

Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries

Consolidated Financial Statements and Supplemental
Information

Years Ended June 30, 2017 and 2016



VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidated Financial Statements and Supplemental Information
Years Ended June 30, 2017 and 2016

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplemental Information:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	21
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs	26
Schedule of Prior Year Findings and Questioned Costs	27
Consolidating Schedules of Financial Position	28
Consolidating Schedules of Activities	30

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Vietnam Veterans of San Diego dba Veterans Village of San Diego (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries as of June 30, 2017 and 2016 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, CONTINUED

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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 consolidated financial statements or to the consolidated 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018, on our consideration of Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' 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 Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' internal control over financial reporting and compliance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statement of financial position and activities on page 28-30 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements as a whole.

Aldrich CPAs + Advisors LLP

San Diego, California
January 30, 2018

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 721,961	\$ 1,483,258
Investments	-	178,028
Grants receivable, net of allowance for doubtful accounts of \$2,002 (2017 and 2016)	769,505	830,597
Prepaid expenses and other current assets	<u>510,167</u>	<u>155,779</u>
Total Current Assets	2,001,633	2,647,662
Non-Current Assets:		
Fund control - vision	282	282
Construction in progress	3,503,685	1,039,693
Property and equipment, net	<u>32,473,095</u>	<u>33,177,940</u>
Total Non-Current Assets	<u>35,977,062</u>	<u>34,217,915</u>
Total Assets	<u>\$ 37,978,695</u>	<u>\$ 36,865,577</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 222,606	\$ 93,423
Accrued expenses	402,311	371,920
Current portion of grant payable	85,516	656,500
Deferred revenue	<u>86,960</u>	<u>161,513</u>
Total Current Liabilities	797,393	1,283,356
Non-Current Liabilities:		
Forgivable grants-loans	22,925,893	21,845,893
Accrued interest	266,859	229,359
Grant payable, net of current portion	557,066	-
Capital reserve fund liability	60,000	48,000
Construction line of credit	-	598,434
Long-term debt, net of current portion	<u>1,036,946</u>	<u>-</u>
Total Non-Current Liabilities	<u>24,846,764</u>	<u>22,721,686</u>
Total Liabilities	25,644,157	24,005,042
Net Assets:		
Unrestricted	11,804,216	12,721,188
Temporarily restricted	<u>530,322</u>	<u>139,347</u>
Total Net Assets	<u>12,334,538</u>	<u>12,860,535</u>
Total Liabilities and Net Assets	<u>\$ 37,978,695</u>	<u>\$ 36,865,577</u>

See accompanying notes to consolidated financial statements.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidated Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Grants	\$ 8,759,567	\$ 500,000	\$ 9,259,567
Donated goods and services	540,102	-	540,102
Contributions	203,439	242,874	446,313
Rent	368,650	-	368,650
Food stamps	64,297	-	64,297
Other revenue	19,301	-	19,301
Interest income	332	-	332
Net assets released from restrictions, satisfaction of program restrictions	<u>351,899</u>	<u>(351,899)</u>	<u>-</u>
Total Revenue and Support	10,307,587	390,975	10,698,562
Expenses:			
Program services	9,939,303	-	9,939,303
Supporting services:			
Management and general	1,171,743	-	1,171,743
Fundraising	<u>113,513</u>	<u>-</u>	<u>113,513</u>
Total Expenses	<u>11,224,559</u>	<u>-</u>	<u>11,224,559</u>
Change in Net Assets	(916,972)	390,975	(525,997)
Net Assets, beginning	<u>12,721,188</u>	<u>139,347</u>	<u>12,860,535</u>
Net Assets, ending	<u>\$ 11,804,216</u>	<u>\$ 530,322</u>	<u>\$ 12,334,538</u>

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidated Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Grants	\$ 8,369,904	\$ -	\$ 8,369,904
Forgiveness of debt	1,000,000	-	1,000,000
Contributions	387,449	411,913	799,362
Donated goods and services	598,648	-	598,648
Rent	297,147	-	297,147
Food stamps	79,467	-	79,467
Other revenue	48,491	-	48,491
Interest income	356	-	356
Net assets released from restrictions, satisfaction of program restrictions	<u>521,816</u>	<u>(521,816)</u>	<u>-</u>
Total Revenue and Support	11,303,278	(109,903)	11,193,375
Expenses:			
Program services	9,970,802	-	9,970,802
Supporting services:			
Management and general	1,058,052	-	1,058,052
Fundraising	<u>115,019</u>	<u>-</u>	<u>115,019</u>
Total Expenses	<u>11,143,873</u>	<u>-</u>	<u>11,143,873</u>
Change in Net Assets	159,405	(109,903)	49,502
Net Assets, beginning	<u>12,561,783</u>	<u>249,250</u>	<u>12,811,033</u>
Net Assets, ending	<u>\$ 12,721,188</u>	<u>\$ 139,347</u>	<u>\$ 12,860,535</u>

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 3,677,668	\$ 701,115	\$ 92,933	\$ 4,471,716
Participant support	1,589,502	-	-	1,589,502
Payroll tax and benefits	983,809	133,384	17,871	1,135,064
Depreciation	697,732	40,296	-	738,028
Food and kitchen supplies	544,269	545	-	544,814
In-kind donations	540,102	-	-	540,102
Contract services	286,062	75,016	-	361,078
Utilities	307,942	19,213	-	327,155
Repairs and maintenance	228,800	73,760	-	302,560
Legal and accounting	241,653	-	-	241,653
Supplies and postage	190,952	38,216	-	229,168
Insurance	92,158	34,665	-	126,823
Telephone	85,852	27,140	-	112,992
Building rent	108,150	3,361	-	111,511
Interest - bank charges	79,789	-	-	79,789
Minor equipment purchased	76,033	1,268	-	77,301
Training and travel	54,545	18,630	-	73,175
Diagnostic testing	52,238	1,015	-	53,253
Licenses and permit	40,450	466	-	40,916
Advertising	22,903	2,069	-	24,972
Equipment rental	14,404	1,536	-	15,940
Reserve for repairs	12,000	-	-	12,000
Property taxes	5,650	45	-	5,695
Other	4,504	-	-	4,504
Fundraising	-	-	2,709	2,709
Special events	1,236	-	-	1,236
Monetary donations	900	-	-	900
	<u>\$ 9,939,303</u>	<u>\$ 1,171,743</u>	<u>\$ 113,513</u>	<u>\$ 11,224,559</u>

