date and other contract terms and is valued using a third-party.

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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of significant accounting policies (continued)

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, 2019 and 2018.

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 net assets with donor restrictions. To the extent unrealized losses exceed previous unrealized gains, the unrealized losses are recorded to net assets with donor restrictions. As of June 30, 2019 and 2018, no fund balances were below the historical gift amount.

Representative payee liability

As part of the service umbrella offered, the Organization serves as a representative payee to assist in budget management for the veterans by holding funds earmarked for budgeted expenses such as rent and living allowances. This is the liability for the cash currently held by the Organization for the veterans.

Revenue recognition

The Organization receives contract and grant funding from various government agencies. Revenue from such grants is recognized as it is earned in accordance with grant agreements. Revenue resulting from special events, fees charged by the Organization, 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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of significant accounting policies (continued)

Income taxes (continued)

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.

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. Personnel costs are charged to programs and supporting services on the basis of time sheets. Occupancy and depreciation are allocated based on square footage. Other expenses are allocated based on time and effort. 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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of significant accounting policies (continued)

Change in accounting principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

Subsequent events

Subsequent events have been evaluated through December 23, 2019, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Liquidity and availability of financial assets

The following represents the Organization’s financial assets at June 30, 2019 and 2018:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,464,887	\$ 1,247,348
Tenant security deposits	254,167	233,943
Pledges receivable	350,000	-
Grants and contracts receivable	964,192	1,205,989
Other receivables	50,971	231,880
Investments	300,703	1,333,792
Operating reserves	532,210	446,604
Replacement reserves	<u>249,190</u>	<u>256,702</u>
Total financial assets	5,166,320	4,956,258
Less amounts not available to be used within one year:		
Tenant security deposits	254,167	233,943
Operating reserves	532,210	446,604
Replacement reserves	249,190	256,702
Representative Payee	111,204	49,735
Net assets with donor restrictions	<u>3,614,114</u>	<u>2,785,903</u>
Total amounts not available to be used	4,760,885	3,772,887
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 405,435</u>	<u>\$ 1,183,371</u>

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

4. Investments

Securities are stated at current market value and consist of the following as of June 30, 2019 and 2018:

	<u>Cost</u>	<u>2019 Market Value</u>
Mutual funds	\$ 103,777	\$ 251,310
Certificates of deposit	<u>50,000</u>	<u>49,393</u>
Total securities	<u>\$ 153,777</u>	<u>\$ 300,703</u>

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

The following schedule summarizes the investment return and its classification in the Consolidated Statements of Activities for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest	\$ 22,124	\$ 11,810
Realized and unrealized gains	<u>13,778</u>	<u>18,458</u>
Total investment income	<u>\$ 35,902</u>	<u>\$ 30,268</u>

5. Property and equipment and depreciation

As of June 30, 2019 and 2018, the Organization's property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 5,961,574	\$ 5,700,799
Furniture and equipment	115,316	125,318
Land and building	761,939	761,939
Vehicles	173,715	173,715
Accumulated depreciation	<u>(2,952,141)</u>	<u>(4,895,688)</u>
Net	<u>\$ 4,060,403</u>	<u>\$ 1,866,083</u>

For the years ended June 30, 2019 and 2018, depreciation expense was \$400,997 and \$457,710, respectively. During the year ended June 30, 2019, the Organization disposed of \$2,344,544 of fully depreciated property and equipment.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

6. 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. The operating reserves for the Presidio – Academy Program, Treasure Island – Halibut, Treasure Island – Chinook and DeMontfort Avenue have reached and maintained the required balances as of June 30, 2019; 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.

7. Investment in affordable housing partnerships

150 Otis LP

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, 2019 and 2018, Swords-150 Otis, LLC’s investment in 150 Otis LP was \$364,163 and \$364,194, respectively.

MB3E, L.P.

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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

7. Investment in affordable housing partnerships (continued)

MB3E, L.P. (continued)

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, 2019 and 2018, Swords-MB3E, LLC’s investment in MB3E LP was \$80,000 and \$80,000, respectively.

Maceo May Apts, L.P.

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, Maceo May L.P., and MB3E LP as of December 31, 2018 and 2017, are as follows:

COMBINED BALANCE SHEETS
(unaudited)

	2018	2017
Total assets (primarily property and equipment)	\$ 59,302,286	\$ 31,145,328
Total liabilities (accounts payable and debt)	\$ 36,480,495	\$ 10,643,465
Partners’ equity	22,821,791	20,501,863
	\$ 59,302,286	\$ 31,145,328

The condensed combined statements of operations of 150 Otis LP, Maceo May LP and MB3E LP for the years ended December 31, 2018 and 2017, are as follows:

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

7. Investment in affordable housing partnerships (continued)

COMBINED STATEMENTS OF OPERATIONS
(unaudited)

	2018	2017
Total revenue	\$ 1,395,711	\$ 1,285,039
Total expense	1,168,232	1,134,659
Operating income	227,479	150,380
Total other expense	851,401	840,396
Net loss	\$ (623,922)	\$ (690,016)

8. 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, 2019 and 2018, 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, 2019 and 2018, the Organization earned \$5,797 and \$5,628, 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, 2019 and 2018, the Organization earned \$6,703 and \$1,454, 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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

8. 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, 2019 and 2018, STP earned \$81,408 and \$62,172, respectively, in property management fees. In addition, for each of the years ended June 30, 2019 and 2018, 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.

