

**SHELTER, INC. OF CONTRA COSTA
COUNTY AND AFFILIATES**
(A California Nonprofit Public Benefit Corporation)

**COMBINED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| BASIC FINANCIAL STATEMENTS | |
| Combined Statements of Financial Position | 3 |
| Combined Statements of Activities | 4 |
| Combined Statements of Functional Expenses | 5 |
| Combined Statements of Cash Flows | 6 |
| Notes to the Combined Financial Statements | 8 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Expenditures of Federal Awards | 22 |
| Notes to Schedule of Expenditures of Federal Awards | 23 |
| OTHER AUDITOR'S REPORTS | |
| 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> | 25 |
| Report on Compliance For Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 | 27 |
| FINDINGS AND RECOMMENDATIONS | |
| Schedule of Findings and Questioned Costs | 29 |



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
SHELTER Inc. of Contra Costa County
Martinez, California

Report on the Financial Statements

We have audited the accompanying financial statements of SHELTER, Inc. of Contra Costa County and its Affiliates (SHELTER, Inc.), as of June 30, 2016 and 2015 and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 SHELTER, Inc's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SHELTER, Inc's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SHELTER, Inc as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

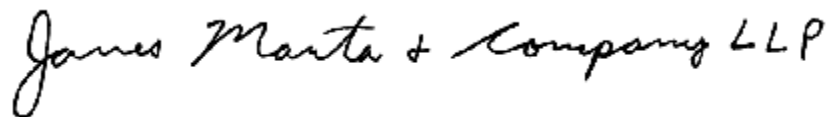
Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SHELTER, Inc's basic financial statements. The accompanying supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016 on our consideration of SHELTER, Inc's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 SHELTER, Inc's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
September 26, 2016

BASIC FINANCIAL STATEMENTS

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and equivalents | \$ 697,201 | \$ 409,568 |
| Accounts receivables (net) | | |
| Trade | 28,029 | 21,261 |
| Grants | 1,562,690 | 1,101,176 |
| Other | 15,338 | - |
| Inventory | 46,529 | 77,403 |
| Investments | 1,734 | 805,047 |
| Prepaid expenses | 37,423 | 103,522 |
| Total Current Assets | 2,388,944 | 2,517,977 |
| Noncurrent Assets: | | |
| Investments | 141,520 | 143,474 |
| Restricted deposits | 154,093 | 143,124 |
| Landlord deposits | 187,283 | 187,170 |
| Property and equipment - net | 5,502,569 | 5,451,545 |
| Total Noncurrent Assets | 5,985,465 | 5,925,313 |
| Total Assets | \$ 8,374,409 | \$ 8,443,290 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,039,510 | \$ 673,926 |
| Deferred revenue | 114,031 | 29,572 |
| Line of credit | - | 441,091 |
| Interest payable | 197,919 | 170,907 |
| Notes payable | 73,395 | 74,930 |
| Advances on government contracts | 101,149 | 61,621 |
| Other liabilities | 2,431 | 2,431 |
| Total Current Liabilities | 1,528,435 | 1,454,478 |
| Noncurrent Liabilities: | | |
| Tenant security deposits | 185,599 | 164,150 |
| Notes payable | 3,233,814 | 3,153,253 |
| Total Noncurrent Liabilities | 3,419,413 | 3,317,403 |
| Total Liabilities | 4,947,848 | 4,771,881 |
| Net Assets: | | |
| Unrestricted | 2,984,602 | 3,298,033 |
| Temporarily restricted | 372,720 | 304,137 |
| Permanently restricted | 69,239 | 69,239 |
| Total Net Assets | 3,426,561 | 3,671,409 |
| Total Liabilities and Net Assets | \$ 8,374,409 | \$ 8,443,290 |

