



CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



Leaf & Cole, LLP
Certified Public Accountants

**VETERANS OF SAN DIEGO AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Veterans Village of San Diego and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2018, 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 consolidated 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 consolidated financial position of Veterans Village of San Diego and Subsidiaries as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Veterans Village of San Diego and Subsidiaries as of June 30, 2017, were audited by other auditors whose report dated January 30, 2018, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 20 to 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. 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*, and is also 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 October 24, 2018, on our consideration of Veterans Village of San Diego 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 the effectiveness of Veterans Village of San Diego and Subsidiaries' 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 Veterans Village of San Diego and Subsidiaries' internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
October 24, 2018

VETERANS OF SAN DIEGO AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
<u>Current Assets:</u> (Note 2)		
Cash and cash equivalents	\$ 2,640,850	\$ 479,537
Accounts receivables, net	665,031	769,505
Prepaid expenses and other assets	190,732	510,167
Total Current Assets	<u>3,496,613</u>	<u>1,759,209</u>
<u>Noncurrent Assets:</u> (Notes 2, 3, 4, 5, 6 and 7)		
Fund control - vision	282	282
Capital and operating reserve funds	254,424	242,424
Property and equipment, net	42,737,030	35,976,780
Total Noncurrent Assets	<u>42,991,736</u>	<u>36,219,486</u>
TOTAL ASSETS	<u>\$ 46,488,349</u>	<u>\$ 37,978,695</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2 and 5)		
Accounts payable	\$ 1,433,122	\$ 222,606
Accrued expenses	322,259	462,311
Deferred revenue	869,210	86,960
Current portion of notes payable	187,576	85,516
Total Current Liabilities	<u>2,812,167</u>	<u>857,393</u>
<u>Noncurrent Liabilities:</u> (Notes 5 and 6)		
Notes payable, net of current portion	6,987,461	1,594,012
Accrued interest payable	304,359	266,859
Forgivable loans	22,925,893	22,925,893
Total Noncurrent Liabilities	<u>30,217,713</u>	<u>24,786,764</u>
Total Liabilities	<u>33,029,880</u>	<u>25,644,157</u>
<u>Commitments and Contingencies</u> (Notes 7 and 9)		
<u>Net Assets:</u> (Notes 2 and 8)		
Unrestricted	13,059,883	11,804,216
Temporarily restricted	398,586	530,322
Total Net Assets	<u>13,458,469</u>	<u>12,334,538</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,488,349</u>	<u>\$ 37,978,695</u>

The accompanying notes are an integral part of the consolidated financial statements.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:						
Grants and contracts	\$ 10,395,567	\$ -	\$ 10,395,567	\$ 8,759,567	\$ 500,000	\$ 9,259,567
Contributions	873,618	2,033,173	2,906,791	203,439	242,874	446,313
In-kind contributions	566,377	-	566,377	540,102	-	540,102
Rental income	410,874	-	410,874	368,650	-	368,650
Other revenue	97,007	-	97,007	19,301	-	19,301
Food stamps	33,791	-	33,791	64,297	-	64,297
Interest income	1,323	-	1,323	332	-	332
Net assets released from restriction	2,164,909	(2,164,909)	-	351,899	(351,899)	-
Total Revenue and Support	<u>14,543,466</u>	<u>(131,736)</u>	<u>14,411,730</u>	<u>10,307,587</u>	<u>390,975</u>	<u>10,698,562</u>
Expenses:						
Program services	<u>11,847,416</u>	<u>-</u>	<u>11,847,416</u>	<u>9,939,303</u>	<u>-</u>	<u>9,939,303</u>
Supporting Services:						
Management and general	1,329,970	-	1,329,970	1,171,743	-	1,171,743
Fundraising	110,413	-	110,413	113,513	-	113,513
Total Supporting Services	<u>1,440,383</u>	<u>-</u>	<u>1,440,383</u>	<u>1,285,256</u>	<u>-</u>	<u>1,285,256</u>
Total Expenses	<u>13,287,799</u>	<u>-</u>	<u>13,287,799</u>	<u>11,224,559</u>	<u>-</u>	<u>11,224,559</u>
Change in Net Assets	1,255,667	(131,736)	1,123,931	(916,972)	390,975	(525,997)
Net Assets at Beginning of Year	<u>11,804,216</u>	<u>530,322</u>	<u>12,334,538</u>	<u>12,721,188</u>	<u>139,347</u>	<u>12,860,535</u>
NET ASSETS AT END OF YEAR	<u>\$ 13,059,883</u>	<u>\$ 398,586</u>	<u>\$ 13,458,469</u>	<u>\$ 11,804,216</u>	<u>\$ 530,322</u>	<u>\$ 12,334,538</u>