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 3,580,952	\$ 659,407	\$ 95,447	\$ 4,335,806
Participant support	1,763,941	-	-	1,763,941
Payroll tax and benefits	894,602	116,506	18,426	1,029,534
Depreciation	779,636	38,161	-	817,797
In-kind donations	598,648	-	-	598,648
Food and kitchen supplies	488,076	270	-	488,346
Repairs and maintenance	299,159	63,739	-	362,898
Utilities	310,767	23,628	-	334,395
Contract services	246,033	25,804	-	271,837
Supplies and postage	203,804	39,045	-	242,849
Building rent	153,863	3,221	-	157,084
Telephone	104,823	32,480	-	137,303
Insurance	90,117	32,267	-	122,384
Legal and accounting	85,634	-	-	85,634
Training and travel	64,311	16,759	-	81,070
Interest - bank charges	76,868	-	-	76,868
Minor equipment purchased	68,033	3,470	-	71,503
Licenses and permit	61,540	225	-	61,765
Diagnostic testing	56,908	170	-	57,078
Other	10,810	1,494	-	12,304
Reserve for repairs	12,000	-	-	12,000
Advertising	9,609	95	-	9,704
Equipment rental	7,672	1,286	-	8,958
Special events	2,696	-	-	2,696
Fundraising	-	-	1,146	1,146
Property taxes	300	25	-	325
	<u>\$ 9,970,802</u>	<u>\$ 1,058,052</u>	<u>\$ 115,019</u>	<u>\$ 11,143,873</u>

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (525,997)	\$ 49,502
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	738,028	817,797
Forgiveness of debt	-	(1,000,000)
Accrued interest	37,500	37,500
Changes in operating assets and liabilities:		
Grants receivable	61,092	47,980
Prepaid expenses and other current assets	(354,388)	(13,702)
Accounts payable	129,183	(65,338)
Accrued expenses	30,391	(220,398)
Grant payable	-	656,500
Deferred revenue	(74,553)	58,262
	<u>41,257</u>	<u>368,103</u>
Net Cash Provided by Operating Activities	41,257	368,103
Cash Flows from Investing Activities:		
Purchase of property and equipment	(33,184)	-
Construction in progress purchases	(347,046)	(1,516,357)
Payments to capital reserve	12,000	12,000
Withdrawals from money market investment	178,028	-
Withdrawals from fund control - Vision	-	523,241
	<u>(190,202)</u>	<u>(981,116)</u>
Net Cash Used by Investing Activities	(190,202)	(981,116)
Cash Flows from Financing Activities:		
Repayment of long-term debt	-	(65,159)
Proceeds from forgivable grants-loans	-	244,920
(Payments) on proceeds from construction line of credit	(598,434)	182,252
Payments on grant payable	(13,918)	-
	<u>(612,352)</u>	<u>362,013</u>
Net Cash Provided (Used) by Financing Activities	(612,352)	362,013
Net Decrease in Cash and Cash Equivalents	(761,297)	(251,000)
Cash and cash equivalents, beginning	<u>1,483,258</u>	<u>1,734,258</u>
Cash and cash equivalents, ending	\$ <u>721,961</u>	\$ <u>1,483,258</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ <u>32,579</u>	\$ <u>37,652</u>
Additions to construction in progress financed by long term debt	\$ <u>2,116,946</u>	\$ <u>-</u>

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

Vietnam Veterans of San Diego dba Veterans Village of San Diego (VVSD) is a non-profit corporation that assists veterans and certain non-veterans in San Diego County. VVSD operates various programs primarily funded by government contracts. The programs cover a wide range of social services including drug and alcohol rehabilitation, mental and emotional health counseling, job education and training, and transitional housing for homeless veterans.

VVSD Escondido, LLC is a single member LLC owned by VVSD. The purpose of VVSD Escondido, LLC is to serve as a holding entity for a new low income veteran housing project in Escondido. (See Note 17)

VVSD formed a non-profit Corporation called VVSD Housing Corporation (VVSD HC). VVSD HC has applied for and received its non-profit 501(c)(3) designation from the IRS. This is currently a shell corporation and will be used in the event future low income housing projects are developed.

Basis of Consolidation

The consolidated financial statements include Veterans Village of San Diego, VVSD Escondido, LLC, and VVSD Housing Corporation (collectively, “the Organization”). All significant intercompany balances and transactions have been eliminated in consolidation.

Consolidated Financial Statement Presentation

The Organization reports 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 represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The Organization had no permanently restricted net assets during the years ended June 30, 2017 and 2016.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Investments

Investments with readily determinable fair values are reported at fair value with realized and unrealized gains and losses included in the change in net assets.

Grants Receivable

The grants receivable arise in the normal course of operations. It is the policy of management to review the outstanding grants receivable at period end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Property and Equipment

Acquisitions of property and equipment of \$5,000 or more are capitalized. Property and equipment are recorded at cost, or if donated, at the approximate fair market value at the date of donation. Expenditures for maintenance and repairs are charged against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets of 3 - 65 years.

