# Interfaith Community Services, Inc.

## Financial Statements

Eleven Month Period Ended June 30, 2013

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**Independent Auditors' Report**

To the Audit Committee
**Interfaith Community Services, Inc.**
Escondido, CA

**Report on the Financial Statements**

We have audited the accompanying financial statements of **Interfaith Community Services, Inc**. (the "Organization"), which comprise the statement of financial position as of June 30, 2013, and the related statement of activities, and cash flows for the eleven month period 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 **Interfaith Community Services, Inc**. as of June 30, 2013, and the changes in its net assets and its cash flows for the eleven month period then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

***Supplemental Information***

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 on, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Organization taken as a whole. The accompanying statement of functional expenses on page 7, report of actual operating costs (Form 180) on page 28, actual cash flow analysis (Form 181) on page 29, and annual report reserve balances and supplemental information (Form 182) on page 30 are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Mayer Hoffman McCann P.C.

December 18, 2013

**INTERFAITH COMMUNITY SERVICES, INC.**

**Statement of Financial Position**

June 30, 2013

**ASSETS**

| | | |
|---|---|---|
| Cash | $ | 171,308 |
| Contracts receivable | | 865,945 |
| Prepaid expenses and other current assets | | 66,563 |
| Investments | | 7,300,008 |
| Property and equipment, net of accumulated depreciation | | 12,901,991 |
| Total Assets | $ | 21,305,815 |

**LIABILITIES AND NET ASSETS**

| | | |
|---|---|---|
| Liabilities: | | |
| Accounts payable | $ | 179,742 |
| Accrued expenses | | 469,347 |
| Accrued interest | | 369,563 |
| Capital lease | | 87,487 |
| Notes payable | | 2,048,103 |
| Total Liabilities | | 3,154,242 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | | 10,712,055 |
| Board designated long-term | | 1,874,998 |
| | | 12,587,053 |
| Temporarily restricted | | 200,818 |
| Permanently restricted | | 5,363,702 |
| Total Net Assets | | 18,151,573 |
| Total Liabilities and Net Assets | $ | 21,305,815 |

See accompanying notes to financial statements.

**INTERFAITH COMMUNITY SERVICES, INC.**

**Statement of Activities**

Eleven Month Period Ended June 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenue and Support: | | | | |
| Federal contract revenue | $ 4,604,326 | $ - | $ - | $ 4,604,326 |
| Other contract revenue | 281,610 | - | - | 281,610 |
| Contributions | 1,822,489 | 51,093 | 4,287,376 | 6,160,958 |
| In-kind donations | 1,368,056 | - | - | 1,368,056 |
| Rental income | 362,986 | - | - | 362,986 |
| Investment return | 500,399 | 40,566 | - | 540,965 |
| Other income | 115,763 | - | - | 115,763 |
| Net assets released from restrictions, satisfaction of program restrictions | 228,304 | (228,304) | - | - |
| Total Revenue and Support | 9,283,933 | (136,645) | 4,287,376 | 13,434,664 |
| Expenses: | | | | |
| Program Services: | | | | |
| Shelters and homes | 1,287,795 | - | - | 1,287,795 |
| Transitional housing | 527,215 | - | - | 527,215 |
| Low income housing | 411,824 | - | - | 411,824 |
| Veterans transitional housing | 2,804,151 | - | - | 2,804,151 |
| Other veterans services | 676,643 | - | - | 676,643 |
| Social services | 1,852,015 | - | - | 1,852,015 |
| Other community services | 766,654 | - | - | 766,654 |
| Total Program Services | 8,326,297 | - | - | 8,326,297 |
| Supporting Services: | | | | |
| Management and general | 678,832 | - | - | 678,832 |
| Fundraising | 730,730 | - | - | 730,730 |
| Total Supporting Services | 1,409,562 | - | - | 1,409,562 |
| Total Expenses | 9,735,859 | - | - | 9,735,859 |
| Increase (Decrease) in Net Assets | (451,926) | (136,645) | 4,287,376 | 3,698,805 |
| Net assets, beginning | 13,038,979 | 337,463 | 1,076,326 | 14,452,768 |
| Net assets, ending | $ 12,587,053 | $ 200,818 | $ 5,363,702 | $ 18,151,573 |

See accompanying notes to financial statements.

**INTERFAITH COMMUNITY SERVICES, INC.**

**Statement of Functional Expenses**

Eleven Month Period Ended June 30, 2013

| | Program Services | | | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shelters and Homes | Transitional Housing | Low Income Housing | Veterans Transitional Housing | Other Veterans Services | Social Services | Other Community Services | Total | Management and General | Fundraising | Total | Total Functional Expenses |
| Wages, salaries, contract labor, and employee benefits | $ 811,581 | $ 264,131 | $ 120,074 | $ 1,822,528 | $ 365,909 | $ 767,048 | $ 618,565 | $ 4,769,836 | $ 490,395 | $ 429,752 | $ 920,147 | $ 5,689,983 |
| Living assistance | 275,946 | 133,406 | 108,557 | 411,284 | 15,127 | 828,515 | 28,048 | 1,800,883 | - | - | - | 1,800,883 |
| Training and employment assistance | 175 | 685 | - | 7,769 | 239,546 | - | 5,253 | 253,428 | - | - | - | 253,428 |
| Office | 51,740 | 28,901 | 34,161 | 240,858 | 22,490 | 74,508 | 55,252 | 507,910 | 80,296 | 158,482 | 238,778 | 746,688 |
| Depreciation | 70,195 | 53,537 | 89,920 | 165,322 | 6,068 | 35,328 | 11,806 | 432,176 | 2,946 | 2,946 | 5,892 | 438,068 |
| Interest | 15,213 | 9,076 | 45,964 | 8,505 | - | - | - | 78,758 | - | - | - | 78,758 |
| Operations and support services | 46,205 | 20,710 | 5,414 | 103,833 | 13,159 | 116,367 | 28,027 | 333,715 | 177 | 177 | 354 | 334,069 |
| Other | 16,740 | 16,769 | 7,734 | 44,052 | 14,344 | 30,249 | 19,703 | 149,591 | 105,018 | 139,373 | 244,391 | 393,982 |
| | $ 1,287,795 | $ 527,215 | $ 411,824 | $ 2,804,151 | $ 676,643 | $ 1,852,015 | $ 766,654 | $ 8,326,297 | $ 678,832 | $ 730,730 | $ 1,409,562 | $ 9,735,859 |
| % of total expense by activity | 13.2% | 5.4% | 4.2% | 28.8% | 7.0% | 19.0% | 7.9% | 85.5% | 7.0% | 7.5% | 14.5% | 100.0% |

See accompanying notes to financial statements.