The accompanying notes are an integral part of these financial statements

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | | | | 2015 | | | |
|---|--------------|---------------------------|---------------------------|--------------|--------------|---------------------------|---------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| OPERATING REVENUES | | | | | | | | |
| Contributions | \$ 1,075,625 | \$ 790,555 | \$ - | \$ 1,866,180 | \$ 1,123,253 | \$ 777,723 | \$ - | \$ 1,900,976 |
| Federal grants | 2,788,419 | - | - | 2,788,419 | 2,683,045 | - | - | 2,683,045 |
| Other grants | 4,946,616 | - | - | 4,946,616 | 3,653,684 | - | - | 3,653,684 |
| Rental income - net of vacancies | 1,090,592 | - | - | 1,090,592 | 1,034,705 | - | - | 1,034,705 |
| Revenue from special events | 271,477 | - | - | 271,477 | 354,430 | - | - | 354,430 |
| Less: Cost of special events | (183,092) | - | - | (183,092) | (134,295) | - | - | (134,295) |
| Other income | 128,445 | - | - | 128,445 | 42,657 | - | - | 42,657 |
| In-kind contribution | 521,029 | - | - | 521,029 | 589,231 | - | - | 589,231 |
| Net assets released from restrictions | 721,972 | (721,972) | - | - | 792,268 | (792,268) | - | - |
| Total Operating Revenues | 11,361,083 | 68,583 | - | 11,429,666 | 10,138,978 | (14,545) | - | 10,124,433 |
| OPERATING EXPENSES | | | | | | | | |
| Program service | 9,726,930 | - | - | 9,726,930 | 8,600,652 | - | - | 8,600,652 |
| Management and general | 1,648,094 | - | - | 1,648,094 | 900,977 | - | - | 900,977 |
| Fundraising | 521,383 | - | - | 521,383 | 598,287 | - | - | 598,287 |
| Total Operating Expenses | 11,896,407 | - | - | 11,896,407 | 10,099,916 | - | - | 10,099,916 |
| Operating Income (Loss) | (535,324) | 68,583 | - | (466,741) | 39,062 | (14,545) | - | 24,517 |
| NONOPERATING INCOME(LOSS) | | | | | | | | |
| Interest income | 15,846 | - | - | 15,846 | 40,409 | - | - | 40,409 |
| Interest expense | (142,686) | - | - | (142,686) | (103,791) | - | - | (103,791) |
| Net realized and unrealized gain(loss) on investments | (61,868) | - | - | (61,868) | (12,280) | - | - | (12,280) |
| Gain on disposal of property | 410,601 | - | - | 410,601 | 66,497 | - | - | 66,497 |
| Total Nonoperating Income (Loss) | 221,893 | - | - | 221,893 | (9,165) | - | - | (9,165) |
| Change in net assets | (313,431) | 68,583 | - | (244,848) | 29,897 | (14,545) | - | 15,352 |
| Net assets, beginning of year | 3,298,033 | 304,137 | 69,239 | 3,671,409 | 3,268,136 | 318,682 | 69,239 | 3,656,057 |
| Net assets, end of year | \$ 2,984,602 | \$ 372,720 | \$ 69,239 | \$ 3,426,561 | \$ 3,298,033 | \$ 304,137 | \$ 69,239 | \$ 3,671,409 |

↳ The accompanying notes are an integral part of these financial statements

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | | | | 2015 | | | |
|--|---------------------|---------------------------|-------------------|----------------------|---------------------|---------------------------|-------------------|----------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries and benefits | \$ 3,087,908 | 1,024,383 | \$ 374,833 | 4,487,124 | \$ 2,830,507 | \$ 560,616 | \$ 395,747 | \$ 3,786,870 |
| Payroll taxes | 254,536 | 5,340 | 29,798 | 289,674 | 182,390 | 36,649 | 28,090 | 247,129 |
| Rent and other client assistance | 4,641,941 | 5,249 | - | 4,647,190 | 4,143,818 | (2,220) | 73 | 4,141,671 |
| Repairs and maintenance | 602,018 | 53,786 | 3,440 | 659,244 | 178,134 | 51,176 | 2,411 | 231,721 |
| Donated supplies | 537,527 | - | - | 537,527 | 582,788 | - | - | 582,788 |
| Professional fees | 129,368 | 215,213 | 25,269 | 369,850 | 141,407 | 67,123 | 68,151 | 276,681 |
| Administrative expenses | 358,111 | 260,779 | 88,043 | 706,933 | 438,252 | 135,349 | 103,815 | 677,416 |
| Depreciation and amortization | 115,521 | 83,344 | - | 198,865 | 103,356 | 52,284 | - | 155,640 |
| Total operating expenses as shown on the statements of activities | 9,726,930 | 1,648,094 | 521,383 | 11,896,407 | 8,600,652 | 900,977 | 598,287 | 10,099,916 |
| Interest | 142,686 | - | - | 142,686 | 56,604 | 47,187 | - | 103,791 |
| Cost of special events | - | - | 183,092 | 183,092 | - | - | 134,295 | 134,295 |
| Total expenses | <u>\$ 9,869,616</u> | <u>\$ 1,648,094</u> | <u>\$ 704,475</u> | <u>\$ 12,222,185</u> | <u>\$ 8,657,256</u> | <u>\$ 948,164</u> | <u>\$ 732,582</u> | <u>\$ 10,338,002</u> |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|--------------------|
| Cash Flows From Operating Activities: | | |
| Rent received | \$ 1,168,283 | \$ 1,136,518 |
| Grants received | 7,313,049 | 5,974,174 |
| Cash contributions received | 1,868,812 | 1,888,821 |
| Investment income received | 15,846 | 40,408 |
| Other operating receipts | 384,584 | 283,949 |
| Cash paid for rent expenses | (4,647,190) | (4,032,086) |
| Cash paid for salaries and benefits | (4,508,327) | (3,779,932) |
| Cash paid for client assistance | - | - |
| Cash paid for general and administrative expenses | (979,394) | (753,574) |
| Cash paid for professional fees | (369,850) | (321,846) |
| Cash paid for taxes and insurance | (223,575) | (306,192) |
| Interest paid | (115,674) | (96,092) |
| Other operating disbursements | (183,092) | (134,295) |
| Net Cash Flows Used in Operating Activities | <u>(276,528)</u> | <u>(100,147)</u> |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (249,889) | (1,607,203) |
| Net (loss) proceeds from disposal of property and equipment | 410,601 | 66,497 |
| Purchase of investments | (571) | (172,342) |
| Proceeds from sale and maturities of investments | 743,970 | 378,566 |
| Net (increase) decrease in restricted deposits | (10,969) | 17,669 |
| Net (increase) decrease in other deposits | 21,336 | 5,622 |
| Net Cash Flows Provided by (Used In) Investing Activities | <u>914,478</u> | <u>(1,311,191)</u> |
| Cash Flows From Financing Activities: | | |
| Receipt of line of credit | - | 441,091 |
| Payment of line of credit | (441,091) | - |
| Proceeds from notes payable | 210,000 | 1,500,000 |
| Payment of notes payable | (119,226) | (346,152) |
| Net Cash Flows Provided by (Used in) Financing Activities | <u>(350,317)</u> | <u>1,594,939</u> |
| Increase (decrease) in cash | 287,633 | 183,601 |
| Beginning Cash and Equivalents | <u>409,568</u> | <u>225,967</u> |
| Ending Cash and Equivalents | <u>\$ 697,201</u> | <u>\$ 409,568</u> |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| <u>Reconciliation of Change in Net Assets to Net Cash</u> | | |
| <u>Provided by Operating Activities</u> | | |
| Change in net assets | \$ (244,848) | \$ 15,352 |
| Adjustments to reconcile change in net assets to net cash | | |
| by (used in) operating activities: | | |
| Depreciation and amortization | 198,865 | 155,640 |
| Gain on disposal of property | (410,601) | (66,497) |
| Unrealized (gain) loss on investments | 61,868 | 12,280 |
| Forgiveness of mortgage payable | (11,748) | (11,748) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (6,768) | (641) |
| Grants receivable | (461,514) | (382,550) |
| Other receivables | (15,338) | 23,289 |
| Inventory | 30,874 | (6,849) |
| Prepaid expenses and other assets | 66,099 | 53,014 |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | 365,584 | 89,198 |
| Advances on government contracts | 39,528 | 19,995 |
| Interest payable | 27,012 | 7,698 |
| Deferred revenue | 84,459 | 10,172 |
| Other liabilities | - | (18,500) |
| Net Cash Flows Used in Operating Activities | \$ (276,528) | \$ (100,147) |
| <u>Supplemental Information: Noncash Investing Activities</u> | | |
| Unrealized gain (loss) on investments | \$ (61,868) | \$ (19,777) |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