Advertising

The Organization expenses the cost of advertising as incurred.

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor restricted support is recorded as an increase in temporary or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue from grants and contracts is recognized to the extent of eligible costs incurred up to an amount not to exceed the total grant or contract authorized. Deferred revenue results from grant awards received that are applicable to the subsequent period.

Donated Goods and Services

Donated goods are recorded at their estimated fair market value at the time of donation. Such items are capitalized or charged to operations as appropriate. The donated goods and services are those used as matching fund under certain government grants. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed.

Income Taxes

VVSD is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Organization may be subject to tax on income which is not related to its exempt purpose. For the years ended June 30, 2017 and 2016, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

VVSD Escondido, LLC is incorporated as a limited liability company. Under provisions of the Internal Revenue Code, limited liability companies treated as partnerships are not subjected to income taxes, and any income or loss realized is taxed to the members. Accordingly, no provisions for income taxes appear in the consolidated financial statements.

The Organization follows the provisions of uncertain tax positions as addressed in Financial Accounting Standards Board (FASB) Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the consolidated financial statements related to uncertain tax positions for the years ended June 30, 2017 and 2016.

Fair Value Measurements

The Organization defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

The three levels are defined as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 carrying value of cash, receivables, and payables approximates fair value as of June 30, 2017 and 2016, due to the relative short maturities of these instruments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts in the June 30, 2016 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2017 financial statements. There was no impact on net assets as a result of these reclassifications.

Subsequent Events

The Organization has evaluated subsequent events through January 30, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2 – Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 29,352,120	\$ 28,932,348
Land	6,560,558	6,560,558
Furniture and equipment	1,834,955	1,874,897
Building improvements	555,821	1,735,346
Vehicles	<u>333,193</u>	<u>333,193</u>
	38,636,647	39,436,342
Less accumulated depreciation	<u>(6,163,552)</u>	<u>(6,258,402)</u>
	<u>\$ 32,473,095</u>	<u>\$ 33,177,940</u>

The Organization acquires property for Veteran Rehabilitation Services using grants from various federal, state and local funding sources subject to operating requirements imposed by donor agencies. Continued operations of the sites for specified charitable purposes over various required number of years is a condition for making grants non-refundable. If operations were ceased, some equity funding grants would have to be repaid.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 3 – Restrictions on Cash

The Organization has a separate bank account for temporarily restricted cash. As of June 30, 2017 and 2016, the balance was \$584,427 and \$741,423, respectively.

Note 4 – Investments

Money market mutual funds are carried at fair value and are intended to provide income for the Organization. The fair value of investments has been measured on recurring basis using quoted prices for identical assets in active markets (level 1 inputs).

On December 1, 2016, the Organization transferred \$178,028 of the money market mutual funds, therefore, there are no investments as of June 30, 2017.

Investments at fair value according to the fair value hierarchy are as follows at June 30, 2016:

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Money Market Mutual Funds	\$ 178,028	\$ -	\$ -	\$ 178,028

Note 5 – Long-Term Debt

Long-term debt consists of the following at June 30:

	2017	2016
Construction loan secured by Escondido property, Pacific Western Bank, due on January 15, 2019, interest is variable and was 5.25% at June 30, 2017	\$ 1,036,946	\$ -

Note 6 – Forgivable Grants-Loans

San Diego Housing Commission

In May 2007, the Organization received \$4,234,526 of a construction forgivable loan award for Phase II from the San Diego Housing Commission. The loan is divided in two parts: 1) \$745,575 HUD EDI Funding, 2) Balloon note for \$3,479,925. The loan term is for 65 years with 3% interest. This loan will be forgivable in 65 years as long as the loan proceeds are used for the provisions set forth by the Housing Commission. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$4,225,499. The Organization does not accrue interest on this loan because the probability of actual payment of interest is remote.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 6 – Forgivable Grants-Loans, continued

City of San Diego Successor Agency-Formerly Redevelopment Agency of the City of San Diego (Formerly RDA)

In June 2009, the Organization received a \$2,113,000 forgivable loan from the City of San Diego Successor Agency (Successor Agency) for the construction of Phase III. Of the \$2,113,000 loan, \$1,250,000 shall be repayable by Developer as a residual receipts loan with a 65 year term and a simple interest rate of 3% per annum calculated from the date of inception of the Phase III Residual Receipts Loan Deed of Trust. Total forgivable interest accrued for the year was \$37,500. The Successor Agency will receive 50% of any residual receipts (net considerations actually received for the operation or leasing of phase III) to pay down the Successor Agency \$1,250,000 residual receipts portion of the loan for Phase III and the remaining 50% residual receipts will be retained by Organization for operations. After repayment in full of the Successor Agency residual receipts loan plus all interest, the Housing Commission will receive 50% of the residual receipts to pay down the Housing Commission loan (see below) for Phase III and the remaining 50% residual receipts will be retained by the Organization. The remaining \$863,000 of the \$2,113,000 loan for Phase III shall be repayable by the Organization as a forgivable loan with a 65 year term and an interest rate of 0%. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$2,113,000.

San Diego Housing Commission

In June 2009, the Organization received a \$2,000,806 Housing Commission forgivable residual receipts loan for Phase III. This 65 year note carries an interest rate of 3% and in the event of default bears a simple interest rate of 10%. Per the loan provision, interest will accrue. The Organization does not accrue interest on this loan because the probability of actual payment of interest is remote based on the cash flow of the project. This loan will be forgivable in 65 years as long as the loan proceeds are used for the provisions set forth by the Housing Commission. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$2,000,806.