The accompanying notes are an integral part of the consolidated financial statements.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services		
	Veterans Village of San Diego	VVSD Escondido, LLC	Total Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses:						
Salaries and wages	\$ 4,382,162	\$ 4,764	\$ 4,386,926	\$ 789,102	\$ 83,232	\$ 5,259,260
Payroll taxes and employee benefits	973,706	969	974,675	172,936	16,407	1,164,018
Total Salaries and Related Expenses	<u>5,355,868</u>	<u>5,733</u>	<u>5,361,601</u>	<u>962,038</u>	<u>99,639</u>	<u>6,423,278</u>
Nonsalary Related Expenses:						
Advertising	57,147		57,147	1,499	-	58,646
Bank fees, interest and charges	24,335	7,518	31,853	-	-	31,853
Contract services	626,601	-	626,601	66,357	-	692,958
Diagnostic testing	44,473	-	44,473	717	-	45,190
Equipment rental	27,338	-	27,338	1,300	-	28,638
Food and kitchen supplies	793,454	-	793,454	617	-	794,071
In-kind expense	566,377	-	566,377	-	-	566,377
Insurance	114,213	7	114,220	39,214	-	153,434
Minor equipment purchased	36,167	-	36,167	10,935	-	47,102
Other	14,095	1,514	15,609	-	10,774	26,383
Participant support	2,194,120	-	2,194,120	-	-	2,194,120
Professional fees	121,230	4,294	125,524	13,007	-	138,531
Rent	106,008	-	106,008	8,847	-	114,855
Repairs and maintenance	377,036	9,304	386,340	71,990	-	458,330
Supplies and postage	192,557	-	192,557	42,837	-	235,394
Taxes, licenses and fees	31,383	4,272	35,655	942	-	36,597
Telephone	91,283	2,951	94,234	32,653	-	126,887
Training and travel	60,268	3,081	63,349	14,918	-	78,267
Utilities	324,497	-	324,497	24,092	-	348,589
Total Nonsalary Related Expenses	<u>5,802,582</u>	<u>32,941</u>	<u>5,835,523</u>	<u>329,925</u>	<u>10,774</u>	<u>6,176,222</u>
Total Operating Expenses	<u>11,158,450</u>	<u>38,674</u>	<u>11,197,124</u>	<u>1,291,963</u>	<u>110,413</u>	<u>12,599,500</u>
Nonoperating Expenses:						
Depreciation	569,438	43,354	612,792	38,007	-	650,799
Interest - residual receipts debt	37,500	-	37,500	-	-	37,500
Total Nonoperating Expenses	<u>606,938</u>	<u>43,354</u>	<u>650,292</u>	<u>38,007</u>	<u>-</u>	<u>688,299</u>
TOTAL EXPENSES	<u>\$ 11,765,388</u>	<u>\$ 82,028</u>	<u>\$ 11,847,416</u>	<u>\$ 1,329,970</u>	<u>\$ 110,413</u>	<u>\$ 13,287,799</u>

The accompanying notes are an integral part of the consolidated financial statements.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Supporting Services		
	Veterans Village of San Diego	VVSD Escondido, LLC	Total Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses:						
Salaries and wages	\$ 3,667,998	\$ 9,670	\$ 3,677,668	\$ 701,115	\$ 92,933	\$ 4,471,716
Payroll taxes and employee benefits	981,786	2,023	983,809	133,384	17,871	1,135,064
Total Salaries and Related Expenses	<u>4,649,784</u>	<u>11,693</u>	<u>4,661,477</u>	<u>834,499</u>	<u>110,804</u>	<u>5,606,780</u>
Nonsalary Related Expenses:						
Advertising	22,903	-	22,903	2,069	-	24,972
Bank fees and charges	42,289	-	42,289	-	-	42,289
Contract services	286,062	-	286,062	75,016	-	361,078
Diagnostic testing	52,238	-	52,238	1,015	-	53,253
Equipment rental	14,404	-	14,404	1,536	-	15,940
Food and kitchen supplies	544,269	-	544,269	545	-	544,814
In-kind expense	540,102	-	540,102	-	-	540,102
Insurance	91,143	1,015	92,158	34,665	-	126,823
Minor equipment purchased	76,033	-	76,033	1,268	-	77,301
Other	18,640	-	18,640	3	2,709	21,352
Participant support	1,589,502	-	1,589,502	-	-	1,589,502
Professional fees	239,919	1,734	241,653	-	-	241,653
Rent	108,150	-	108,150	3,361	-	111,511
Repairs and maintenance	217,735	11,065	228,800	73,760	-	302,560
Supplies and postage	190,151	801	190,952	38,216	-	229,168
Taxes, licenses and fees	45,237	863	46,100	511	-	46,611
Telephone	83,577	2,275	85,852	27,140	-	112,992
Training and travel	53,950	595	54,545	18,630	-	73,175
Utilities	307,942	-	307,942	19,213	-	327,155
Total Nonsalary Related Expenses	<u>4,524,246</u>	<u>18,348</u>	<u>4,542,594</u>	<u>296,948</u>	<u>2,709</u>	<u>4,842,251</u>
Total Operating Expenses	<u>9,174,030</u>	<u>30,041</u>	<u>9,204,071</u>	<u>1,131,447</u>	<u>113,513</u>	<u>10,449,031</u>
Nonoperating Expenses:						
Depreciation	665,217	32,515	697,732	40,296	-	738,028
Interest - residual receipts debt	37,500	-	37,500	-	-	37,500
Total Nonoperating Expenses	<u>702,717</u>	<u>32,515</u>	<u>735,232</u>	<u>40,296</u>	<u>-</u>	<u>775,528</u>
TOTAL EXPENSES	<u>\$ 9,876,747</u>	<u>\$ 62,556</u>	<u>\$ 9,939,303</u>	<u>\$ 1,171,743</u>	<u>\$ 113,513</u>	<u>\$ 11,224,559</u>

The accompanying notes are an integral part of the consolidated financial statements.

**VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 1,123,931	\$ (525,997)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	650,799	738,028
Interest - residual receipts debt	37,500	37,500
(Increase) Decrease in:		
Accounts receivables, net	104,474	61,092
Prepaid expenses and other assets	319,435	(354,388)
Increase (Decrease) in:		
Accounts payable	8,138	129,184
Accrued expenses	(140,052)	30,391
Deferred revenue	782,250	(74,553)
Net Cash Provided by Operating Activities	<u>2,886,475</u>	<u>41,257</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(6,208,671)	(380,230)
Payments to capital reserve	(12,000)	(12,000)
Withdrawals from money market investment	-	178,028
Net Cash Used in Investing Activities	<u>(6,220,671)</u>	<u>(214,202)</u>
<u>Cash Flows From Financing Activities:</u>		
Payments on notes payable	5,495,509	(612,352)
Net Cash Provided by (Used in) Financing Activities	<u>5,495,509</u>	<u>(612,352)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,161,313	(785,297)
Cash and Cash Equivalents at Beginning of Year	<u>479,537</u>	<u>1,264,834</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,640,850</u>	<u>\$ 479,537</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest, net of capitalized interest (Note 2)	<u>\$ 7,518</u>	<u>\$ 18,819</u>

The accompanying notes are an integral part of the consolidated financial statements.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - Organization:

The consolidated financial statement includes the following entities:

Vietnam Veterans of San Diego dba Veterans Village of San Diego

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 has served all veterans since 1981 and is dedicated to "Leave No One Behind." VVSD is the only program of its kind in the United States and is nationally recognized as the leader in serving homeless military veterans. Each year VVSD provides services to more than 2,000 military veterans. VVSD assists homeless veterans who have substance abuse and/or mental health issues, including men and women who have recently returned from Iraq and Afghanistan. At the heart of VVSD's programs are five pillars of success: Prevention, Intervention, Rehabilitation, Aftercare and Employment services. 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

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.