1. ORGANIZATION AND NATURE OF ACTIVITIES

SHELTER, Inc. of Contra Costa County (SHELTER, Inc.) was incorporated as a California nonprofit public benefit corporation on November 17, 1986. The Board of Supervisors' Contra Costa County Task Force on Homelessness created SHELTER, Inc. and it serves as the primary service agency for homeless individuals and families in Contra Costa County, California. The mission of SHELTER, Inc. is to prevent and end homelessness among low-income residents of Contra Costa County by providing resources that lead to self-sufficiency.

SHELTER, Inc.'s work encompasses three main elements:

- **Preventing Homelessness:** SHELTER, Inc. prevents the onset of homelessness for struggling families and individuals by providing time-limited rental assistance, often in conjunction with case management, help creating and following a budget and individualized employment services.
- **Ending the Cycle of Homelessness:** SHELTER, Inc. provides temporary housing and supportive services to families and individuals who are homeless. While in temporary housing, participants receive professional case management, educational support, employment services and life skills training to help them on the road to self-sufficiency.
- **Providing Affordable Housing:** SHELTER, Inc. provides permanent affordable housing for nearly 250 low-income households, including supportive housing for targeted populations, such as transition-age youth, people with HIV/AIDS and those with mental health disabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

A. Principles of Consolidation

The combined financial statements include the activities of two commonly controlled not-for-profit entities namely, Affordable Housing Association of Pittsburg (AHAP) and New Century Center (NCC). All material intercompany balances and transactions have been eliminated from the combined financial statements.

B. Accounting Method

SHELTER, Inc. uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of timing of payments.

C. Basis of Presentation

SHELTER, Inc. reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

D. Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Excluded from cash are funds restricted as to their use, regardless of liquidity, such as security deposit accounts, replacement reserves, operating reserves and residual receipts.

E. Inventory

Inventory consists of donated goods and is stated at cost which is the fair market value at the time of acquisition.

F. Accounts Receivable

Accounts receivable are stated net of allowance for doubtful accounts. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of patients to meet their obligations. As of June 30, 2016 and 2015, accounts receivable were stated net of the allowance for doubtful of accounts of \$10,000 and \$10,000, respectively.

G. Notes Receivable

Notes receivable are reported at their outstanding principal and are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination management evaluated the financial condition of the borrower's and the estimated value of the underlying collateral.

H. Investments

Investments are carried at their fair values based on quoted prices in active markets (all Level 1 measurements) in the Statement of Financial Position. Investments in mutual funds are valued based on the underlying assets in the funds. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Investments in real estate properties held for future sale are reported at cost which includes acquisition cost and improvement costs.