## INTERFAITH COMMUNITY SERVICES, INC.
### Statement of Cash Flows
Eleven Month Period Ended June 30, 2013

| | | |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Increase in net assets | $ | 3,698,805 |
| Adjustments to reconcile increase in net assets to net cash used by operating activities: | | |
| Depreciation | | 438,068 |
| Realized and unrealized gain on investments | | (511,946) |
| Contributions of securities restricted for endowment | | (4,280,710) |
| Contribution of securities | | (4,014) |
| Changes in operating assets and liabilities: | | |
| Contracts receivable | | (260,284) |
| Prepaid expenses and other current assets | | 43,784 |
| Accounts payable | | 72,544 |
| Accrued expenses | | (240,920) |
| Accrued interest | | 369,563 |
| Net Cash Used by Operating Activities | | (675,110) |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | | (14,867) |
| Proceeds from sales of investments | | 375,481 |
| Net Cash Provided by Investing Activities | | 360,614 |
| Cash Flows from Financing Activities: | | |
| Principal payments on capital lease | | (9,238) |
| Payments on notes payable | | (40,092) |
| Net Cash Used by Financing Activities | | (49,330) |
| Net Decrease in Cash | | (363,826) |
| Cash, beginning | | 535,134 |
| Cash, ending | $ | 171,308 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Interest paid | $ | 49,480 |

Noncash Financing Activities:

During the eleven month period ended June 30, 2013, the Organization received investments with a fair value of $4,280,710 to be invested in perpetuity. As required by the donor, investment income and interest from the securities will be used exclusively for programs which serve children's needs and those of their families.

See accompanying notes to financial statements.

## Note 1 – Organization and Summary of Significant Accounting Policies

Name Change
Interfaith Community Services, Inc. (the Organization) changed its legal name from North County Interfaith Council, Inc. effective October 2012. In addition, effective October 2012, the veterans' services division of the Organization obtained the dba Veterans Assistance of San Diego. The dba has no effect on the operations or recording of transactions of the veterans' services division.

Change to Fiscal Year End
The Organization changed its fiscal year end from July 31$^{st}$ to June 30$^{th}$. The financial statements for fiscal year ended June 30, 2013 are for eleven months.

Nature of Activities
The Organization is a nonprofit corporation established in August 1982 to assist persons needing assistance in meeting basic human needs such as food, clothing, and shelter. The Organization provides a variety of social services including transitional housing, shelters and homes, low income housing, veterans' services, and other community services principally in the North San Diego County, California area.

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

Financial Statement Presentation
The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

The carrying values of cash, receivables, and payables approximate fair values as of June 30, 2013, due to the relative short maturities of these instruments.

Cash Equivalents
The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Contracts Receivable
The contracts receivable arise in the normal course of operations. It is the policy of management to review the outstanding receivables at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary at June 30, 2013, because management believes that all amounts are collectible.

Promises to Give
Unconditional written pledges to the Organization in the future are recorded as promises to give and revenue in the year promised at the present value of expected cash flows. Unconditional written pledges must be evidenced by donor signature and deemed legally enforceable by the Board of Directors. Conditional pledges are recognized as revenue when the conditions are met. Intentions to pledge are recognized as revenue when the funds are actually received. After pledges are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances. No allowance was considered necessary at June 30, 2013, because management believes that all amounts are collectible. No discount was imputed at June 30, 2013, because management determined the amount of imputed interest to be insignificant.

Investments
The Organization has investments held by the Jewish Community Foundation San Diego which are invested in various pools and are valued at the Organization’s percentage interest in the total pools. The Organization also has investments held at an outside broker. At June 30, 2013, the Organization’s investments included domestic and international equities, domestic and international fixed income, and other investments. All investments have been recorded at fair market value and are valued using a market approach. The fair values of investments in securities traded on national exchanges are valued at the closing price on the last day of business of the fiscal year. The fair value of other investments held by the Jewish Community Foundation San Diego are determined by investment managers in good faith using methods appropriate, and are subject to oversight and review by the Jewish Community Foundation San Diego’s management. Realized and unrealized gains and losses on investments are included in the change in net assets in the Statement of Activities.

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

Revenue and Support
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

Revenue from grants/contracts is recognized to the extent of eligible costs incurred up to an amount not to exceed the total grant/contract authorized.

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

Contributed Materials and Services
Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. In addition, the Organization receives a substantial amount of nonprofessional services donated by volunteers in carrying out the Organization's program services. These services do not meet the generally accepted accounting principles criteria as contributions and are, therefore, not recognized in the financial statements.

Income Taxes
The Organization is exempt from federal income and California franchise taxes under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

All tax-exempt entities are subject to review and audit by federal, state, and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the Organization as a tax-exempt entity under Internal Revenue Code Section and applicable state statutes.

At June 30, 2013, the federal statute of limitations remains open for the 2010 through 2013 tax years. The statute of limitations for the state income tax returns remains open for the 2009 through 2013 tax years.

### Note 2 – Concentration of Credit Risk

The Organization maintains cash balances in bank accounts which, at times, exceed the federal insurable limit. The Organization has not experienced any losses from cash concentrations and management does not believe the Organization is exposed to any significant risk.

### Note 3 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at June 30, 2013, consisted of the following:

| | | |
|---|---|---|
| Deposits | $ | 34,770 |
| Other accounts receivable | | 12,900 |
| Promises to give | | 11,667 |
| Prepaid insurance | | 7,226 |
| Total prepaid expenses and other current assets | $ | 66,563 |

### Note 4 – Investments

The Organization's Level 1 investments consist of endowment funds held at an outside broker. The fair value of these investments was determined using the market approach by using the closing price on the last day of business of the fiscal year.