VVSD Housing Corporation

VVSD Housing Corporation (VVSD HC) is a non-profit 501(c)(3) currently operating as a shell corporation and will be used in the event future low income housing projects are developed.

Note 2 - Significant Accounting Policies:

Consolidated Financial Statements

The consolidated financial statements include VVSD, VVSD Escondido, LLC and VVSD Housing Corporation (collectively, "the Organization"). All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting Method

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

The Organization had no permanently restricted net assets during the years ended June 30, 2018 and 2017.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at June 30, 2018 and 2017.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 - Significant Accounting Policies: (Continued)

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts receivable totaled \$10,925 and \$2,000 at June 30, 2018 and 2017, respectively.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Buildings	39 - 60 years
Furniture and equipment	5 - 30 years
Building improvements	5 - 39 years
Vehicles	5 years

Depreciation totaled \$650,799 and \$738,028 for the years ended June 30, 2018 and 2017, respectively.

Interest totaling \$153,133 and \$13,760 for the years ended June 30, 2018 and 2017, respectively, was capitalized and is included in construction in progress.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

Impairment of Real Estate

The Organization reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 and 2017.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 - Significant Accounting Policies: (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$163,567 and \$155,544 at June 30, 2018 and 2017, respectively, is accrued when incurred and included in accrued expenses.

Revenue Recognition

Grants and contracts revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants and contracts receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned. Deferred revenue totaled \$842,544 and \$43,651 at June 30, 2018 and 2017, respectively.

Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred and classified as liabilities until earned. Deferred rental income totaled \$26,666 and \$43,309 at June 30, 2018 and 2017, respectively.

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

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services totaled \$532,856 and \$473,333 for the years ended June 30, 2018 and 2017, respectively.

The Organization has received substantial donations of materials, food and supplies. The donations of materials, food and supplies are recorded at their fair value and totaled \$33,521 and \$66,796 for the years ended June 30, 2018 and 2017, respectively, and have been reported as in-kind contributions and expenses.

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.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 - Significant Accounting Policies: (Continued)

Income Taxes

VVSD and VVSD HC are public charities and are 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, except on net income derived from unrelated business activities. VVSD and VVSD HC did not engage any unrelated business activity and did not generate taxable income and no tax liability has been recorded at June 30, 2018 and 2017. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. VVSD and VVSD HC are not private foundations.

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.

VVSD's and VVSD HC's Returns of Organization Exempt from Income Tax for the years ended June 30, 2018, 2017, 2016 and 2015 are subject to examination by Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentrations 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.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 - Significant Accounting Policies: (Continued)

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 24, 2018, the date the consolidated financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed.

Reclassification

The Organization has reclassified certain prior year information to conform with the current year presentation.

Note 3 - Capital and Operating Reserve Funds:

The Organization maintains capital and operating reserve funds to ensure that funds are available to make necessary repairs or to comply with provisions of loan and regulatory agreements. The following are the capital and operating reserve funds held at June 30:

	<u>2018</u>	<u>2017</u>
VRC capital reserve for repairs	\$ 90,700	\$ 90,700
VOP Phase III capital reserves for repairs	72,000	60,000
Founders capital reserve for repairs	55,200	55,200
Phase IV operating reserve	30,394	30,394
VOP Phase II operating reserve	6,130	6,130
Total Capital and Operating Reserve Funds	<u>\$ 254,424</u>	<u>\$ 242,424</u>

Note 4 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 6,560,558	\$ 6,560,558
Buildings	29,352,120	29,352,120
Furniture and equipment	1,780,487	1,834,955
Building improvements	594,021	555,821
Vehicles	333,193	333,193
Construction in progress	<u>10,862,881</u>	<u>3,503,685</u>
Subtotal	49,483,260	42,140,332
Less: Accumulated depreciation	<u>(6,746,230)</u>	<u>(6,163,552)</u>
Property and Equipment, Net	<u>\$ 42,737,030</u>	<u>\$ 35,976,780</u>

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5 - Notes Payable:

Notes payable consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
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. This loan will be refinanced with permanent financing and no payments are expected in 2019.	\$ 6,536,390	\$ 1,036,946
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 repayment totals \$656,500 plus interest at 4%, and is payable in monthly installments of interest totaling \$1,636 beginning in December 2017 and increases to \$19,000 per month including principal and interest beginning in September 2018 through the maturity date of June 2021.		
Total Notes Payable	<u>638,647</u> 7,175,037	<u>642,582</u> 1,679,528
Less: Current portion	<u>(187,576)</u>	<u>(85,516)</u>
Total Notes Payable, Net of Current Portion	<u>\$ 6,987,461</u>	<u>\$ 1,594,012</u>

Minimum future payments on the notes payable are due as follows:

<u>Years Ended</u> <u>June 30</u>	
2019	\$ 187,576
2020	224,493
2021	226,578
Thereafter	<u>6,536,390</u>
Total	<u>\$ 7,175,037</u>

Note 6 - Forgivable Grants-Loans:

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 non-interest bearing. The note and any related interest is only payable upon noncompliance of by the Organization, including the required continued operation as a rehabilitation facility. The balance of the loan totaled \$1,000,000 at June 30, 2018 and 2017.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6 - Forgivable Grants-Loans: (Continued)