I. Property and Equipment, and Deferred Costs

All of SHELTER, Inc.'s property and equipment is devoted to its primary purpose of serving homeless individuals. Property and equipment is stated at cost of acquisition or construction, or fair value if donated. All expenditures for property and equipment over \$5,000 are capitalized. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets. Deferred costs are incurred in order to obtain permanent financing for the purchase of certain properties. Deferred costs are stated at cost and amortized on a straight-line basis.

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

The useful lives of the assets are estimated as follows:

| | |
|-------------------------|----------------|
| Buildings | 30 to 40 years |
| Building improvements | 10 to 30 years |
| Furniture and equipment | 3 to 10 years |
| Deferred costs | 10 to 30 years |

SHELTER, Inc. reviews its investments in property for impairment whenever events or changes in circumstances indicate that the carrying value of any of their properties may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flows expected to be generated by the rental property. 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 the real estate exceeds the fair value of such property.

J. Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. 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 statements of activities as net assets released from restrictions. Contributions restricted for the purchase of long-lived assets are reported as unrestricted support when expended for that purpose. Government contracts, which are funded on a reimbursement basis, are shown as unrestricted grant revenue.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature. SHELTER, Inc. also receives a significant amount of volunteer help. During the year ended June 30, 2016 and 2015, 18,908 and 15,543 hours were donated, respectively. These donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Forgivable loans are amortized over the period of the loan and the portion of the debt forgiven each year is recognized as income.

K. Income Taxes

SHELTER, Inc. is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

L. Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

M. Estimates

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

N. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3. CASH AND INVESTMENTS

A. Cash and Equivalents

Cash and cash equivalents consisted of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|----------------------------|-------------------|-------------------|
| Petty Cash | \$ 900 | \$ 900 |
| Cash in Bank | <u>696,301</u> | <u>408,668</u> |
| Total Cash and Equivalents | <u>\$ 697,201</u> | <u>\$ 409,568</u> |

The Federal Depository Insurance Corporation insures cash balances held in banks up to \$250,000 for each account. Shelter was 441,864 and \$0 in excess of the insured amount as of June 30, 2016 and 2015, respectively.

B. Investments

Investments consisted of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|------------------------|-------------------|-------------------|
| Short-term Investments | \$ 1,734 | \$ 805,047 |
| Long-term Investments | <u>141,520</u> | <u>143,474</u> |
| Total Investments | <u>\$ 143,254</u> | <u>\$ 948,521</u> |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

Investments amounting to \$141,520 and \$143,474 were restricted and classified as noncurrent assets as of June 30, 2016 and 2015, respectively.

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015 are as follows:

| | <u>Fair Value</u> | <u>Fair Value Measurements at Reporting Date</u> | | |
|---------------------------|-------------------|--|---|--|
| | | <u>Using Quoted Prices</u> | | |
| | | In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>June 30, 2016</u> | | | | |
| Fixed Income Mutual Funds | \$ 52,056 | \$ 52,056 | \$ - | \$ - |
| Equity Mutual Funds | 91,198 | 91,198 | - | - |
| Asset Allocation Funds | - | - | - | - |
| Total Investments | <u>\$ 143,254</u> | <u>\$ 143,254</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>June 30, 2015</u> | | | | |
| Fixed Income Mutual Funds | \$ 477,020 | \$ 477,020 | \$ - | \$ - |
| Equity Mutual Funds | 393,605 | 393,605 | - | - |
| Asset Allocation Funds | 77,896 | 77,896 | - | - |
| Total Investments | <u>\$ 948,521</u> | <u>\$ 948,521</u> | <u>\$ -</u> | <u>\$ -</u> |

All assets have been valued using a market approach. Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. There were no changes in the valuation techniques and related inputs.

The following schedule summarizes the investment return in the statement of activities:

| | <u>For the year ending June 30,</u> | |
|---|-------------------------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Unrealized gain (loss) on investments | \$ (61,868) | \$ (7,230) |
| Realized gain (loss) on sale of investments | - | (12,280) |
| Net realized and unrealized loss on investments | (61,868) | (19,510) |
| Interest and dividend income | 15,846 | 47,638 |
| Total | <u>\$ (46,022)</u> | <u>\$ 28,128</u> |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

Endowment Investment

SHELTER, Inc.'s endowment consists of an individual fund established for a variety of purposes. Its endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment fund is permanently restricted at \$69,239 for the years ending June 30, 2016 and 2015.

Investment Return Objectives, Risk Parameters and Strategies. The endowment fund has been created with the purpose of moving the organization toward self-sufficiency. To this end, the investment objectives are to protect the fund corpus, provide current income to meet service needs, and allow for capital appreciation of the fund. Endowment assets are invested in a well-diversified asset mix, which includes mutual funds investing in equity and debt securities.

Spending Policy. SHELTER, Inc. does not have a specific policy of appropriating the net appreciation for endowments. The organization's executive committee meets periodically and decides whether or not any earnings will be distributed.