The Organization's Level 2 investments consist of endowment funds held by the Jewish Community Foundation San Diego in a balanced pool portfolio that includes primarily publicly traded securities. The Organization has variance power over the funds. The pooled investments are categorized as Level 2 because they have no direct observable inputs.

**Note 4 – Investments, continued**

The following table summarizes the valuation of the Organization's investments in accordance with authoritative fair value guidance at June 30, 2013:

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Cash and cash equivalents | $ 281,169 | $ - | $ 281,169 |
| Domestic equities | 1,470,811 | 1,336,187 | 2,806,998 |
| International equities | 162,772 | 286,116 | 448,888 |
| Domestic fixed income | 2,042,887 | 752,157 | 2,795,044 |
| International fixed Income | 392,730 | 368,705 | 761,435 |
| Other | - | 206,474 | 206,474 |
| | $ 4,350,369 | $ 2,949,639 | $ 7,300,008 |

Investment return for the eleven month period ended June 30, 2013, consisted of the following:

| | |
|---|---|
| Interest and dividends | $ 234,826 |
| Realized and unrealized gain | 306,139 |
| Investment fees | (29,020) |
| | $ 511,945 |

**Note 5 – Property and Equipment**

Property and equipment at June 30, 2013, consisted of the following:

| | |
|---|---|
| Land | $ 5,023,695 |
| Buildings | 10,993,521 |
| Leasehold improvements | 900,731 |
| Furniture and equipment | 472,508 |
| Software | 6,369 |
| Vehicles | 102,255 |
| | 17,499,079 |
| Less accumulated depreciation | (4,597,088) |
| | $ 12,901,991 |

**Note 6 – Line of Credit**

The Organization has a line of credit with Wells Fargo Bank in the amount of $500,000 that is secured by all personal property of the Organization. Interest only is payable monthly at the greater of 1.50% above the Wall Street Journal's prime rate (3.25% at June 30, 2013) or the floor rate of 5.00%. The line of credit expires in June 2014. The Organization had no outstanding balance at June 30, 2013.

**Note 7 – Notes Payable**

Notes payable at June 30, 2013 consisted of the following:

| | |
|---|---|
| Notes payable to City of Escondido for $443,000, secured by real property, due December 2018. Annual payments of principal and interest (3.00% per annum) are due only to the extent that the Home Project provides positive cash flow. | $ 443,000 |
| Note payable to Union Bank in aggregate monthly payments of $3,182 including interest at 4.50% per annum, secured by real property, due July 2025. | 357,286 |

**Note 7 – Notes Payable, continued**

| | | |
|---|---|---|
| Note payable to an individual in aggregate monthly payments of $1,381 (interest only at 4.25% per annum), secured by real property. The principal balance is due the earlier of June 2015 or sale of the property. | | 390,000 |
| In December 2010, the Organization entered into residual receipts loan agreement with the City of Oceanside (City) for $350,000. The note bears interest at 3.00% per annum. The term is 55 years with 50.00% of the annual residual receipts paid to City for calendar years ending 2011 through 2065. All principal and accrued interest is due December 8, 2065. The City recorded a deed of trust which is subordinate to Wells Fargo Bank NA. | | 350,000 |
| Note payable to California Department of Housing and Community Development for $245,000, secured by real property, due July 2057. Annual payments of principal and interest (3.00% per annum) are due only to the extent that the CASA Program provides positive cash flow. The Development was constructed in 1964 and is made up of eight units. | | 245,000 |
| Note payable to Wells Fargo Bank in monthly payments of $1,416 including interest at 5.50% per annum, secured by real property, remaining balance of principal and interest due December 2020. | | 103,962 |
| Mortgage payable to Midland Loan Services in monthly payments of $845 including adjustable rate interest of 0.50% above bank prime rate (3.75% at June 30, 2013), secured by real property, due June 2025. | | 97,634 |
| Mortgages payable to Midland Loan Services in monthly payments of $1,060 including interest at 7.00% per annum, secured by real property, due June 2019. | | 61,221 |
| | $ | 2,048,103 |

Future principal payments on notes payable at June 30, 2013, are due as follows:

| Year Ending June 30, | | |
|---|---|---|
| 2014 | $ | 49,313 |
| 2015 | | 441,890 |
| 2016 | | 54,589 |
| 2017 | | 57,496 |
| 2018 | | 60,539 |
| Thereafter | | 1,384,276 |
| | $ | 2,048,103 |

Notes payable contain certain financial and non-financial covenants.

**Note 8 – Capital Lease**

The Organization leases solar equipment under a non-cancelable capital lease, which was included in property and equipment as of June 30, 2013, as follows:

| | | |
|---|---|---|
| Solar equipment | $ | 119,972 |
| Less accumulated depreciation | | (37,134) |
| | $ | 82,838 |

**Note 8 – Capital Lease, continued**

Depreciation expense related to this capitalized lease was approximately $16,000 for the eleven month period ended June 30, 2013.

Future minimum lease payments are as follows:

| Year Ending June 30, | | |
|---|---|---|
| 2014 | $ | 19,930 |
| 2015 | | 20,919 |
| 2016 | | 21,968 |
| 2017 | | 23,075 |
| 2018 | | 22,110 |
| Total minimum lease payments | | 108,002 |
| Amount representing interest | | (20,515) |
| Present value of minimum lease payments | $ | 87,487 |

**Note 9 – Commitments**

Operating Leases
The Organization leases space for its Coastal Service Center in Oceanside, California under a non-cancellable operating lease that expires in April 2014. The monthly lease payment is approximately $10,000. Total rent expense was approximately $112,000 for the eleven month period ended June 30, 2013.

The Organization also leases copiers under an operating lease which expired March 2013. The monthly lease payment was approximately $1,000. Total lease expense was approximately $8,000 for the eleven month period ended June 30, 2013.