City of San Diego Successor Agency (Formerly RDA)

In April 2014, the Organization received a \$1,737,076 forgivable residual receipts loan for Phase V to construct a two story building for transitional housing and support services and facilities for low income individuals which will replace Hickman Hall. This forgivable loan is a 65 year note with 0% interest. Repayment of the loan will be deferred as long as the project is used in accordance with the terms and conditions of the agreement. Upon completion of the loan terms, the loan will be forgiven. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$1,737,076.

San Diego Housing Commission

In February 2011, the Organization received a \$1,492,425 of a construction forgivable loan for Phase IV from the San Diego Housing Commission. The loan term is for 65 years with 3% interest. The loan will be forgivable in August 1, 2077 as long as the loan proceeds are used for the provisions set forth by the Housing Commission. The Organization intends to follow all loan provisions. The Organization does not accrue interest on this loan because the probability of actual payment of interest is remote based on the cash flow of the project. As of June 30, 2017 and 2016, the Organization's balance was \$1,491,566.

City of San Diego Successor Agency (Formerly RDA)

In June 2008, the Organization received a \$1,300,000 forgivable loan for the construction of Phase II. The loan term is for 65 years with 0% interest rate. This loan is forgivable after 65 years if the developer complies with all conditions and covenants. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$1,300,000.

San Diego Housing Commission

In May 2014, the Organization received a \$1,444,846 forgivable residual receipts loan for Phase V from the San Diego Housing Commission. The loan term is for 55 years with 3% interest. The loan will be forgivable in July 1, 2070 as long as the loan proceeds are used for the provisions set forth by the Housing Commission. The Organization intends to follow all loan provisions. The Organization does not accrue interest on this loan because the probability of actual payment of interest is remote based on the cash flow of the project. As of June 30, 2017 and 2016, the Organization's balance was \$1,437,053.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 6 – Forgivable Grants-Loans, continued

City of San Diego Successor Agency (Formerly RDA)

In March 2011, the Organization received a \$1,118,012 Phase IV residual loan with a 65 year term and a simple interest rate of 0% per annum calculated from the date of disbursement. Residual receipts generated from Phase IV will be allocated as follows: 1) 50% to Developer to pay for the operation of the Veterans Village of San Diego campus and 2) 50% will be split equally between the Housing Commission and the Successor Agency. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$1,118,012.

Centre City Development Corporation

In September 2003, the Organization has a note with the Centre City Development Corporation (a division of the City of San Diego Redevelopment Agency) in the amount of \$1,000,000 for Phase I. The term of the note is 55 years and has an initial interest rate of 6%, which was subsequently reduced to zero. The note and any related interest is only payable upon non-compliance by the Organization, including the required continued operation as a rehabilitation facility. As of June 30, 2017 and 2016, the Organization's balance was \$1,000,000.

Emergency Housing and Assistance Program (EHAP)

The Organization received three \$1,000,000 EHAP deferred loan awards from Emergency Housing and Assistance Program for Phase I, Phase II and Phase III. Repayment of these loans and related interest will be deferred as long as the development is used for an emergency shelter or transitional housing. In the event of departure from above condition, the State will terminate the loan and will require immediate repayment of all outstanding principal and accrued interest. The Organization does not intend to change their use. This loan carries an interest rate of 3.0% and is collateralized by a first deed of trust against the development property. During the year ended June 30, 2016, the Phase I loan was forgiven. As of June 30, 2017 and 2016, the Organization's balance was \$2,000,000.

Federal Home Loan Bank of San Francisco

In May 2006, the Organization received \$896,000 of a Construction Grant for Phase I from the Federal Home Loan Bank of San Francisco conditioned as a forgivable loan. The loan term is for 15 years with 0% interest rate. This loan will be forgivable in 15 years as long as the loan proceeds are used for the provisions set forth by the Affordable Housing Commission. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$896,000.

Emergency Housing and Assistance Program (EHAP)

In October 2010, the Organization received \$800,000 EHAP forgivable loan from Emergency Housing and Assistance Program to renovate the Escondido building for the New Resolve program. This is a 7 year note with 3% simple interest per annum. Repayment of the loan will be deferred as long as the project is used as an emergency shelter, a transitional housing facility, or a safe haven. Upon completion of the initial loan term, the loan will be forgiven. The Organization does not intend to change their use. As of June 30, 2017 and 2016, the Organization's balance was \$751,880.

San Diego Housing Commission

In October 2005, the Organization received a \$675,000 Housing Commission forgivable loan for Phase I. This is a 65 year forgivable loan. Repayment and related interest for this loan will be deferred as long as the property is used for homeless veterans and includes other income restrictions set forth in the loan provisions. The Organization has the full intention to comply with the loan provisions. This loan carries an interest of 3% and is collateralized by a second deed of trust against the Development Property. The Organization does not accrue interest on this loan because the probability of actual payment of interest is remote. As of June 30, 2017 and 2016, the Organization's balance was \$675,000.

Federal Home Loan Bank-Affordable Housing Program

In April 2011, the Organization received \$600,000 forgivable loan from Federal Home Loan Bank for Phase IV construction. The loan term is for 15 years with 0% interest rate. The loan will be forgivable in 15 years as long the loan proceeds are used for the provisions set forth by the Affordable Housing Commission. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$600,000.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 6 – Forgivable Grants-Loans, continued

Federal Home Loan Bank of San Francisco - Affordable Housing Program

In June 2012, the Organization received \$500,000 forgivable loan from Federal Home Loan Bank for Phase V construction. The loan term is for 15 years with 0% interest rate. The loan will be forgivable in 15 years as long the loan proceeds are used for the provisions set forth by Project Evaluation Form. The Organization intends to follow all loan provisions. As of June 30, 2017 and 2016, the Organization's balance was \$500,000.