4. RESTRICTED DEPOSITS

Restricted deposits consist of the following:

| | 2016 | 2015 |
|------------------------------------|------------|------------|
| Mortgage escrow deposits: | | |
| Insurance – Victoria Apartments | \$ 4,794 | \$ 1,097 |
| Replacement reserves: | | |
| Victoria Apartments | 54,990 | 51,196 |
| Mary McGovern House | 12,955 | 12,955 |
| Barret Street Apartments | 15,641 | 14,608 |
| Sunset Apartments | 1,070 | 1,070 |
| Operating reserves: | | |
| Mary McGovern House | 1,937 | 1,937 |
| Sunset Apartments | 449 | 449 |
| Residual receipts: | | |
| Victoria Apartments | 29,679 | 29,765 |
| Security deposits: | | |
| Victoria Apartments | 9,031 | 9,031 |
| Santa Fe property | 4,398 | 4,398 |
| Cash with third-party restrictions | 19,149 | 16,618 |
| Total | \$ 154,093 | \$ 143,124 |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

Replacement Reserve

SHELTER, Inc. is required to maintain reserves for replacements and repair of property and equipment in accordance with various regulatory agreements.

Operating Reserve

SHELTER, Inc. is required to maintain operating reserves in accordance with the lenders' regulatory agreements.

Residual Receipts

SHELTER, Inc. is required to deposit surplus cash, as defined by HUD, into a separate bank account in accordance with the HUD regulatory agreement. Withdrawals from the account are subject to approval by HUD.

Security Deposits

In accordance with HUD regulations, and other regulatory agreements, SHELTER, Inc. is required to maintain funds equal to or in excess of the related liability for tenant security deposits in a separate bank account in the name of SHELTER, Inc.

5. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

| | <u>June 30, 2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2016</u> |
|------------------------------------|----------------------|-------------------|---------------------|----------------------|
| Not Subject to Depreciation | | | | |
| Land | \$ 1,534,526 | \$ - | \$ (15,688) | \$ 1,518,838 |
| Construction in Progress | - | 5,750 | - | 5,750 |
| Total Not Subject to Depreciation | <u>1,534,526</u> | <u>5,750</u> | <u>(15,688)</u> | <u>1,524,588</u> |
| Subject to Depreciation | | | | |
| Building and improvement | 5,019,823 | 375,526 | (153,754) | 5,241,595 |
| Furniture and equipment | 455,363 | 5,664 | - | 461,027 |
| Vehicles | 93,833 | 14,934 | - | 108,767 |
| Total Subject to Depreciation | <u>5,569,019</u> | <u>396,124</u> | <u>(153,754)</u> | <u>5,811,389</u> |
| Less accumulated depreciation | <u>(1,652,000)</u> | <u>(207,072)</u> | <u>25,664</u> | <u>(1,833,408)</u> |
| Total property and equipment (net) | <u>\$ 5,451,545</u> | <u>\$ 194,802</u> | <u>\$ (143,778)</u> | <u>\$ 5,502,569</u> |

Land, and building and improvements consist principally of condominiums, multifamily apartments, and one commercial office building.

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

6. LINE OF CREDIT

SHELTER, Inc. had an open line of credit with UBS amounting to \$793,000 that was closed during the year. As of June 30, 2016 and 2015, the balance in the line of credit was - and \$441,091, respectively.

7. NOTES PAYABLE

Notes payable are secured by the property unless otherwise noted and consist of the following:

| | <i>2016</i> | | <i>2015</i> | |
|--|-----------------------------|------------------|-----------------------------|------------------|
| | <i>Interest Payable</i> | <i>Principal</i> | <i>Interest Payable</i> | <i>Principal</i> |
| <u>NCC</u> | | | | |
| Sun West Mortgage, in the original amount of \$304,200, insured by HUD. The loan bears interest at 8.25% per annum and requires monthly payments of \$2,285. The mortgage matures on August 1, 2029. Interest expense was \$18,537 and \$19,078 for 2016 and 2015, respectively. | \$ 1,572 | \$ 219,815 | \$ 1,572 | \$ 228,703 |
| City of Concord, in the original amount of \$381,500 bears no interest and requires annual payments of 100% of residual receipts are due through 2034. | - | 379,391 | - | 379,391 |
| Contra Costa County HOPWA loan bears no interest and is expected to be forgiven at end of 36-year term. Debt forgiveness recognized was \$5,945 for both 2016 and 2015. ⁽¹⁾ | - | 112,944 | - | 118,889 |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