Future minimum lease payments under operating leases at June 30, 2013, are due as follows:

| Year Ending June 30, | | |
|---|---|---|
| 2014 | $ | 104,650 |

**Note 10 – Contingencies**

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

Repayment Contingency
The Organization received a contribution of $463,907 from the City of Escondido that was used to purchase its headquarters which is included in property and equipment in the Statement of Financial Position. The contribution amount is to be repaid in the event that the property is sold or is no longer used for its designated purpose. The Organization has not expressed intent to sell the property and plans to continue to operate the facility consistent with its designated purpose.

Litigation
In the normal course of operations, the Organization is occasionally named as a defendant in various lawsuits. It is the opinion of management and of legal counsel that the outcome of any pending lawsuits will not materially affect the operation or the financial position of the Organization.

### Note 11 – Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following at June 30, 2013:

| | | |
|---|---|---|
| Purpose and Time Restrictions: | | |
| Employment services | $ | 52,790 |
| Oceanside purchase | | 50,000 |
| Other | | 21,529 |
| Confia en Ti | | 17,600 |
| Minor home repair | | 13,333 |
| Time Restrictions: | | |
| Unappropriated endowment earnings | | 40,566 |
| Promises to give | | 5,000 |
| | $ | 200,818 |

### Note 12 – Permanently Restricted Endowment

The Organization's donor-restricted endowment consists of pooled funds at the Jewish Community Foundation of San Diego and is established for a variety of purposes, as well as investments held at an outside broker established to serve children's needs and those of their families. 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 Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner that is consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Organization
7) The investment policies of the Organization

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 40,566 | $ 5,363,702 | $ 5,404,268 |

### Note 12 – Permanently Restricted Endowment, continued

Changes in endowment net assets for the eleven months ended June 30, 2013, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ (53,451) | $ - | $ 1,076,326 | $ 1,022,875 |
| Activity: | | | | |
| Donations | - | - | 4,287,376 | 4,287,376 |
| Interest and dividends | 140,796 | 40,566 | - | 181,362 |
| Realized and unrealized gain | 216,067 | - | - | 216,067 |
| Investment expense | (21,490) | - | - | (21,490) |
| Appropriations | (281,922) | - | - | (281,922) |
| Net Activity | 53,451 | 40,566 | 4,287,376 | 4,381,393 |
| Endowment net assets, end of year | $ - | $ 40,566 | $ 5,363,702 | $ 5,404,268 |

Return Objectives and Risk Parameters
The Organization has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowments. In order to limit risk exposure, account features such as asset allocation, diversity, duration of holding each security, return on investment, and investment quality shall be applied, measured, and reviewed.

Investment Strategy
The investment strategy of the Organization is to develop a diversified portfolio of passive investments. For equity investments, the selection of such holdings is based on the merits of long-term ownership without the intent of short-term trading. To achieve investment objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy
The Organization has a policy of appropriating for distribution annually an amount equal to 5% of the investment accounts balances as of the last day of the prior calendar year. The Organization expects the current spending policy to allow its endowment to meet the needs of the Organization. This is consistent with the Organization's objective to provide funding for the operating expenses of programs as well as to provide additional real growth through new gifts and investment return.

### Note 13 – Board Designated Long-Term

The Organization also has unrestricted funds held in a pooled account at the Jewish Community Foundation of San Diego. The Board of Directors has designated these funds to support the Organization for a long but unspecified period of time. These funds are invested in a manner similar to the permanently restricted endowment funds. All earnings related to the board designated long-term funds are recorded in the undesignated net asset balance.

| | |
|---|---|
| Board designated long-term investments, beginning of year | $ 1,874,998 |
| Board designated contributions | - |
| Board designated long-term investments, end of year | $ 1,874,998 |

**Note 14 – Pension Plan**

The Organization had a 401(k) retirement plan which covered substantially all employees 21 years of age or older who had completed one year of service as of December 31, 2012. Effective January 1, 2013 the plan was amended and covered substantially all employees 18 years of age or older who have completed three months of service. A contribution to the plan is paid monthly at a rate determined by the Board of Directors. Employee contributions to the plan are at the discretion of each eligible employee and are matched by the Organization monthly at a percentage determined by the Board of Directors. For the period January 1, 2013 through June 30, 2013 the Organization contributed approximately $64,000 to the Plan, representing a 2% employer contribution and a 2% employer match.

**Note 15 – Functional Allocation of Expenses**

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

**Note 16 – Subsequent Events**

A resolution was passed by the Board of Directors in May 2013 to merge Interfaith Community Services, Inc. and Community Resource Center. The target date for completion of the merger was June 30, 2014, at which time Community Resource Center would become a part of Interfaith Community Services, Inc. Effective July 1, 2013 the Organizations had the same Chief Executive Officer and Chief Financial Officer and identical Boards of Directors. In December 2013, the Board of Directors of Community Resource Center and Interfaith Community Services, Inc. unanimously decided to suspend the merger, but will continue to partner together whenever possible to best serve those in need within North San Diego County.

The Organization has evaluated subsequent events through December 18, 2013, which is the date the financial statements were available to be issued.

**INTERFAITH COMMUNITY SERVICES, INC.**
**Schedule of Expenditures of Federal Awards**
Eleven month period ended June 30, 2013