City of San Diego Successor Agency

In June 2009, the Organization received a \$2,113,000 forgivable loan from the City of San Diego Agency (Agency) for the construction of Phase III. Of the \$2,113,000 loan, \$1,250,000 shall be repayable by the Organization as a residual receipts loan with a 65-year term and a simple interest rate of 3% per annum. The Agency will receive 50% of any residual receipts which will be applied first to accrued interest, then to reduce principal, after which the remaining 50% residual receipts will be retained by Organization to pay for operating expenses. After repayment in full of the Agency residual receipts loan plus accrued interest, the San Diego Housing Commission will receive 50% of the residual receipts to pay down the San Diego Housing Commission loan (see below) for Phase III. 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 is non-interest bearing. The Organization intends to follow all loan provisions. The balance of the loan totaled \$2,113,000 at June 30, 2018 and 2017 and accrued interest totaled \$304,359 and \$266,859 at June 30, 2018 and 2017, respectively.

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 and is non-interest bearing. This loan is forgivable after 65 years if the developer complies with all conditions and covenants. The Organization intends to follow all loan provisions. The balance of the loan totaled \$1,300,000 at June 30, 2018 and 2017.

In March 2011, the Organization received a \$1,118,012 residual receipts loan from the Agency for Phase IV. This loan is non-interest bearing and matures in April 2074 (65-year term). Residual receipts generated from Phase IV will be allocated as follows: 1) 50% to the Organization to pay for the operation of the Veterans Village of San Diego campus and 2) 50% will be split equally between the San Diego Housing Commission and the Agency. The Organization intends to follow all loan provisions. The balance of the loan totaled \$1,118,012 at June 30, 2018 and 2017.

In April 2014, the Organization received a \$1,737,076 forgivable residual receipts loan for Phase V. This loan is non-interest bearing and matures in April 2079 (65-year term). Residual receipts generated from Phase V will be allocated 50% to the Organization to pay for the operation of Veterans Village of San Diego campus, 27.5% to the Agency and 22.5% to the San Diego Housing Commission. 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 term, the loan will be forgiven. The Organization intends to follow all loan provisions. The balance of the loan totaled \$1,737,076 at June 30, 2018 and 2017.

Department of Housing and Community Development

In October 2010, the Organization received a \$800,000 forgivable loan from the Dept. of Housing and Community Development through the Emergency Housing and Assistance Program (EHAP) to renovate the Escondido building for the New Resolve Program. The loan bears interest at 3% 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. The balance of the loan totaled \$751,880 at June 30, 2018 and 2017.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6 - Forgivable Grants-Loans: (Continued)

Department of Housing and Community Development (Continued)

The Organization received a \$1,000,000 EHAP deferred loan for Phase III which bears interest at 3% per annum. Repayment of the loan 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 loan will be terminated and will require immediate repayment of all outstanding principal and accrued interest. If the Organization does not change the development use, the loan and all accrued interest will be forgiven on the maturity date. The Organization does not intend to change their use. The balance of the loan totaled \$1,000,000 at June 30, 2018 and 2017.

The Organization received a \$1,000,000 EHAP deferred loan for Phase II. The loan bears interest at 3% per annum. Repayment of the loan 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, EHAP 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. The balance of the loan totaled \$1,000,000 at June 30, 2018 and 2017.

Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP)

In May 2006, the Organization received \$896,000 of a Construction Grant for Phase I from the FHLB under the AHP conditioned as a forgivable loan. The loan term is for 15 years and is non-interest bearing. 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. The balance of the loan totaled \$896,000 at June 30, 2018 and 2017.

In April 2011, the Organization received a \$600,000 loan for Phase IV from the FHLB under the AHP conditioned as a forgivable loan. The loan term is for 15 years and is non-interest bearing. The 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. The balance of the loan totaled \$600,000 at June 30, 2018 and 2017.

In June 2012, the Organization received a \$500,000 construction loan for Phase V from the FHLB under the AHP conditioned as a forgivable loan. The loan term is for 15 years and is non-interest bearing. The loan will be forgivable in 15 years as long as the loan proceeds are used for the provisions set forth by Project Evaluation Form. The Organization intends to follow all loan provisions. The balance of the loan totaled \$500,000 at June 30, 2018 and 2017.

In September 2016, the Organization received a \$1,080,000 construction loan for Escondido from the FHLB under the AHP. The loan term is for 15 years and is non-interest bearing. The 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. The balance of the loan totaled \$1,080,000 at June 30, 2018 and 2017.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6 - Forgivable Grants-Loans: (Continued)

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 (“SDHC”). The loan bears interest at 3% per annum and in the event of default bears interest at 10%. Fifty percent (50%) of the residual receipts generated from Phase V in fiscal years 1-40 will be allocated as 27.5% to the Agency and 22.5% to the SDHC. Eighty percent (80%) of the residual receipts generated from Phase V in fiscal years 41-55 will be allocated as 44% to the Agency and 36% to the SDHC until the Agency's residual loan is paid in full. If no default occurs during the period ending on July 1, 2070, then all principal and accrued interest will be forgiven. 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. The balance of the loan totaled \$1,437,053 at June 30, 2018 and 2017.

In October 2005, the Organization received a \$675,000 forgivable loan for Phase I from the SDHC. 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 bears 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. The balance of the loan totaled \$675,000 at June 30, 2018 and 2017.

In May 2007, the Organization entered into a \$4,234,526 construction forgivable loan agreement for Phase II with the SDHC. The funding is divided into three loans: 1) \$745,575 HUD EDI Funding, 2) \$2,759,924 note and 3) \$720,000 note. Each loan term is for 65 years with interest at 3%. Each loan will be forgivable in 65 years as long as the loan proceeds are used for the provisions set forth by the SDHC. The Organization intends to follow all loan provisions. The balance of the loans totaled \$4,225,499 at June 30, 2018 and 2017.