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, 2019 and 2018, total reimbursements earned were \$1,081,457 and \$1,090,748, 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, 2019 and 2018, the related receivable from 150 Otis LP was \$104,831 and \$118,486, 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 in aggregate \$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.

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 150 Otis LP 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.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Related party transactions (continued)

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, 2019 and 2018, 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, 2019 and 2018, STP earned and was paid \$ 75,000 and \$61,250, respectively, in development fees.

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 in aggregate and continues to be subject to the provisions listed in MB3E’s partnership agreement.

9. Line of credit

The Organization has established a \$86,000 line of credit with Wells Fargo. Interest on the line is at prime rate plus 5.5%, and expires on April 2021. For the years ended June 30, 2019 and 2018, the line was not utilized and there was no balance outstanding as of June 30, 2019 and 2018.

The Organization has established a \$100,000 line of credit with Bank of San Francisco. Interest on the line is at prime rate plus 5.5%, and expires on April 2020. For the years ended June 30, 2019 and 2018, the line was not utilized and there was no balance outstanding as of June 30, 2019 and 2018.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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.

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 loan was for 20 years through June 1, 2019. Management is seeking forgiveness of the loan balance. 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 net assets with donor restrictions (refer to Note 11). These amounts will remain in net assets with donor restrictions until the loans are forgiven. The breakdown of the forgivable debt is as follows:

Treasure Island	\$	426,586
Presidio		<u>1,623,830</u>
		<u>\$ 2,050,416</u>

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

11. Net assets with donor restrictions

Net assets with donor restrictions are comprised of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Forgivable debt (refer to Note 10)	\$ 2,050,416	\$ 2,050,416
Veteran services	-	391,545
Institute for veteran policy	512,678	169,164
Supportive housing and services programs	235,665	51,623
Legal	257,456	75,620
Employment and training	44,354	-
Housing	4,010	-
East Bay	7,000	-
Academy	155,000	-
Fairfax	300,000	-
Endowment	47,535	47,535
Total	<u>\$ 3,614,114</u>	<u>\$ 2,785,903</u>

During the years ended June 30, 2019 and 2018, releases from donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Veteran services	\$ -	\$ 408,555
Legal	845,524	622,623
Institute for veteran policy	706,207	595,779
Supportive housing and services programs	154,018	108,377
Housing	90,990	314,283
Employment and training	5,646	72,602
Pass through to LIHTC projects	-	80,000
Health and human services	-	1,200
East Bay	20,000	7,000
DMT	7,000	-
Total	<u>\$ 1,829,385</u>	<u>\$ 2,210,419</u>

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, 2019 and 2018 for both years, is too small to generate meaningful income. Accordingly, the Organization has not formalized spending and investing policies for this fund.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

12. 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, 2019 and 2018, the monthly rent was \$11,954 and \$11,413, 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 and the lease was scheduled to terminate on December 31, 2018. On October 10, 2018, the lease was extended to December 31, 2028. For the years ended June 30, 2019 and 2018, the monthly rent was \$51,030 and \$36,466, 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, 2019 and 2018, the monthly rent was \$10,300 and \$10,000, respectively.

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, 2019 and 2018, the monthly rent was \$26,798 and \$25,790, 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, 2019 and 2018, the Organization was required to pay a monthly fee for common area maintenance of \$3,000 and \$2,900, respectively.

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

Year ending June 30,	
2020	\$ 1,369,709
2021	1,225,264
2022	1,258,549
2023	1,292,754
2024	<u>1,327,922</u>
	<u>\$ 6,474,198</u>

For the years ended June 30, 2019 and 2018, rent expense was \$1,251,845 and \$1,134,093, respectively, and is included in occupancy on the accompanying consolidated statements of functional expenses.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

13. 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, 2019 and 2018, total employer contributions were \$344,575 and \$347,250, 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.

SUPPLEMENTAL SCHEDULES

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

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	111062-18	7/1/18-6/30/19	\$ 81,111	\$ -
Passed through from San Francisco Housing Authority Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/18-6/30/19	2,244,881	-
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/18-6/30/19	427,653	-
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/18-6/30/19	224,968	-
				<u>2,897,502</u>	<u>-</u>
Passed through from San Francisco City and County Passed through Department of Human Services Veterans' Academy Support Services	14.267	0000290673	7/1/15-6/30/21	346,991	-