| Federal/Pass-Through Grantor and Program Title | Federal CFDA Number | Contract Number | Expenditures |
|---|---|---|---|
| U.S. Department of Housing and Urban Development | | | |
| Direct programs: | | | |
| Genesis I | 14.235 | CA0699B9D100801 | $ 113,633 |
| Genesis II | 14.235 | CA0700L9D011205 | 71,575 |
| Casa | 14.235 | CA0711L9D011205 | 74,503 |
| Raymond's Refuge | 14.235 | CA0944L9D011203 | 75,559 |
| Spruce Street | 14.235 | CA0710L9D011205 | 365,044 |
| Shelter Plus Care | 14.238 | CA0693C9D100801 | 159,040 |
| Pass-through from Veterans Village of San Diego: | | | |
| New Resolve | 14.235 | n/a | 51,337 |
| Veterans Homelessness Demonstration Program | 14.260 | n/a | 95,710 |
| Pass-through from County of San Diego: | | | |
| Emergency Shelter Grant | 14.231 | 523693 | 45,076 |
| Pass-through from State Department of Housing and Community Development: | | | |
| Federal Emergency Shelter Grant | 14.231 | 08-FESG-4405 | 9,837 |
| Federal Emergency Shelter Grant | 14.231 | 08-FESG-4405 | 5,531 |
| Pass-through from City of Carlsbad: | | | |
| Social Services | 14.218 | n/a | 4,418 |
| Pass-through from City of Vista: | | | |
| Senior Services | 14.218 | n/a | 8,030 |
| Pass-through from City of Escondido via North County Community Services: | | | |
| Winter Shelter - Haven House | 14.218 | n/a | 30,000 |
| | | | 1,109,293 |
| U.S. Department of Labor | | | |
| Direct program: | | | |
| Homeless Veterans Reintegration Program | 17.805 | HV-16397-07-60-5-6 | 289,234 |
| Pass-through from San Diego Workforce Partnership: | | | |
| TYA WIA Gang Prevention | 17.259 | 260-20 | 164,880 |
| Pass-through from California Employment Development Dept: | | | |
| Cal EDD WIA VEAP 25% | 17.802 | K183176 | 236,685 |
| | | | 690,799 |
| U.S. Department of Justice | | | |
| Pass-through from City of Escondido: | | | |
| Department of Justice - ECSS | 16.745 | n/a | 8,182 |
| | | | 8,182 |
| U.S. Department of Health and Human Services | | | |
| Pass-through from County of San Diego: | | | |
| Via North County Lifeline - Family Self-Sufficiency | 93.571 | 525092 | 88,410 |
| Family Self-Sufficiency Services - Inland | 93.571 | 544434 | 31,279 |
| Passed-through to Escondido Education Compact | 93.571 | 544434 | 7,424 |
| Family Self-Sufficiency Services - Coastal | 93.571 | 544433 | 20,987 |
| Passed-through to Community Resource Center | 93.571 | 544433 | 14,185 |
| Passed-through to Catholic Charities | 93.571 | 544433 | 4,080 |
| Passed-through to Vista Community Clinic | 93.571 | 544433 | 9,085 |
| Minor Home Repair | 93.052 | 525028 | 36,900 |
| | | | 212,350 |
| Department of Homeland Security | | | |
| Pass-through program from Catholic Charities: | | | |
| EFSP | 97.024 | n/a | 50,853 |
| | | | 50,853 |
| U.S. Department of Veteran Affairs | | | |
| Direct programs: | | | |
| Veterans Transitional Housing - Oceanside | 64.024 | 07-716-CA | 921,389 |
| Veterans Transitional Housing - Aster | 64.024 | 98-027-CA | 348,310 |
| Veterans Transitional Housing - Merle's Place | 64.024 | 05-016-CA | 556,889 |
| Veterans Recuperative Beds | 64.024 | VA262-P-0438 | 706,261 |
| | | | 2,532,849 |
| | | | $ 4,604,326 |

See independents auditors' report and notes to schedule of expenditures of federal awards

1. **Basis of Presentation**

   The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Organization under programs of the federal government for the eleven month period ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. **Summary of Significant Accounting Policies**

   Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. **Subrecipients**

   See Schedule of Expenditures of Federal Awards for amounts provided to subrecipients.

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

To the Audit Committee
**Interfaith Community Services, Inc.**
Escondido, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Interfaith Community Services, Inc.** ("the Organization"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the eleven month period then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-2.

We noted certain matters that we reported to management of the Organization in a separate letter dated December 18, 2013.

## The Organization’s Response to Findings

The Organization’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## 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 result 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 the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

December 18, 2013

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**Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Audit Committee
**Interfaith Community Services, Inc.**
Escondido, California

## Report on Compliance for Each Major Federal Program

We have audited the compliance of **Interfaith Community Services, Inc.** ("the Organization") compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the eleven month period ended June 30, 2013. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

## Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

## Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the eleven month period ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-2 that we consider to be a significant deficiency.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Mayer Hoffman McCann P.C.

December 18, 2013

## I. Summary of Independent Auditors' Results

*Financial Statements*

(a) The type of auditors' report issued on the basic financial statements:
**Unqualified opinion**

**Internal Control Over Financial Reporting:**

(b) Material weakness(es) identified? **No**

(c) Significant deficiency(ies) identified that are not considered to be material weaknesses? **Yes**
**See item 2013-01.**

(d) Noncompliance, material to the financial statements: **No**

*Federal Awards*

**Internal Control Over Major Programs:**

(e) Material weakness(es) identified? **No**

(f) Significant deficiency(ies) identified that are not considered to be material weaknesses? **Yes**
**See items 2013-02.**

(g) The type of auditors' report issued on compliance for major programs:
**Unqualified opinion**

(h) Any audit findings that are required to be reported under Section .510(a) of *OMB Circular A-133*: **Yes**

(i) Major Programs:

| CFDA Numbers | Name of Federal Program | Amount Expended |
|---|---|---|
| 64.024 | VA Homeless Providers Grant And Per Diem Program | $2,532,849 |

(j) Dollar threshold used to distinguish between Type A and Type B programs:
**$300,000**

(k) Auditee qualified as a low-risk auditee under Section 530 of *OMB Circular A-133* **No**

**II.** Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

**Item:** **2013-01**

**Subject:** **Notes Payable**

**Condition, Criteria, Effect:**
While **Interfaith Community Services, Inc.** monitored non-financial and compliance covenant requirements during the year, in two cases, required compliance information was submitted late. The result of not providing timely reporting to funding sources could have a potential impact on the Organization's relationship with these sources.

**Recommendation:**
There needs to be an understanding of all loan covenants at a level higher than the program managers and procedures implemented to ensure oversight of this process. Additionally, as new agreements are entered into, procedures need to be implemented to communicate those requirements and develop the oversight process. We recommend that the Organization educate its staff as to the risks associated with non-compliance of these covenants.

**Corrective Action Plan:**
The Organization will continue to monitor the non-financial and compliance covenant requirements and submit the required reporting on a timely fashion.