Federal Home Loan Bank-Affordable Housing Program

In September 2016, the Organization received \$1,080,000 forgivable loan from Federal Home Loan Bank for the Escondido construction. The loan term is for 15 years with 0% interest rate. The loan will be forgivable in 15 years as long the loan proceeds are used for the provisions set forth by the Affordable Housing Commission. The Organization intends to follow all loan provisions. As of June 30, 2017, the Organization's balance was \$1,080,000.

Forgivable loans balance as of June 30, 2017 and 2016:

Description	Maturity Date	2017	2016
Emergency Housing & Assistance Program - New Resolve	October, 2017	\$ 751,880	\$ 751,880
Emergency Housing & Assistance Program - Phase III	January, 2018	1,000,000	1,000,000
Emergency Housing & Assistance Program - Phase II	October, 2018	1,000,000	1,000,000
Federal Home Loan Bank of San Francisco - Phase I	May, 2021	896,000	896,000
Federal Home Loan Bank - Phase IV	April, 2026	600,000	600,000
Federal Home Loan Bank - Phase V	June, 2027	500,000	500,000
Federal Home Loan Bank - Escondido	June, 2031	1,080,000	-
City of San Diego Redevelopment Agency - Phase I	September, 2058	1,000,000	1,000,000
San Diego Housing Commission - Phase V	July, 2070	1,437,053	1,437,053
San Diego Housing Commission - Phase I	October, 2070	675,000	675,000
San Diego Housing Commission - Phase II	February, 2071	3,479,925	3,479,925
San Diego Housing Commission - Phase II	May, 2072	745,575	745,575
Redevelopment Agency - Phase II	June, 2073	1,300,000	1,300,000
RDA CAL-Redevelopment agency - Phase III	June, 2074	2,113,000	2,113,000
San Diego Housing Commission - Phase III	June, 2074	2,000,806	2,000,806
Redevelopment Agency of City of San Diego - Phase IV	February, 2076	1,118,012	1,118,012
San Diego Housing Commission - Phase IV	August, 2076	1,491,566	1,491,566
Former RDA - City of San Diego - Phase V	April, 2079	1,737,076	1,737,076
		\$ 22,925,893	\$ 21,845,893

Note 7 – Capital Reserve Fund

A Capital Reserve Account has been set up for capital reserve for replacement. Under the San Diego Housing Commission – Phase III loan, the Organization would fund \$12,000 per year into the replacement reserve account. Expenditures from the reserve account would be subject to San Diego Housing Commission approval. During the years ended June 30, 2017 and 2016, the Organization funded \$12,000 into the replacement reserve account. The balance of the capital reserve account at June 30, 2017 and 2016 was \$60,000 and \$48,000, respectively. The reserve account is included under cash and cash equivalents in the consolidated statements of financial position.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 8 – Construction Line of Credit

The Organization maintains a revolving line of credit with its bank in the amount of \$1,000,000 which expires on September 15, 2020. The line of credit was used primarily for the Vision project, but also for operations with board approval. The interest rate on the line is the greater of the prime rate (4.25%) plus 0.5% (the "Indexed Rate"), or the Floor Rate of 3.75%. The line was collateralized by the real estate with a carrying value of approximately \$645,366 and the assets of the Organization. The rate at June 30, 2017 and 2016 was 4.25% and 4.75%, respectively. The line of credit was carried as a long-term liability because the proceeds were used to finance construction in progress and buildings which are long-term assets. There was no balance outstanding as of June 30, 2017 (\$598,434 in 2016).

Note 9 – Deferred Revenue

Deferred revenue for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Swords to Plowshares	\$ 43,387	\$ 80,000
Deferred rent revenue	43,307	38,351
Meal tickets	266	153
Charitable Trust Grant	<u>-</u>	<u>43,009</u>
	<u>\$ 86,960</u>	<u>\$ 161,513</u>

Note 10 – Net Assets

Temporarily restricted net assets for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Escondido project	\$ 399,400	\$ -
Time restricted	<u>130,922</u>	<u>139,347</u>
	<u>\$ 530,322</u>	<u>\$ 139,347</u>

Note 11 – Contingencies and Commitments

Grants and Contracts

The Organization receives revenue from government grants and contracts which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits is not significant.

Operating Leases

The Organization has entered into various operating lease agreements for its office locations. The Organization holds four non-cancelable operating leases which expire at various dates through September 2020. Rent expense for the years ended June 30, 2017 and 2016 was approximately \$110,000 and \$154,000, respectively.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 11 – Contingencies and Commitments, continued

Operating Leases, continued

Minimum future lease payments as of June 30, 2017 are due as follows:

<u>Years Ending June 30,</u>	
2018	\$ 91,880
2019	84,453
2020	73,760
2021	9,651
Thereafter	<u>-</u>
	<u>\$ 259,744</u>

Grant Payable

During the year ended June 30, 2016, the Organization received a notice of indebtedness from the Department of Veterans Affairs (VA) due to the discontinuation of the New Resolve program. The New Resolve facility received funding for construction through a VA grant and the VA requested repayment due to a change in purpose of the location. The Organization negotiated a repayment schedule with the VA during the year ended June 30, 2017 which resulted in a monthly payment of \$19,000 at an interest rate of 4%. Grant payable balance for the years ended June 30, 2017 and 2016 was \$642,582 and \$656,500, respectively.