In June 2009, the Organization received a \$2,000,806 forgivable residual receipts loan for Phase III from the SDHC. 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, however, no interest or principal payments are due until the \$2,113,000 loan to the Agency residual receipts loan has been paid in full. 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. If no default occurs during the period ended May 1, 2075, then all principal and accrued interest is forgiven. The Organization intends to follow all loan provisions. The balance of the loan totaled \$2,006,806 at June 30, 2018 and 2017.

In February 2011, the Organization received a \$1,492,425 forgivable residual receipts loan from the SDHC for Phase IV. The loan bears interest at 3% per annum and in the event of default bears interest at 10%. Fifty percent (50%) of the residual receipts generated from Phase IV in fiscal years 1-40 will be split equally between SDHC and the Agency and the other 50% will be retained by the Organization to pay for operation of the Veterans Village of San Diego Campus. Eighty percent (80%) of the residual receipts generated from Phase IV in fiscal years 41 -65 will be split equally between SDHC and the Agency until the Agency's residual receipts loan is paid in full. If no default occurs during the period ending on August 1, 2077, then all principal and accrued interest will be forgiven. 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. The balance of the loan totaled \$1,491,566 at June 30, 2018 and 2017.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6 - Forgivable Grants-Loans: (Continued)

Forgivable grants-loans balances consist of the following at June 30:

<u>Description</u>	<u>Maturity Date</u>	<u>2018</u>	<u>2017</u>
Center City Development Corporation - Phase I	September 2058	\$ 1,000,000	\$ 1,000,000
City of San Diego Successor Agency - Phase II	June 2073	1,300,000	1,300,000
City of San Diego Successor Agency - Phase III	June 2074	2,113,000	2,113,000
City of San Diego Successor Agency- Phase IV	February 2076	1,118,012	1,118,012
City of San Diego Successor Agency - Phase V	April 2079	1,737,076	1,737,076
Dept. of Housing and Community Development - Resolve	March 2018	751,880	751,880
Dept. of Housing and Community Development - Phase II	April 2018	1,000,000	1,000,000
Dept. of Housing and Community Development - Phase III	November 2020	1,000,000	1,000,000
Federal Home Loan Bank - Phase I	July 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	1,080,000
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	May/June 2072	4,225,499	4,225,499
San Diego Housing Commission - Phase III	May 2075	2,000,806	2,000,806
San Diego Housing Commission - Phase IV	August 2077	1,491,566	1,491,566
Total Forgivable Grants-Loans		<u>\$ 22,925,893</u>	<u>\$ 22,925,893</u>

Accrued interest totaling \$2,928,913 at June 30, 2018 has not been accrued because the probability of actual payment of interest is remote based on the cash flow of the projects.

Note 7 - Line of Credit:

The Organization maintains a revolving line of credit with its bank in the amount of \$700,000 which expires on September 15, 2020. The interest rate on the line of credit is the greater of the prime rate plus 0.5%, or the floor rate of 3.75% (5.50% and 4.75% at June 30, 2018 and 2017, respectively). The line of credit is collateralized by the real estate and other assets of the Organization. There was no outstanding balance at June 30, 2018 and 2017.

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Escondido construction	\$ 230,209	\$ 399,400
Program costs	168,377	130,922
	<u>\$ 398,586</u>	<u>\$ 530,322</u>

Net assets totaling \$2,164,909 and \$351,899 for the years ended June 30, 2018 and 2017, respectively, were released from donor restrictions due to the satisfaction of purpose on time restrictions.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 9 - Commitments and Contingencies:

Grants and Contracts

The Organization receives revenue from government grants and contracts which are subject to audit. No provision has been made for 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.

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.

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 totaled \$114,855 and \$111,511, for the years ended June 30, 2018 and 2017, respectively.

Minimum future lease payments are due as follows:

Years Ended June 30		
2019	\$	82,653
2020		72,410
2021		9,651
Total	\$	164,714

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 was 3% for the years ended June 30, 2018 and 2017. All employer contributions are 100% vested. Employer contributions totaled \$129,151 and \$169,322 for the years ended June 30, 2018 and 2017, respectively.

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 project was in the construction phase as of June 30, 2018. The estimated total costs of the construction project are approximately \$13,500,000. The cost of construction in progress totaled \$10,862,881 and \$3,503,685 at June 30, 2018 and 2017, respectively.

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

	Veterans Village of San Diego	VVSD Escondido, LLC	VVSD Housing Corp	Eliminations	Consolidated
<u>Current Assets:</u>					
Cash and cash equivalents	\$ 2,612,219	\$ 28,631	\$ -	\$ -	\$ 2,640,850
Accounts receivable, net	665,031	-	-	-	665,031
Due from related parties	12,432	230,209	-	(242,641)	-
Prepaid expenses and other assets	190,732	-	-	-	190,732
Total Current Assets	<u>3,480,414</u>	<u>258,840</u>	<u>-</u>	<u>(242,641)</u>	<u>3,496,613</u>
<u>Noncurrent Assets:</u>					
Fund control - Vision	282	-	-	-	282
Capital and operating reserve funds	254,424	-	-	-	254,424
Investment in VVSD Escondido, LLC	1,014,579	-	-	(1,014,579)	-
Property and equipment, net	30,935,439	11,801,591	-	-	42,737,030
Total Noncurrent Assets	<u>32,204,724</u>	<u>11,801,591</u>	<u>-</u>	<u>(1,014,579)</u>	<u>42,991,736</u>
TOTAL ASSETS	<u>\$ 35,685,138</u>	<u>\$ 12,060,431</u>	<u>\$ -</u>	<u>\$ (1,257,220)</u>	<u>\$ 46,488,349</u>