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, 2019

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	General Fund	0000207906	7/1/14-6/30/20	\$ 111,562	\$ -
250 Kearny Support Services	General Fund	0000146811	10/1/17-9/30/18	158,079	-
250 Kearny Support Services	General Fund	312080/312084	10/1/18-9/30/19	514,516	-
250 Kearny Property Management	General Fund	328036	7/1/17-6/30/23	604,478	-
Rental Assistance & Case Management for Veterans I	14.267	0000306400	4/1/18-3/31/19	67,878	-
Rental Assistance & Case Management for Veterans I	14.267	306426	4/1/19-3/31/20	25,499	-
Rental Assistance & Case Management for Veterans II	General Fund	0000215215	7/1/18-6/30/19	122,964	-
Project Based Subsidies	14.267	CA1243L9T011703	4/1/18-3/31/19	232,559	-
Project Based Subsidies	14.267	CA1243L9T011703	4/1/19-3/31/20	81,732	-
Project Based Subsidies	14.267	CA1386L9T011702	11/1/17-10/31/18	167,070	-
Project Based Subsidies	14.267	CA1386L9T011702	11/1/18-10/31/19	340,011	-
				<u>2,426,348</u>	<u>-</u>
Passed through Department of Aging and Adult Services					
Community Services Program Pilot	General Fund	0000207053	7/1/18-6/30/19	113,000	-
Supportive Services and Service Connection for Veterans	General Fund	0000207042	7/1/18-6/30/19	503,542	-
				<u>616,542</u>	<u>-</u>
Passed through from Bar Association of San Francisco					
Legal Services	General Fund	HSH17-18-059	7/1/18-6/30/19	167,756	-
				<u>167,756</u>	<u>-</u>
Total Department of Housing and Urban Development				<u>6,536,250</u>	<u>-</u>

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, 2019

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	1893	7/1/18-6/30/19	\$ 55,000	\$ -
Office of Economic and Workforce Development	17.278	1893	7/1/18-6/30/19	25,000	-
Office of Economic and Workforce Development	General Fund	1893	7/1/18-6/30/19	71,995	-
				<u>151,995</u>	<u>-</u>
Passed through from State of California Employment Development Department					
WIA/WIOA VEAP 15% Governer's Discretionary	17.258	K8110737 - 1128	6/1/18-12/31/19	252,531	-
Homeless Female Veteran and Veteran with Families					
Homeless Veterans Reintegration Program (SF)	17.805	HV32080	7/1/18-6/30/19	300,000	-
Homeless Veterans Reintegration Program (SF)	17.805	HV32075	7/1/18-6/30/19	321,268	-
Homeless Veterans Reintegration Program (EB)	17.805	HV32516	7/1/18-6/30/19	373,448	-
				<u>994,716</u>	<u>-</u>
Total Department of Labor				<u>1,399,242</u>	<u>-</u>

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, 2019

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	VA261-17-J-2755	9/1/17-8/31/18	\$ 19,386	\$ -
Homeless Veterans' Residential Treatment	64.024	36C26118N918	9/1/18-8/31/19	764,034	-
				<u>783,420</u>	<u>-</u>
GPD Service Center	64.024	STP0626-0924-662-SC-19	10/01/18-9/30/19	54,451	-
Safe Haven Low Demand Housing	64.024	VA261-13-D-0256	9/30/17-9/29/18	511,701	-
Safe Haven Low Demand Housing	64.024	36C26118D0107	9/30/18-9/29/19	1,508,650	-
				<u>2,020,351</u>	<u>-</u>
Supportive Services for Veteran Families	64.033	18-CA-091	10/1/17-10/31/18	1,450,496	-
Supportive Services for Veteran Families	64.033	2018-CA-091-19	11/1/18-9/30/19	3,068,850	-
				<u>4,519,346</u>	<u>-</u>
Total Department of Veterans Administration				<u>7,377,568</u>	<u>-</u>

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, 2019

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					
COVER Program - Sheriff's Dept	93.150	SFGOV-0000276567	7/1/18-6/30/19	\$ 147,508	\$ -
Fee for Service	General Fund	SFGOV-0000276567	7/1/18-6/30/19	334,523	-
Total Department of Health and Human Services				<u>482,031</u>	<u>-</u>
Federal Emergency Management Agency					
Phase 34	97.024	LRO ID: 35-0858-00-033	2/1/18-5/31/19	<u>23,264</u>	<u>-</u>
County of Alameda					
HACA (HUD-VASH Landlord Incentive Program)	N/A		11/1/17-7/31/19	<u>3,508</u>	<u>-</u>
Total Federal Programs				<u>\$ 15,821,863</u>	<u>\$ -</u>

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

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2019

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, 2019. 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.



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, 2019, 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 23, 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.

Novogradac & Company LLP

Petaluma, California
December 23, 2019

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, 2019. 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, 2019.

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

Petaluma, California
December 23, 2019

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the year ended June 30, 2019

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	_____ <u>x</u> _____	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	_____ <u>x</u> _____	None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>x</u> _____	No

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	_____ Yes	_____ <u>x</u> _____	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	_____ <u>x</u> _____	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	_____ <u>x</u> _____	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.267	Continuum of Care Program
17.805	Homeless Veterans' Reintegration Program
N/A	250 Kearny Supportive Services

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, 2019

Status of Prior Year Findings and Recommendations

There were no findings and recommendations reported in the June 30, 2018 financial statements.