**III.** Findings Relating to the Federal Awards and Questioned Costs:

**Item:** **2013-02**

**Agency:** VA Homeless Providers Grant and Per Diem Program, CFDA # 64.024,
U.S Department of Veteran Affairs

**Award(s):** Veterans Recuperative Beds, 10/1/12 – 9/30/13, VA262-12-R-0581

**Subject:** Daily Sign-in Log

**Condition, Criteria, Effect:**
We noted that the grant agreements and the GPD Guide Capital Grant Recipient stated, "Periodically, liaisons should verify invoices by asking to see the supporting documentation, (i.e., daily sign-in log, or other documentation showing that the Veteran was present and receiving services on that day)". MHM noted that the above specific requirement is not being fulfilled in one of the four VA programs listed above. Out of a sample of 10 individuals selected for testing, 2 had not signed in one day for the period selected for testing, which was a month or less. These individuals also did not sign a certification that they had received services for the days that they had not signed in.

**Recommendation:**
We recommend having the sign in sheets audited for missing signatures (as is currently being done in three of the four programs) and then monthly during their meeting with the Case Managers having program participants with missing signatures sign a certification stating that, although they did not sign-in for X number of days during the month (billing period), they did receive services.

**Corrective Action Plan:**
The Organization has implemented a program-wide standard operating procedure of sign-in logs that include daily, weekly, and monthly audits by responsible leaders and managers including the resident managers, case managers, and program manager. The Organization has also established joint bi-monthly audits by the VA Liaison and the Program Manager. Corrective actions to missing signatures mandate responsible managers to issue and ensure residents sign an absentee form to certify the number of days of occupancy and services received.

**Questioned Costs:** N/A

## IV. Summary Schedule of Prior Audit Findings

**A.** Findings Relating to the Financial Statements Prepared in Accordance with Government Auditing Standards:

**Item:** **2012-01**

**Subject:** **Notes Payable**

**Condition, Criteria, Effect:**
**North County Interfaith Council, Inc.** was unable to provide timely support that the non-financial and compliance covenant requirements were monitored during the year to make sure that the Organization is in compliance with all applicable loan covenants. The result of not having documented controls in place to incoming finance employees could have a potential impact on the Organization's relationship with its funding sources. Near the end of audit fieldwork, a summary of the non-financial and compliance covenant requirements was provided documenting the current status of applicable loan covenants.

**Recommendation:**
There needs to be an understanding of all loan covenants at a level higher than the program managers and procedures implemented to ensure oversight of this process. Additionally, as new agreements are entered into, procedures need to be implemented to communicate those requirements and develop the oversight process. We recommend that the Organization educate its staff as to the risks associated with non-compliance of these covenants.

**Current Status:**
Finding is repeated see 2013-01 above.

**B.** Findings Relating to the Federal Awards and Questioned Costs:

**Item:** **2012-02**

**Agency:** VA Homeless Providers Grant and Per Diem Program, CFDA # 64.024,
U.S Department of Veteran Affairs

**Award(s):** Veterans Transitional Housing - Oceanside, 4/1/11 – 3/31/12, 07-716-CA

Veterans Transitional Housing - Aster, 4/1/11 – 3/31/12, 98-027-CA

Veterans Transitional Housing - Merle's Place, 4/1/11 – 3/31/12, 05-016-CA

Veterans Recuperative Beds, 7/1/11 – 3/31/12, VA262-P-0438

**Subject:** Daily Sign-in Log

**Condition, Criteria, Effect:**
We noted that the grant agreements and the GPD Guide Capital Grant Recipient stated, "Periodically, liaisons should verify invoices by asking to see the supporting documentation, (i.e., daily sign-in log, or other documentation showing that the Veteran was present and receiving services on that day)". MHM noted that the above specific requirement is not being fulfilled in one of the four VA programs listed above. Out of a sample of 40 individuals selected for testing, 4 had not signed in every day for the period selected for testing, which was a month or less. These individuals also did not sign a certification that they had received services for the days that they had not signed in.

Additionally, MHM noted that in determining that a client is eligible to receive assistance under this program the VA liaison will sign the Referral, Admissions and Transfer **(RAT)** form. Out of a sample of 40 individuals selected for testing, 2 did not have the signature of the VA liaison on the RAT form.

**Recommendation:**
We recommend having the sign in sheets audited for missing signatures (as is currently being done in three of the four programs) and then monthly during their meeting with the Case Managers having program participants with missing signatures sign a certification stating that, although they did not sign-in for X number of days during the month (billing period), they did receive services.

Additionally, we recommend that a supervisory review of files is in place to ensure that all RAT forms are appropriately signed by the VA liaison prior to clients being admitted to the program.

**Current Status:**
All RAT's selected for testing had VA liaison signatures. Remainder of finding is repeated see 2013-02 above.

**Questioned Costs:** N/A

STATE OF CALIFORNIA
**Annual Report**
**Actual Operating Costs**
AMC 180 (Rev. Oct 2009)

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

# FAMILIES MOVING TO WORK (FMTW)

## 8. REPORT OF ACTUAL OPERATING COSTS

Reporting Period: 8/1/2012 to 06/30/2013

Contract No: 99-FMTW-010
Project Name: CASAWorks Apartments
Prepared by:
Date Prepared:

Units -- Assisted: 8
Units -- Total: 8
Unit Months: 96

| ACCOUNT NAME | ACCOUNT CODES | UNIT EXPENSES: Approved Assisted (A) | Actual Assisted | Approved Non-Assisted | Actual Non-Assisted | Proposed Commercial | Actual Commercial | PROJECT TOTALS: Approved Total Expenses | Total Actual Expenses (B) | Project Variance (C) |
|---|---|---|---|---|---|---|---|---|---|---|
| **MANAGEMENT FEE: 6200/6300** | | | | | | | | | | |
| 1 Management Fee or Sponsor Overhead | 6320 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **ADMINISTRATIVE EXPENSES: 6200/6300** | | | | | | | | | | |
| 2 Advertising | 6210 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 Apartment Resale Expense (Cooperatives) | 6235 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 Other Renting Expenses | 6250 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 Office Salaries | 6310 | 0 | 3,602 | 0 | 0 | 0 | 0 | 0 | 3,602 | (3,602) |
| 6 Office Supplies | 6311 | 0 | 701 | 0 | 0 | 0 | 0 | 0 | 701 | (701) |
| 7 Office or Model Apartment Rent | 6312 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 Manager and Superintendent Salaries | 6330 | 0 | 21,615 | 0 | 0 | 0 | 0 | 0 | 21,615 | (21,615) |
| 9 Manager's or Superintendent's Rent Free Unit | 6331 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 Legal Expense - Project | 6340 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 Audit Expense - Project | 6350 | 0 | 6,691 | 0 | 0 | 0 | 0 | 0 | 6,691 | (6,691) |
| 12 Bookkeeping Fees/Accounting Services | 6351 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 Telephone and Answering Service Expenses | 6360 | 0 | 506 | 0 | 0 | 0 | 0 | 0 | 506 | (506) |
| 14 Bad Debt Expense | 6370 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 Miscellaneous Administrative Expenses (specify) | 6390 | 0 | 333 | 0 | 0 | 0 | 0 | 0 | 333 | (333) |
| 16 **TOTAL ADMINISTRATIVE EXPENSES** | **6200/6300T** | 0 | 33,448 | 0 | 0 | 0 | 0 | 0 | 33,448 | (33,448) |
| **UTILITIES EXPENSES: 6400** | | | | | | | | | | |
| 17 Fuel Oil/Coal | 6420 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 Electricity | 6450 | 0 | 2,379 | 0 | 0 | 0 | 0 | 0 | 2,379 | (2,379) |
| 19 Water | 6451 | 0 | 5,244 | 0 | 0 | 0 | 0 | 0 | 5,244 | (5,244) |
| 20 Gas | 6452 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 Sewer | 6453 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 22 **TOTAL UTILITIES EXPENSES** | **6400T** | 0 | 7,623 | 0 | 0 | 0 | 0 | 0 | 7,623 | (7,623) |
| **OPERATING AND MAINTENANCE EXPENSES: 6500** | | | | | | | | | | |
| 23 Janitor and Cleaning Payroll | 6510 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 24 Janitor and Cleaning Supplies | 6515 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 Janitor and Cleaning Contracts | 6517 | 0 | 633 | 0 | 0 | 0 | 0 | 0 | 633 | (633) |
| 26 Exterminating Payroll/Contract | 6519 | 0 | 427 | 0 | 0 | 0 | 0 | 0 | 427 | (427) |
| 27 Exterminating Supplies | 6520 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 28 Garbage and Trash Removal | 6525 | 0 | 3,006 | 0 | 0 | 0 | 0 | 0 | 3,006 | (3,006) |
| 29 Security Payroll/Contract | 6530 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 Grounds Payroll | 6535 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 31 Grounds Supplies | 6536 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 32 Grounds Contract | 6537 | 0 | 3,341 | 0 | 0 | 0 | 0 | 0 | 3,341 | (3,341) |
| 33 Repairs Payroll | 6540 | 0 | 2,573 | 0 | 0 | 0 | 0 | 0 | 2,573 | (2,573) |
| 34 Repairs Material | 6541 | 0 | 5,907 | 0 | 0 | 0 | 0 | 0 | 5,907 | (5,907) |
| 35 Repairs Contract | 6542 | 0 | 11,260 | 0 | 0 | 0 | 0 | 0 | 11,260 | (11,260) |
| 36 Elevator Maintenance/Contract | 6545 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 37 Heating/Cooling Repairs and Maintenance | 6546 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 38 Swimming Pool Maintenance/Contract | 6547 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 39 Snow Removal | 6548 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 Decorating/Payroll Contract | 6560 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 41 Decorating Supplies | 6561 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 42 Vehicle and Maint. Equipment Operation/Repairs | 6570 | 0 | 1,065 | 0 | 0 | 0 | 0 | 0 | 1,065 | (1,065) |
| 43 Misc. Operating and Maintenance Expenses (specify) | 6590 | 0 | 3,962 | 0 | 0 | 0 | 0 | 0 | 3,962 | (3,962) |
| 44 **TOTAL OPERATING & MAINTENANCE EXPENSES** | **6500T** | 0 | 32,174 | 0 | 0 | 0 | 0 | 0 | 32,174 | (32,174) |
| **TAXES AND INSURANCE: 6700** | | | | | | | | | | |
| 45 Real Estate Taxes | 6710 | 0 | 72 | 0 | 0 | 0 | 0 | 0 | 72 | (72) |
| 46 Payroll Taxes (Project's Share) | 6711 | 0 | 4,695 | 0 | 0 | 0 | 0 | 0 | 4,695 | (4,695) |
| 47 Misc. Taxes, Licenses and Permits | 6719 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 48 Property and Liability Insurance (Hazard) | 6720 | 0 | 2,109 | 0 | 0 | 0 | 0 | 0 | 2,109 | (2,109) |
| 49 Fidelity Bond Insurance | 6721 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 Worker's Compensation | 6722 | 0 | 1,033 | 0 | 0 | 0 | 0 | 0 | 1,033 | (1,033) |
| 51 Health Insurance and Other Employee Benefits | 6723 | 0 | 9,661 | 0 | 0 | 0 | 0 | 0 | 9,661 | (9,661) |
| 52 Other Insurance | 6729 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 53 **TOTAL TAXES AND INSURANCE** | **6700T** | 0 | 17,570 | 0 | 0 | 0 | 0 | 0 | 17,570 | (17,570) |
| **ASSISTED LIVING/BOARD & CARE EXPENSES; 6900** | | | | | | | | | | |
| 54 Food | 6932 | 0 | 1,006 | 0 | 0 | 0 | 0 | 0 | 1,006 | (1,006) |
| 55 Recreation and Rehabilitation | 6980 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 56 Rehabilitation Salaries | 6983 | 0 | 23,674 | 0 | 0 | 0 | 0 | 0 | 23,674 | (23,674) |
| 57 Other Service Expenses | 6990 | 0 | 14,886 | 0 | 0 | 0 | 0 | 0 | 14,886 | (14,886) |
| 58 **TOTAL ASSISTED LIVING EXPENSES** | **6900T** | 0 | 39,566 | 0 | 0 | 0 | 0 | 0 | 39,566 | (39,566) |
| 61 **TOTAL OPERATING COSTS** | | **0** | **130,381** | **0** | **0** | **0** | **0** | **0** | **130,381** | **(130,381)** |