Minimum future grant payable payments as of June 30, 2017 are due as follows:

<u>Years Ending June 30,</u>	
2018	\$ 85,516
2019	209,531
2020	218,068
2021	129,467
Thereafter	<u>-</u>
	<u>\$ 642,582</u>

Note 12 – Donated Goods, Services and Labor

During the years ended June 30, 2017 and 2016, there were revenues recognized for donated goods, services, and labor in the amounts of \$540,102 and \$598,648, respectively. Revenues recognized for the years ended June 30, 2017 and 2016 consist of donated goods in the amounts of \$66,769 and \$86,348 respectively, and donated services for \$473,333 and \$512,300, respectively. There was donated labor during the years ended June 30, 2017 and 2016 in the amount of \$585,972 and \$717,820, respectively, which was not reflected in the consolidated financial statements because the services do not meet the criteria for recognition.

Note 13 – Retirement Plan

The Organization has a 403(b) tax deferred annuity plan. All employees are eligible and may defer up to 20% of salary with a maximum of \$18,000 per year deferral or \$24,000 per year for those who are age 50 or over at end of the calendar year. The Organization may make discretionary contributions to the plan based on salaries. The contribution rate for the years ended June 30, 2017 and 2016 was 3%. All employer contributions are 100% vested. Employer contributions for the years ended June 30, 2017 and 2016 were \$169,322 and \$93,711, respectively.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended June 30, 2017 and 2016

Note 14 – Indirect Costs

The Organization allocates its indirect costs to its grants. For the years ended June 30, 2017 and 2016, the Organization has reclassified approximately \$1,170,000 and \$890,000 of salaries and payroll tax and benefits from indirect costs to supporting services for purposes of the consolidated statement of functional expenses. For grant reporting purposes, these costs are included in the grant expenses as indirect costs.

Note 15 – Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 16 – Concentration of Credit Risk

Cash

The Organization maintains cash and cash equivalents in bank deposit and investment accounts. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 and investment accounts are insured by the Securities Investor Protection Corporation (SIPC) up to a limit of \$500,000. The Organization account balances may, at times, exceed the limits. The Organization has not experienced any such losses in these accounts.

Revenue

The Organization receives a significant portion of its revenue from the U.S. Department of Veterans Affairs, U.S. Department of Housing Urban Development, and the U.S. Department of Labor which are funded by government grants and contracts.

Note 17 – Low Income Housing Project

The Organization formed VVSD Escondido, LLC, a single member LLC, to serve as a holding entity for a new low income veteran housing project. The project consists of a 54 unit apartment complex to be constructed on the land the Organization owns in Escondido, California which was contributed by VVSD to VVSD Escondido, LLC. The existing old transitional housing facility will be demolished to make room for the new apartments. The project was in the construction phase as of June 30, 2017. The estimated total cost of the project is approximately \$13,500,000 plus the net book value of the contributed land and building. The cost of construction in progress as of June 30, 2017 and 2016 was \$3,379,632 and \$1,039,693, respectively, which includes the cost due to the VA for its equity in the land and old building used in the New Resolve homeless veteran program which has been discontinued. (See Note 10)

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Vietnam Veterans of San Diego dba Veterans Village of San Diego 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 consolidated financial statements of Vietnam Veterans of San Diego dba Veterans Village of San Diego (nonprofit organization) and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, 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 January 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries 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 consolidated 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 Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' consolidated 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*.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED

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.

Aldrich CPAs + Advisors LLP

San Diego, California
January 30, 2018

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

To the Board of Directors of
Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' major federal programs for the year ended June 30, 2017. Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' 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 Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' 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 Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' compliance.

Opinion on Each Major Federal Program

In our opinion, Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries 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, 2017.

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

Report on Internal Control over Compliance

Management of Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries 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 Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries 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 Vietnam Veterans of San Diego dba Veterans Village of San Diego's and Subsidiaries' 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.

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.

Aldrich CPAs + Advisors LLP

San Diego, California
January 30, 2018

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Subrecipient Expenditures	Expenditures	Total
U.S. Department of Housing and Urban Development					
<i>Direct Programs</i>					
HUD Escondido	14.267	CA1434L9D011500	\$ -	71,171	\$
					71,171
<i>Pass-through from San Diego Housing Commission</i>					
HUD Sol IV	14.231	SHI-14-01B.3	-	34,916	
					34,916
Total U.S. Department of Housing and Urban Development					106,087
U.S. Department of Labor					
<i>Direct Programs</i>					
Homeless Veterans Reintegration Project - South	17.805	HV-29070-16-60-5-6	-	174,743	
Homeless Veterans Reintegration Project - North City 3	17.805	HV-25968-14-60-5-6	-	295,182	
Homeless Veterans Reintegration Project - North City 2	17.805	HV-25968-14-60-5-6	-	23,157	
Homeless Veterans Reintegration Project - Metro	17.805	HV-27439-15-60-5-6	-	263,532	
					756,614
<i>Pass-through from San Diego Housing Commission</i>					
WIA 15% Governor's	17.258	K6103119 - 1065	-	132,935	
WIA 25% Dislocated Workers	17.278	K6103119 - 1066	-	50,677	
					183,612
Total U.S. Department of Labor					940,226
U.S. Department of Veteran's Affairs					
<i>Direct Programs</i>					
Women Homeless Vets (1)	64.024	15-305-CA	-	29,410	
Founders Program (1)(2)	64.024	96-100-CA	-	200,054	
Metro per diem (1)(2)	64.024	02-052-CA	-	800,664	
Family Pgm per diem (1)(2)	64.024	98-0068-CA	-	75,922	
SARRTP	64.019	VA262-15-D-0246	-	63,746	
West Residential (1)(2)	64.024	01-041-CA	-	1,111,886	
VA Upper East per diem(1)(2)	64.024	05-004-CA	-	370,895	
VA CMI (1)	64.024	15-356-CA	-	42,340	
VA VOP Per Diem (1)(2)	64.024	03-242-CA	-	690,553	
VA SSVF-Priority 2 (3)	64.033	2014-CA-173	-	251,717	
VA SSVF-Priority 1	64.033	C15-CA-601A	-	1,029,312	
Women Homeless Vets (2)	64.024	16-305-CA	-	110,105	
VA CMI (2)	64.024	16-356-CA	-	235,708	
VA SSVF-Priority 2	64.033	2014-CA-173	-	726,225	
					5,738,537