LIABILITIES AND NET ASSETS

	Veterans Village of San Diego	VVSD Escondido, LLC	VVSD Housing Corp	Eliminations	Consolidated
<u>Current Liabilities:</u>					
Accounts payable	\$ 230,807	\$ 1,202,315	\$ -	\$ -	\$ 1,433,122
Accrued expenses	322,259	-	-	-	322,259
Due to related parties	230,209	1,877	10,555	(242,641)	-
Deferred revenue	867,150	2,060	-	-	869,210
Current portion of notes payable	187,576	-	-	-	187,576
Total Current Liabilities	<u>1,838,001</u>	<u>1,206,252</u>	<u>10,555</u>	<u>(242,641)</u>	<u>2,812,167</u>
<u>Noncurrent Liabilities:</u>					
Notes payable, net of current portion	451,071	6,536,390	-	-	6,987,461
Accrued interest payable	304,359	-	-	-	304,359
Forgivable loans	21,845,893	1,080,000	-	-	22,925,893
Total Noncurrent Liabilities	<u>22,601,323</u>	<u>7,616,390</u>	<u>-</u>	<u>-</u>	<u>30,217,713</u>
Total Liabilities	<u>24,439,324</u>	<u>8,822,642</u>	<u>10,555</u>	<u>(242,641)</u>	<u>33,029,880</u>
<u>Net Assets (Deficit):</u>					
Unrestricted	11,077,437	3,007,580	(10,555)	(1,014,579)	13,059,883
Temporarily restricted	168,377	230,209	-	-	398,586
Total Net Assets (Deficit)	<u>11,245,814</u>	<u>3,237,789</u>	<u>(10,555)</u>	<u>(1,014,579)</u>	<u>13,458,469</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,685,138</u>	<u>\$ 12,060,431</u>	<u>\$ -</u>	<u>\$ (1,257,220)</u>	<u>\$ 46,488,349</u>

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

	Veterans Village of San Diego	VVSD Escondido, LLC	VVSD Housing Corp	Eliminations	Consolidated
<u>Current Assets:</u>					
Cash and cash equivalents	\$ 468,160	\$ 11,377	\$ -	\$ -	\$ 479,537
Accounts receivable, net	769,505	-	-	-	769,505
Due from related parties	1,304,163	-	-	(1,304,163)	-
Prepaid expenses and other assets	110,767	399,400	-	-	510,167
Total Current Assets	<u>2,652,595</u>	<u>410,777</u>	<u>-</u>	<u>(1,304,163)</u>	<u>1,759,209</u>
<u>Noncurrent Assets:</u>					
Fund control - Vision	282	-	-	-	282
Capital and operating reserve funds	242,424	-	-	-	242,424
Investment in VVSD Escondido, LLC	1,014,579	-	-	(1,014,579)	-
Property and equipment, net	31,491,031	4,485,749	-	-	35,976,780
Total Noncurrent Assets	<u>32,748,316</u>	<u>4,485,749</u>	<u>-</u>	<u>(1,014,579)</u>	<u>36,219,486</u>
TOTAL ASSETS	<u>\$ 35,400,911</u>	<u>\$ 4,896,526</u>	<u>\$ -</u>	<u>\$ (2,318,742)</u>	<u>\$ 37,978,695</u>

LIABILITIES AND NET ASSETS

	Veterans Village of San Diego	VVSD Escondido, LLC	VVSD Housing Corp	Eliminations	Consolidated
<u>Current Liabilities:</u>					
Accounts payable	\$ 222,606	\$ -	\$ -	\$ -	\$ 222,606
Accrued expenses	460,497	1,814	-	-	462,311
Due to related parties	-	1,294,358	9,805	(1,304,163)	-
Deferred revenue	86,960	-	-	-	86,960
Current portion of notes payable	85,516	-	-	-	85,516
Total Current Liabilities	<u>855,579</u>	<u>1,296,172</u>	<u>9,805</u>	<u>(1,304,163)</u>	<u>857,393</u>
<u>Noncurrent Liabilities:</u>					
Notes payable, net of current portion	557,066	1,036,946	-	-	1,594,012
Accrued interest payable	266,859	-	-	-	266,859
Forgivable loans	21,845,893	1,080,000	-	-	22,925,893
Total Noncurrent Liabilities	<u>22,669,818</u>	<u>2,116,946</u>	<u>-</u>	<u>-</u>	<u>24,786,764</u>
Total Liabilities	<u>23,525,397</u>	<u>3,413,118</u>	<u>9,805</u>	<u>(1,304,163)</u>	<u>25,644,157</u>
<u>Net Assets (Deficit):</u>					
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)	<u>11,875,514</u>	<u>1,483,408</u>	<u>(9,805)</u>	<u>(1,014,579)</u>	<u>12,334,538</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,400,911</u>	<u>\$ 4,896,526</u>	<u>\$ -</u>	<u>\$ (2,318,742)</u>	<u>\$ 37,978,695</u>

**VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	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 and contracts	\$ 10,395,567	\$ -	\$ 10,395,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,395,567	\$ -	\$ 10,395,567
Contributions	873,618	233,173	1,106,791	-	1,800,000	1,800,000	-	-	873,618	2,033,173	2,906,791
In-kind contributions	566,377	-	566,377	-	-	-	-	-	566,377	-	566,377
Rental income	374,465	-	374,465	42,185	-	42,185	-	(5,776)	410,874	-	410,874
Other revenue	97,007	-	97,007	-	-	-	-	-	97,007	-	97,007
Food stamps	33,791	-	33,791	-	-	-	-	-	33,791	-	33,791
Interest income	1,323	-	1,323	-	-	-	-	-	1,323	-	1,323
Net assets released from restriction	195,718	(195,718)	-	1,969,191	(1,969,191)	-	-	-	2,164,909	(2,164,909)	-
Total Revenue and Support	<u>12,537,866</u>	<u>37,455</u>	<u>12,575,321</u>	<u>2,011,376</u>	<u>(169,191)</u>	<u>1,842,185</u>	<u>-</u>	<u>(5,776)</u>	<u>14,543,466</u>	<u>(131,736)</u>	<u>14,411,730</u>
Expenses:											
Program services	<u>11,765,388</u>	<u>-</u>	<u>11,765,388</u>	<u>82,028</u>	<u>-</u>	<u>82,028</u>	<u>-</u>	<u>-</u>	<u>11,847,416</u>	<u>-</u>	<u>11,847,416</u>
Supporting Services:											
Management and general	1,329,220	-	1,329,220	5,776	-	5,776	750	(5,776)	1,329,970	-	1,329,970
Fundraising	110,413	-	110,413	-	-	-	-	-	110,413	-	110,413
Total Supporting Services	<u>1,439,633</u>	<u>-</u>	<u>1,439,633</u>	<u>5,776</u>	<u>-</u>	<u>5,776</u>	<u>750</u>	<u>(5,776)</u>	<u>1,440,383</u>	<u>-</u>	<u>1,440,383</u>
Total Expenses	<u>13,205,021</u>	<u>-</u>	<u>13,205,021</u>	<u>87,804</u>	<u>-</u>	<u>87,804</u>	<u>750</u>	<u>(5,776)</u>	<u>13,287,799</u>	<u>-</u>	<u>13,287,799</u>
Change in Net Assets	(667,155)	37,455	(629,700)	1,923,572	(169,191)	1,754,381	(750)	(5,776)	1,255,667	(131,736)	1,123,931
Net Assets at Beginning of Year	<u>11,744,592</u>	<u>130,922</u>	<u>11,875,514</u>	<u>1,084,008</u>	<u>399,400</u>	<u>1,483,408</u>	<u>(9,805)</u>	<u>(1,014,579)</u>	<u>11,804,216</u>	<u>530,322</u>	<u>12,334,538</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,077,437</u>	<u>\$ 168,377</u>	<u>\$ 11,245,814</u>	<u>\$ 3,007,580</u>	<u>\$ 230,209</u>	<u>\$ 3,237,789</u>	<u>\$ (10,555)</u>	<u>\$ (1,020,355)</u>	<u>\$ 13,059,883</u>	<u>\$ 398,586</u>	<u>\$ 13,458,469</u>

**VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE 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 and contracts	\$ 8,759,567	\$ -	\$ 8,759,567	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 8,759,567	\$ 500,000	\$ 9,259,567
In-kind contributions	540,102	-	540,102	-	-	-	-	-	540,102	-	540,102
Contributions	203,439	242,874	446,313	-	-	-	-	-	203,439	242,874	446,313
Rental income	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 restriction	251,299	(251,299)	-	100,600	(100,600)	-	-	-	351,899	(351,899)	-
Total Revenue and Support	<u>10,171,061</u>	<u>(8,425)</u>	<u>10,162,636</u>	<u>136,526</u>	<u>399,400</u>	<u>535,926</u>	<u>-</u>	<u>-</u>	<u>10,307,587</u>	<u>390,975</u>	<u>10,698,562</u>
Expenses:											
Program services	<u>9,876,747</u>	<u>-</u>	<u>9,876,747</u>	<u>62,556</u>	<u>-</u>	<u>62,556</u>	<u>-</u>	<u>-</u>	<u>9,939,303</u>	<u>-</u>	<u>9,939,303</u>
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 Supporting Services	<u>1,270,910</u>	<u>-</u>	<u>1,270,910</u>	<u>4,541</u>	<u>-</u>	<u>4,541</u>	<u>9,805</u>	<u>-</u>	<u>1,285,256</u>	<u>-</u>	<u>1,285,256</u>
Total Expenses	<u>11,147,657</u>	<u>-</u>	<u>11,147,657</u>	<u>67,097</u>	<u>-</u>	<u>67,097</u>	<u>9,805</u>	<u>-</u>	<u>11,224,559</u>	<u>-</u>	<u>11,224,559</u>
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 at Beginning of Year	<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>
Investment in VVSD Escondido, LLC	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,014,579</u>	<u>-</u>	<u>1,014,579</u>	<u>-</u>	<u>(1,014,579)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,744,592</u>	<u>\$ 130,922</u>	<u>\$ 11,875,514</u>	<u>\$ 1,084,008</u>	<u>\$ 399,400</u>	<u>\$ 1,483,408</u>	<u>\$ (9,805)</u>	<u>\$ (1,014,579)</u>	<u>\$ 11,804,216</u>	<u>\$ 530,322</u>	<u>\$ 12,334,538</u>

**VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grants/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Passed Through to Subrecipient</u>	<u>Federal Expenditures</u>	<u>Total Expenditures</u>
U.S. Department of Housing and Urban Development:					
Direct Program:					
Continuum of Care Program:					
U.S. Department of HUD	14.267	CA1434L9D011500	\$ -	\$ 112,772	\$ 112,772
U.S. Department of HUD		CA1434L9D011601	-	88,467	88,467
Total Direct Program			<u>-</u>	<u>201,239</u>	<u>201,239</u>
Pass-Through Programs From:					
Home Investment Partnerships Program:					
San Diego Housing Commission	14.239	Loan	-	1,979,924	1,979,924
San Diego Housing Commission		Loan	-	1,434,846	1,434,846
San Diego Housing Commission		Loan	-	1,491,566	1,491,566
Total Home Investment Partnerships Program			<u>-</u>	<u>4,906,336</u>	<u>4,906,336</u>
Economic Development Initiative:					
San Diego Housing Commission	14.251	Loan	-	745,575	745,575
Total Pass-Through Programs			<u>-</u>	<u>5,651,911</u>	<u>5,651,911</u>
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>5,853,150</u>	<u>5,853,150</u>
U.S. Department of Labor:					
Direct Program:					
Homeless Veterans' Reintegration Program:					
U.S. Department of Labor	17.805	HV30653176056	-	309,000	309,000
U.S. Department of Labor		HV30709176056	-	206,000	206,000
Total Direct Program			<u>-</u>	<u>515,000</u>	<u>515,000</u>
Pass-Through Programs From:					
WIOA Adult Program:					
Employment Development Department State of California	17.258	K6103119-1065	-	137,065	137,065
Employment Development Department State of California		K8110734	-	8,801	8,801
Total WIOA Adult Program			<u>-</u>	<u>145,866</u>	<u>145,866</u>
WIOA Dislocated Worker Formula Grants:					
Employment Development Department State of California	17.278	K6103119-1066	-	146,366	146,366
Total Pass-Through Programs			<u>-</u>	<u>292,232</u>	<u>292,232</u>
Total U.S. Department of Labor			<u>-</u>	<u>807,232</u>	<u>807,232</u>

**VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grants/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Passed Through to Subrecipient</u>	<u>Federal Expenditures</u>	<u>Total Expenditures</u>
U.S. Department of Veteran Affairs:					
Direct Programs:					
Veterans Rehabilitation - Alcohol and Drug Dependence:					
U.S Department of Veteran Affairs	64.019	VA262-15-D-0246	\$ -	\$ 61,149	\$ 61,149
VA Homeless Providers and Per Diem Program:					
U.S Department of Veteran Affairs	64.024	16-305-CA	-	40,203	40,203
U.S Department of Veteran Affairs		96-100-CA	-	45,286	45,286
U.S Department of Veteran Affairs		02-052-CA	-	206,879	206,879
U.S Department of Veteran Affairs		98-0068-CA	-	19,278	19,278
U.S Department of Veteran Affairs		01-041-CA	-	278,953	278,953
U.S Department of Veteran Affairs		05-004-CA	-	86,772	86,772
U.S Department of Veteran Affairs		15-356-CA	-	39,392	39,392
U.S Department of Veteran Affairs		16-356-CA	-	180,275	180,275
U.S Department of Veteran Affairs		17-305-CA	-	137,717	137,717
U.S Department of Veteran Affairs		17-356-CA	-	211,474	211,474
U.S Department of Veteran Affairs		VVSD525-0073-664-BH-18-0	-	458,129	458,129
U.S Department of Veteran Affairs		VVSD525-0072-664-CT-18-0	-	1,734,983	1,734,983
Total VA Homeless Providers and Per Diem Program			<u>-</u>	<u>3,439,341</u>	<u>3,439,341</u>
VA Supportive Services for Veteran Families Program:					
U.S Department of Veteran Affairs	64.033	2014-CA-173	-	311,045	311,045
U.S Department of Veteran Affairs		C15-CA-601A	-	359,346	359,346
U.S Department of Veteran Affairs		2014-CA-173	-	1,883,933	1,883,933
Total VA Supportive Services for Veteran Families Program			<u>-</u>	<u>2,554,324</u>	<u>2,554,324</u>
Total Direct Programs			<u>-</u>	<u>6,054,814</u>	<u>6,054,814</u>
Total U.S. Department of Veterans Affairs			<u>-</u>	<u>6,054,814</u>	<u>6,054,814</u>
U.S. Department of Health and Human Services:					
Pass-Through Program From:					
Block Grants for Prevention and Treatment of Substance Abuse:					
County of San Diego	93.959	553463	-	23,594	23,594
Total Pass-Through Program			<u>-</u>	<u>23,594</u>	<u>23,594</u>
Total U.S. Department of Health and Human Services			<u>-</u>	<u>23,594</u>	<u>23,594</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 12,738,790</u>	<u>\$ 12,738,790</u>

VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Veterans Village of San Diego under programs of the federal government for the year ended June 30, 2018. 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). Because the Schedule presents only a selected portion of the operations of Veterans Village of San Diego it is not intended to and does not present the financial position, changes in net assets, or cash flows of Veterans Village of San Diego.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass through entity identifying numbers are presented where available.

Veterans Village of San Diego has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

Note 3 - Loan Program:

The following is the activity of the loans payable for the year ended June 30, 2018:

CFDA Number	Program Name	Loans Outstanding at June 30, 2017	Loans Awarded for the Year Ended June 30, 2018	Loan Principal Repaid for the Year Ended June 30, 2018	Loans Outstanding at June 30, 2018
14.239	Home Investment Partnerships Program:				
	San Diego Housing Commission	\$ 1,979,924	\$ -	\$ -	\$ 1,979,924
	San Diego Housing Commission	1,434,846	-	-	1,434,846
	San Diego Housing Commission	1,491,566	-	-	1,491,566
	Total Home Investment Partnerships Program	<u>4,906,336</u>	<u>-</u>	<u>-</u>	<u>4,906,336</u>
14.251	Economic Development Initiative:				
	San Diego Housing Commission	<u>745,575</u>	<u>-</u>	<u>-</u>	<u>745,575</u>
	Total Loans	<u>\$ 5,651,911</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,651,911</u>



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors
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 Veterans Village of San Diego and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2018, 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 October 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Veterans Village of San Diego 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 Veterans Village of San Diego and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Veterans Village of San Diego 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 Veterans Village of San Diego 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*.

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.

Leaf & Cole LLP

San Diego, California
October 24, 2018



Leaf & Cole, LLP
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**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited Veterans Village of San Diego 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 Veterans Village of San Diego and Subsidiaries' major federal programs for the year ended June 30, 2018. Veterans Village of San Diego and Subsidiaries' major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, 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, 2018.

Report on Internal Control over Compliance

Management of 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 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 Veterans Village of San Diego 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.

Leaf & Cole LLP

San Diego, California
October 24, 2018

**VETERANS VILLAGE OF SAN DIEGO AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the consolidated financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified?	_____ Yes	_____ <u>X</u> No	

Noncompliance material to consolidated financial statements noted? _____ Yes _____ X No

Federal Awards

Type of auditor's report issued on compliance for the major program: Unmodified

Internal control over major program:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified?	_____ Yes	_____ <u>X</u> No	

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes _____ X No

Identification of the major programs:

<u>C DFA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Investment Partnerships Program
14.251	Economic Development Initiative

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:

None

Section III - Federal Award Findings and Questioned Costs:

None