| | 2016 | | 2015 | |
|--|-------------------------|------------------|-------------------------|------------------|
| | <i>Interest Payable</i> | <i>Principal</i> | <i>Interest Payable</i> | <i>Principal</i> |
| <u>Landings</u> | | | | |
| Contra Costa County HOPWA loan, in the original amount of \$200,000 and bears 3% interest. Debt is forgivable after 60 years thus, debt forgiveness is recorded over the period of the loan for 60 years and interest is not accrued. Debt forgiveness recognized was \$3,333 for 2016 and 2015. ⁽¹⁾ | \$ - | \$ 127,223 | \$ - | \$ 130,556 |
| Contra Costa County HOME loan, in the original amount of \$125,030. The loan bears no interest and requires payment upon maturity on December 2034. | - | 125,030 | - | 125,030 |
| Northern CA Community Loan Fund, was refinanced to \$77,953. The loan bears interest of 6% for 60 months. The monthly payment is \$1,507. Interest expense was \$2,639 and \$2,972 for 2016 and 2015, respectively. | 210 | 42,027 | 350 | 55,825 |
| <u>Next Step</u> | | | | |
| Contra Costa County CDBG loan, in the original amount of \$134,100. The loan bears no interest, originally matures in May 2038 and can be extended up to May 2058. The loan is expected to be forgiven at the end of the 60-year term. Debt forgiveness recognized was \$2,235 for 2016 and 2015. ⁽¹⁾ | - | 93,498 | - | 95,733 |
| Contra Costa County CDBG loan, in the original amount of \$32,400 and bears 3% interest. The loan originally matures in July 2043 and can be extended up to July 2053. The loan is expected to be forgiven at the end of the 50-year term. Debt forgiveness recognized was \$648 for 2016 and 2015. ⁽¹⁾ | - | 24,300 | - | 24,948 |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

| | 2016 | | 2015 | |
|---|-----------------------------|------------------|-----------------------------|------------------|
| | <i>Interest Payable</i> | <i>Principal</i> | <i>Interest Payable</i> | <i>Principal</i> |
| <u><i>Sunset Apartments</i></u> | | | | |
| Department of Housing and Community Development, 30-year note in the original amount of \$94,975, bears 3% interest per annum and matures in September 2026. Interest expense was \$2,849 for 2016 and 2015. | \$ 56,770 | \$ 94,975 | \$ 57,071 | \$ 94,975 |
| <u><i>Mary McGovern House</i></u> | | | | |
| Department of Housing and Community Development, in the original amount of \$200,000, bears interest at 3% and matures in June 2026. Interest expense was \$6,000 for 2016 and 2015. | 119,608 | 200,000 | 110,457 | 200,000 |
| Western Financial Bank, in the original amount of \$14,228. The loan bears no interest and originally matures in September 2011. The loan will be forgiven 10% every year commencing September 2007 through September 2016. Debt forgiveness recognized was \$749 for 2016 and 2015. ⁽¹⁾ | - | 124 | - | 873 |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

| | 2016 | | 2015 | |
|---|-----------------------------|------------------|-----------------------------|------------------|
| | <i>Interest Payable</i> | <i>Principal</i> | <i>Interest Payable</i> | <i>Principal</i> |
| <u><i>Barrett Street Apartments</i></u> | | | | |
| JP Morgan Chase, in the original amount of \$221,550. The loan bears interest at 7.15% per annum and requires monthly payment of \$1,496 through maturity on December 1, 2032. Interest expense was \$11,165 and \$12,961 for the years ended June 30, 2016 and 2015, respectively. | \$ 1,034 | \$ 173,590 | \$ 1,096 | \$ 178,898 |
| <u><i>Ellis Street</i></u> | | | | |
| This property was sold in 2016. | - | - | 66 | 20,655 |
| Citicorp Mortgage, in the original amount of \$32,000. The loan bears interest at rates based on the monthly weighted average cost index calculated by Federal Home Loan Bank plus 3% and requires monthly payments of \$219 through maturity on July 1, 2019. Interest expense was \$237 and \$298 for the years ended June 30, 2016 and 2015, respectively. | 20 | 6,524 | 33 | 8,328 |
| Chase, in the original amount of \$36,000. The loan bears interest at rates based on 11th District Cost of Funds Index plus 2.85%-3.00% and requires monthly payments through maturity on June 1, 2024. Interest expense was \$501 and \$560 for the years ended June 30, 2016 and 2015, respectively. | 44 | 15,032 | 53 | 16,522 |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

| | 2016 | | 2015 | |
|---|-----------------------------|------------------|-----------------------------|------------------|
| | <i>Interest Payable</i> | <i>Principal</i> | <i>Interest Payable</i> | <i>Principal</i> |
| <u><i>Ellis Street (continued)</i></u> | | | | |
| This property was sold in 2016. | - | - | 51 | 16,054 |
| Chase, in the original amount of \$36,000. The loan bears interest at rates based on 11th District Cost of Funds Index plus 2.85%-3.00% and requires monthly payments through maturity on May 1, 2024. Interest expense was \$455 and \$555 for the years ended June 30, 2016 and 2015, respectively. | 44 | 14,890 | 52 | 16,366 |
| This property was sold in 2016. | - | - | 53 | 16,509 |
| Chase, in the original amount of \$36,000. The loan bears interest at rates based on 11th District Cost of Funds Index plus 2.85%-3.00% and requires monthly payments through maturity on May 1, 2024. Interest expense was \$498 and \$560 for the years ended June 30, 2016 and 2015, respectively. | 44 | 15,016 | 53 | 16,507 |
| <u><i>1333 Willow Pass Ct</i></u> | | | | |
| City National Bank, in the original amount of \$1,500,000. The loan bears interest at 4.5% per annum and requires monthly payments of \$8,393. Interest expense was \$67,176 and \$44,590 for the years ended June 30, 2016 and 2015, respectively. | 5,448 | 1,452,830 | - | 1,483,421 |
| HERO Program, in the original amount of \$210,000. The loan bears interest at 6.25% per annum and requires annual installments of \$22,407, to be paid through their property tax bill. Interest expense was \$13,125 for the year ended June 30, 2016, | \$ 13,125 | \$ 210,000 | \$ - | \$ - |
| Totals | 197,919 | 3,307,209 | 170,907 | 3,228,183 |
| Less current portion | - | (73,395) | - | (74,930) |
| Long term portion | \$ 197,919 | \$ 3,233,814 | \$ 170,907 | \$ 3,153,253 |