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal/Pass-Through Grantor and Program Title	CFDA Number	Pass-Through Grantor No.	Subrecipient Expenditures	Expenditures	Total
U.S. Department of Veteran's Affairs, Continued					
<i>Pass-through from St. Vincent de Paul</i>					
St. Vincent de Paul	64.024	MOU	-	263,275	
					<u>263,275</u>
Total U.S. Department of Veteran's Affairs					6,001,812
U.S. Department of Health and Human Services					
<i>Direct Programs</i>					
Alcohol & Drug Services	93.959	553463	-	23,594	
Total U.S. Department of Health and Human Services					<u>23,594</u>
Total Expenditures of Federal Awards					\$ <u>7,071,719</u>

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries and is presented on the accrual basis of accounting. The information in this 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 (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 – Summary of Significant Accounting Policies

Vietnam Veterans of San Diego dba Veterans Village of San Diego and Subsidiaries did not elect to use the 10% de minimus cost rate as covered in the Uniform Guidance 2.CFR.200.414 indirect costs.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I – Summary of Auditors’ Results

Consolidated Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Significant deficiency(ies) identified?	None reported
Material weakness(es) identified?	None
Noncompliance material to the consolidated financial statements noted?	No

Federal Awards

Internal control over major programs:	
Significant deficiency(ies) identified?	None reported
Material weakness(es) identified?	None
Type of auditors’ report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
64.024	VA Homeless Providers Grant and Per Diem Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as a low-risk auditee under the Uniform Grant Guidance, 2.CFR.200.520?	Yes
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Section II – Consolidated Financial Statement Findings

None reported

Section III – Federal Award Findings

None reported

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2017

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings

None reported

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidating Schedule of Financial Position
June 30, 2017

	Veterans Village of San Diego	VVSD Escondido, LLC	VVSD Housing Corp	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 710,584	\$ 11,377	\$ -	\$ -	\$ 721,961
Grants receivable, net of allowance for doubtful accounts of \$2,002	769,505	-	-	-	769,505
Due from related parties	1,304,163	-	-	(1,304,163)	-
Prepaid expenses and other current assets	110,767	399,400	-	-	510,167
Total Current Assets	2,895,019	410,777	-	(1,304,163)	2,001,633
Non-Current Assets:					
Fund control - vision	282	-	-	-	282
Construction in progress	-	3,503,685	-	-	3,503,685
Investment in VVSD Escondido, LLC	1,014,579	-	-	(1,014,579)	-
Property and equipment, net	31,491,031	982,064	-	-	32,473,095
Total Non-Current Assets	32,505,892	4,485,749	-	(1,014,579)	35,977,062
Total Assets	\$ 35,400,911	\$ 4,896,526	\$ -	\$ (2,318,742)	\$ 37,978,695
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	\$ 222,606	\$ -	\$ -	\$ -	\$ 222,606
Accrued expenses	400,497	1,814	-	-	402,311
Current portion of grant payable	85,516	-	-	-	85,516
Due to related parties	-	1,294,358	9,805	(1,304,163)	-
Deferred revenue	86,960	-	-	-	86,960
Total Current Liabilities	795,579	1,296,172	9,805	(1,304,163)	797,393
Non-Current Liabilities:					
Forgivable grants-loans	21,845,893	1,080,000	-	-	22,925,893
Accrued interest	266,859	-	-	-	266,859
Grant payable, net of current portion	557,066	-	-	-	557,066
Capital reserve fund liability	60,000	-	-	-	60,000
Long-term debt, net of current portion	-	1,036,946	-	-	1,036,946
Total Non-Current Liabilities	22,729,818	2,116,946	-	-	24,846,764
Total Liabilities	23,525,397	3,413,118	9,805	(1,304,163)	25,644,157
Net Assets (Deficit):					
Unrestricted	11,744,592	1,084,008	(9,805)	(1,014,579)	11,804,216
Temporarily restricted	130,922	399,400	-	-	530,322
Total Net Assets (Deficit)	11,875,514	1,483,408	(9,805)	(1,014,579)	12,334,538
Total Liabilities and Net Assets	\$ 35,400,911	\$ 4,896,526	\$ -	\$ (2,318,742)	\$ 37,978,695

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidating Schedule of Financial Position
June 30, 2016

	Veterans Village of San Diego	VVSD Escondido, LLC	VVSD Housing Corp	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 1,483,258	\$ -	\$ -	\$ -	\$ 1,483,258
Investments	178,028	-	-	-	178,028
Grants receivable, net of allowance for doubtful accounts of \$2,002	830,597	-	-	-	830,597
Due from related parties		-	-	-	-
Prepaid expenses and other current assets	155,779	-	-	-	155,779
Total Current Assets	2,647,662	-	-	-	2,647,662
Non-Current Assets:					
Fund control - vision	282	-	-	-	282
Construction in progress	1,039,693	-	-	-	1,039,693
Property and equipment, net	33,177,940	-	-	-	33,177,940
Total Non-Current Assets	34,217,915	-	-	-	34,217,915
Total Assets	\$ 36,865,577	\$ -	\$ -	\$ -	\$ 36,865,577
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	\$ 93,423	\$ -	\$ -	\$ -	\$ 93,423
Accrued expenses	371,920	-	-	-	371,920
Current portion of grant payable	656,500	-	-	-	656,500
Deferred revenue	161,513	-	-	-	161,513
Total Current Liabilities	1,283,356	-	-	-	1,283,356
Non-Current Liabilities:					
Forgivable grants-loans	21,845,893	-	-	-	21,845,893
Accrued interest	229,359	-	-	-	229,359
Capital reserve fund liability	48,000	-	-	-	48,000
Construction line of credit	598,434	-	-	-	598,434
Total Non-Current Liabilities	22,721,686	-	-	-	22,721,686
Total Liabilities	24,005,042	-	-	-	24,005,042
Net Assets:					
Unrestricted	12,721,188	-	-	-	12,721,188
Temporarily restricted	139,347	-	-	-	139,347
Total Net Assets	12,860,535	-	-	-	12,860,535
Total Liabilities and Net Assets	\$ 36,865,577	\$ -	\$ -	\$ -	\$ 36,865,577

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidating Schedule of Activities
Year Ended June 30, 2017

	Veterans Village of San Diego			VVSD Escondido, LLC			VVSD Housing Corp		Consolidated		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Eliminations	Unrestricted	Temporarily Restricted	Total
Revenue and Support:											
Grants	\$ 8,759,567	\$ -	\$ 8,759,567	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 8,759,567	\$ 500,000	\$ 9,259,567
Contributions	203,439	242,874	446,313	-	-	-	-	-	203,439	242,874	446,313
Donated goods and services	540,102	-	540,102	-	-	-	-	-	540,102	-	540,102
Rent	332,724	-	332,724	35,926	-	35,926	-	-	368,650	-	368,650
Food stamps	64,297	-	64,297	-	-	-	-	-	64,297	-	64,297
Other revenue	19,301	-	19,301	-	-	-	-	-	19,301	-	19,301
Interest income	332	-	332	-	-	-	-	-	332	-	332
Net assets released from restrictions, satisfaction of program restrictions	251,299	(251,299)	-	100,600	(100,600)	-	-	-	351,899	(351,899)	-
Total Revenue and Support	10,171,061	(8,425)	10,162,636	136,526	399,400	535,926	-	-	10,307,587	390,975	10,698,562
Expenses:											
Program services	9,876,747	-	9,876,747	62,556	-	62,556	-	-	9,939,303	-	9,939,303
Supporting services:											
Management and general	1,157,397	-	1,157,397	4,541	-	4,541	9,805	-	1,171,743	-	1,171,743
Fundraising	113,513	-	113,513	-	-	-	-	-	113,513	-	113,513
Total Expenses	11,147,657	-	11,147,657	67,097	-	67,097	9,805	-	11,224,559	-	11,224,559
Change in Net Assets	(976,596)	(8,425)	(985,021)	69,429	399,400	468,829	(9,805)	-	(916,972)	390,975	(525,997)
Net Assets, beginning	12,721,188	139,347	12,860,535	-	-	-	-	-	12,721,188	139,347	12,860,535
Investment in VVSD Escondido, LLC	-	-	-	1,014,579	-	1,014,579	-	(1,014,579)	-	-	-
Net Assets, ending	\$ 11,744,592	\$ 130,922	\$ 11,875,514	\$ 1,084,008	\$ 399,400	\$ 1,483,408	\$ (9,805)	\$ (1,014,579)	\$ 11,804,216	\$ 530,322	\$ 12,334,538

See independent auditors' report.

VIETNAM VETERANS OF SAN DIEGO dba VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
Consolidating Schedule of Activities
Year Ended June 30, 2016

	Veterans Village of San Diego			VVSD Escondido, LLC			VVSD Housing Corp		Consolidated		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Eliminations	Unrestricted	Temporarily Restricted	Total
Revenue and Support:											
Grants	\$ 8,369,904	\$ -	\$ 8,369,904	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,369,904	\$ -	\$ 8,369,904
Contributions	387,449	411,913	799,362	-	-	-	-	-	387,449	411,913	799,362
Donated goods and services	598,648	-	598,648	-	-	-	-	-	598,648	-	598,648
Rent	297,147	-	297,147	-	-	-	-	-	297,147	-	297,147
Food stamps	79,467	-	79,467	-	-	-	-	-	79,467	-	79,467
Forgiveness of debt	1,000,000	-	1,000,000	-	-	-	-	-	1,000,000	-	1,000,000
Other revenue	48,491	-	48,491	-	-	-	-	-	48,491	-	48,491
Interest income	356	-	356	-	-	-	-	-	356	-	356
Net assets released from restrictions, satisfaction of program restrictions	521,816	(521,816)	-	-	-	-	-	-	521,816	(521,816)	-
Total Revenue and Support	11,303,278	(109,903)	11,193,375	-	-	-	-	-	11,303,278	(109,903)	11,193,375
Expenses:											
Program services	9,970,802	-	9,970,802	-	-	-	-	-	9,970,802	-	9,970,802
Supporting services:											
Management and general	1,058,052	-	1,058,052	-	-	-	-	-	1,058,052	-	1,058,052
Fundraising	115,019	-	115,019	-	-	-	-	-	115,019	-	115,019
Total Expenses	11,143,873	-	11,143,873	-	-	-	-	-	11,143,873	-	11,143,873
Change in Net Assets	159,405	(109,903)	49,502	-	-	-	-	-	159,405	(109,903)	49,502
Net Assets, beginning	12,561,783	249,250	12,811,033	-	-	-	-	-	12,561,783	249,250	12,811,033
Net Assets, ending	<u>\$ 12,721,188</u>	<u>\$ 139,347</u>	<u>\$ 12,860,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,721,188</u>	<u>\$ 139,347</u>	<u>\$ 12,860,535</u>

See independent auditors' report.