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

⁽¹⁾ These loans are expected to be forgiven at the end of the term provided that SHELTER, Inc. operates the property in compliance with the agreements. It is management's intent to comply with these restrictions throughout the term of the loan and accordingly accrues forgiveness, using straight-line method over the entire term of mortgage and reports mortgage payable balance net of forgiveness. The amounts of loan reported are stated net of the amounts forgiven which as of June 30, 2016 and 2015 were \$337,616 and \$223,734, respectively.

Principal payments on notes payable for the next five years, excluding those expected to be forgiven, are subject to changes in net cash flow and are estimated as follows:

| <u>For the Year Ending June 30,</u> | |
|-------------------------------------|------------------|
| 2017 | \$ 73,395 |
| 2018 | 77,704 |
| 2019 | 69,983 |
| 2020 | 66,518 |
| 2021 | 68,979 |
| <u>Thereafter</u> | <u>1,583,147</u> |
| Total | \$ 1,939,726 |

Note: Excludes any expected forgiveness

8. TEMPORARILY RESTRICTED NET ASSETS

Activity on the temporarily restricted net assets was as follows:

| | <u>For the Year Ended June 30,</u> | |
|----------------------------|------------------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Beginning balance | \$ 304,137 | \$ 318,682 |
| Contributions and interest | 790,555 | 777,723 |
| Releases from restrictions | <u>(721,972)</u> | <u>(792,268)</u> |
| Ending balance | <u>\$ 372,720</u> | <u>\$ 304,137</u> |

9. COMMITMENTS AND CONTINGENCIES

SHELTER, Inc. has elected to be self-insured for state unemployment claims. Under this method, the State of California bills SHELTER, Inc. on a quarterly basis for all the claims paid on behalf of SHELTER, Inc. Management estimated future liability for unemployment claims as of June 30, 2016 and 2015 to be \$17,430 and \$6,678, respectively.

SHELTER, Inc. receives various support and revenue that are subject to compliance with the requirements and regulations of these grantors. The management of SHELTER, Inc. believes that it has substantially complied with these requirements and regulations.

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

JUNE 30, 2016

SHELTER, Inc. is especially vulnerable to the inherent risks associated to revenue that is substantially dependent on government funding, public support, and contributions. Its continued growth and well-being is contingent upon successful achievement of its long-term revenue-raising goals.

10. CONTINGENT LIABILITY

Management of SHELTER, Inc. has decided to record a contingent liability in the amount of \$282,000. This arose from a workers' compensation insurance audit that saw the insurance expense increase. The liability is the estimation of what SHELTER, Inc. calculated the amount that will be owed for the 14/15 fiscal year.

11. SUBSEQUENT EVENTS

Management evaluated its FY 2015-16 financial statements for subsequent events through September 26, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Agency or Pass-Through Number | Current Federal Expenditures |
|---|---------------------------|----------------------------------|------------------------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| Supportive Housing Program: | | | |
| <i>Direct awards</i> | | | |
| East County Family Transition Center and San Joaquin | 14.235 | | \$ 444,265 |
| Pittsburg Family Center | 14.235 | | 81,995 |
| Reach Plus | 14.235 | | 308,592 |
| Transitional Housing Program (THP) | 14.235 | | 313,239 |
| Permanent Step | 14.235 | | 129,237 |
| Reach Family Rapid Rehousing | 14.235 | | 328,956 |
| Total Supportive Housing Program | | | <u>1,606,284</u> |
| Community Development Block Grant: | | | |
| <i>Pass-through awards</i> | | | |
| Emergency Housing and Homeless Assistance | 14.218 | Contra Costa County | 15,000 |
| Emergency Housing and Homeless Assistance | 14.218 | City of Concord | 10,000 |
| Emergency Housing and Homeless Assistance | 14.218 | City of Walnut Creek | 5,000 |
| Emergency Housing and Homeless Assistance | 14.218 | City of Antioch | 10,000 |
| Emergency Housing and Homeless Assistance | 14.218 | City of Pittsburg | 10,900 |
| Total Community Development Block Grant | | | <u>50,900</u> |
| Emergency Shelter Grant Program | | | |
| <i>Direct awards</i> | | | |
| Federal Emergency Shelter Grant | 14.231 | | <u>242,386</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>1,899,570</u> |
| <u>SSVF</u> | | | |
| <i>Direct awards</i> | | | |
| Supportive Services for Veteran Families | 64.033 | Contra Costa County | <u>817,740</u> |
| Total U.S. Department of Veteran Affairs | | | <u>817,740</u> |
| <u>U.S. Department of Homeland Security</u> | | | |
| Emergency Food and Shelter National Board Program | | | |
| <i>Pass-through awards</i> | | | |
| Emergency Food and Shelter | 97.024 | Contra Costa Local Board | <u>71,109</u> |
| Total U.S. Department of Homeland Security | | | <u>71,109</u> |
| Total Federal Awards | | | <u>\$ 2,788,419</u> |

* Tested as a major program

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activities of SHELTER, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. PRIOR YEARS' EXPENDITURES

The schedule below provides information regarding balances of loans for which continuing compliance is required.

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Agency or Pass-Through Number, if applicable</u> | <u>Federal Expenditures*</u> |
|--|------------------------------------|---|----------------------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| <u><i>New Century Center</i></u> | | | |
| <i>Pass-through awards</i> | | | |
| Section 223(f)/207 mortgage insurance for the purchase of existing multifamily housing projects | 14.155 | Contra Costa County | 219,815 |
| Housing Opportunities for Persons with AIDS: | 14.241 | Contra Costa County | <u>214,000</u> |
| | | | <u>433,815</u> |
| <u><i>SHELTER, Inc.</i></u> | | | |
| Supportive Housing Program | | | |
| <i>Pass-through awards</i> | | | |
| Permanent Housing for Handicapped Homeless Program - Sunset | 14.235 | Department of Housing and Community Development | \$ 94,975 |
| Community Development Block Grant | | | |
| <i>Pass-through awards</i> | | | |
| Community Development Loan for Next Step | 14.218 | Contra Costa County | 93,498 |
| Community Development Rehab Loan for Next Step | 14.218 | Contra Costa County | 24,300 |
| Housing Opportuniters for Persons with AIDS | | | |
| <i>Pass-through awards</i> | | | |
| Housing Opportunities for persons with AIDS HOPWA loan for Landings | 14.241 | Contra Costa County | 200,000 |
| Home Investment Partnerships Program HOME loan for Landings | 14.239 | Contra Costa County | <u>125,030</u> |
| | | | <u>537,803</u> |
| Total Federal Awards | | | <u><u>\$ 971,618</u></u> |

* Balance of loans at the beginning of the year

OTHER AUDITOR'S REPORTS



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

Independent Auditor Report

Board of Directors
SHELTER, Inc. of Contra Costa County
Martinez, California

We have audited, 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, the financial statements of SHELTER, Inc. of Contra Costa County (SHELTER, Inc) as of and for the years ended June 30, 2016, and 2015, and the related notes to the financial statements, which collectively comprise SHELTER, Inc's basic financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SHELTER, Inc's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SHELTER, Inc's internal control. Accordingly, we do not express an opinion on the effectiveness of SHELTER, Inc's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financials 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.

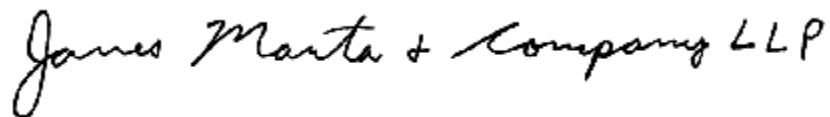
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitation, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SHELTER, Inc's financial statements are free of 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government auditing standards in considering SHELTER, Inc's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
September 26, 2016



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133
INDEPENDENT AUDITOR'S REPORT**

Board of Trustees
SHELTER, Inc.
Martinez, California

Report on Compliance for Each Major Federal Program

We have audited SHELTER, Inc. of Contra Costa County's (SHELTER, Inc) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of SHELTER, Inc's major federal programs for the year ended June 30, 2015. SHELTER, Inc's 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SHELTER, Inc's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 SHELTER, Inc's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, SHELTER, Inc 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, 2016.

Internal Control Over Compliance

Management of SHELTER, Inc 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 SHELTER, Inc's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 SHELTER, Inc's internal control over compliance.

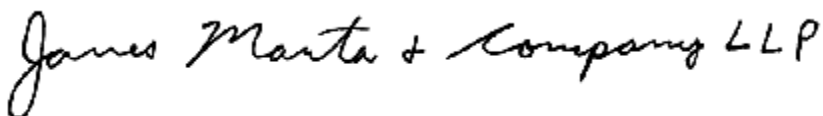
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of SHELTER, Inc as of and for the year ended June 30, 2015, and have issued our report thereon dated September 26, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



James Marta & Company LLP
Certified Public Accountants
September 26, 2016

FINDINGS AND RECOMMENDATIONS

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors report issued: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant Deficiencies identified that are not considered to be material weakness(es)? Yes None reported

Type of auditors report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 14.235 | Supportive Housing Program |
| 64.033 | Supportive Services for Veteran Families |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

SHELTER, INC. OF CONTRA COSTA COUNTY AND AFFILIATES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

Auditee qualified as low-risk auditee? Yes No

SECTION II—FINANCIAL STATEMENT FINDINGS

No findings.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings.

SECTION IV—STATE AWARD FINDINGS AND QUESTIONED COSTS

No findings.

SCHEDULE OF PRIOR AUDIT FINDINGS

No matters were reported.