## FAMILIES MOVING TO WORK (FMTW)

### 9. ACTUAL CASH FLOW ANALYSIS

Reporting Period: 08/01/2012 to 06/30/2013

Contract No: 99-FMTW-010
Project Name: CASAWorks Apartments
Prepared by:
Date Prepared:

Units -- Assisted: 8
Units -- Total: 8
Unit Months: 96

| ACCOUNT NAME | Account Codes | ASSISTED UNITS Approved Cashflow (A) | ASSISTED UNITS Actual Cashflow (B) | NON-ASSISTED UNITS Approved Cashflow (C) | NON-ASSISTED UNITS Actual Cashflow (D) | COMMERCIAL Proposed Cashflow (E) | COMMERCIAL Actual Cashflow (F) | TOTAL PROJECT Approved Cashflow (G) | TOTAL PROJECT Actual Cashflow (H) | PROJECT VARIANCE Cashflow Variance (I) |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUE ACCOUNTS/RENT REVENUE: 5100** | | | | | | | | | | |
| 1 Rent Revenue | 5120 | 0 | 12,454 | 0 | 0 | 0 | 0 | 0 | 12,454 | 12,454 |
| 2 Tenant Assistance Payments | 5121 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 Rent revenue - Stores and Commercial | 5140 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 Garage and Parking Spaces | 5170 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 Flexible Subsidy Revenue | 5185 | 0 | 106,293 | 0 | 0 | 0 | 0 | 0 | 106,293 | 106,293 |
| 6 Miscellaneous Rent Revenue | 5190 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 Excess Rent | 5191 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 Rent Revenue/Insurance | 5192 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 Special Claims Revenue | 5193 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 Retained Excess Income | 5194 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 **GROSS RENT REVENUE** | **5100T** | **0** | **118,747** | **0** | **0** | **0** | **0** | **0** | **118,747** | **118,747** |
| ***Total Vacancies (HCD Use Only)*** | **5200T** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **ASSISTED LIVING/BOARD & CARE REVENUES: 5300** | | | | | | | | | | |
| 17 Food | 5332 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 Recreation (Activities) and Rehabilitation | 5380 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 Rehabilitation | 5385 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 Other Service Revenue | 5390 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Total Living Revenue*** | ***6300T*** | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| **FINANCIAL REVENUE: 5400** | | | | | | | | | | |
| 21 Financial Revenue - Project Operations | 5410 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Total Financial Revenue*** | ***5400T*** | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| **OTHER REVENUE: 5900** | | | | | | | | | | |
| 22 Laundry and Vending Revenue | 5910 | 0 | 530 | 0 | 0 | 0 | 0 | 0 | 530 | 530 |
| 23 NSF and Late Charges | 5920 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 24 Damages and Cleaning Fees | 5930 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 Forfeited Tenant Security Deposits | 5940 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 Other Revenue | 5990 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Total Other Revenue*** | ***5900T*** | *0* | *530* | *0* | *0* | *0* | *0* | *0* | *530* | *530* |
| 27 **EFFECTIVE GROSS RENT (EGR)** | **5152T** | **0** | **119,277** | **0** | **0** | **0** | **0** | **0** | **119,277** | **119,277** |
| 28 **TOTAL OPERATING EXPENSES** | **6000T** | **0** | **130,381** | **0** | **0** | **0** | **0** | **0** | **130,381** | **(130,381)** |
| 29 **NET OPERATING INCOME (NOI)** | **5000T** | **0** | **(11,104)** | **0** | **0** | **0** | **0** | **0** | **(11,104)** | **(11,104)** |
| **FINANCIAL EXPENSES: 6800** | | | | | | | | | | |
| 30 Non-Contingent Debt Service (specify lender) | 6895 | | | | | | | | | |
| *1st Mortgage =* | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *2nd Mortgage=* | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *3rd Mortgage=* | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 31 HCD Required Payments | 6890 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 32 Lease Payment | 6890 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 33 Miscellaneous Financial Expenses | 6890 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Total Financial Expenses*** | ***6800T*** | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| **FUNDED RESERVES:** | 1300 | | | | | | | | | |
| 34 Escrow Deposits | 1310 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35 Replacement Reserve-Deposit | 1320 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 36 Operating Reserve-Deposit | 1300 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 37 Other Reserves (specify) | | | | | | | | | | 0 |
| *#1* | 1330 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *#2* | 1330 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *#3* | 1330 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Total Reserve Deposits*** | | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| 38 **PROJECT CASH FLOW (CF)** | | **0** | **(11,104)** | **0** | **0** | **0** | **0** | **0** | **(11,104)** | **(11,104)** |
| **ADDITIONAL REVENUE:** | | | | | | | | | | |
| 39 (not used) | | 0 | 0 | | | | | 0 | 0 | 0 |
| 40 Withdrawal from Operating Reserves | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 41 Borrower Contribution | | 0 | 11,104 | 0 | 0 | 0 | 0 | 0 | 11,104 | 11,104 |
| 42 Other (specify) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Total Additional Revenue*** | | 0 | 11,104 | 0 | 0 | 0 | 0 | 0 | 11,104 | 11,104 |
| **USE OF CASH FLOW:** | | | | | | | | | | |
| 43 HCD Interest Payments | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 Asset Mgmt Fee/Prtrshp Costs (MHP/HOME under UMR) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 46 Borrower Distributions | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 47 Residual Receipt Loan Payments | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 48 Other (specify) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Total Use of Cash Flow*** | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## AMC 182 - RESERVE AND OTHER ACCOUNT BALANCES

**Project Name:** CASA Works Apartments
**HCD Contract #(s):** 99-FMTW-010
**Prepared By:** Joseph Stemmler
**Date Prepared:** 11/7/13
**Reporting period - from (mm/dd/yy):** 8/1/12
**Reporting period - to (mm/dd/yy):** 6/30/13

**Please complete the following table with the appropriate amounts *for each Account*.**
***For CHRP-R, DDS, HCD HOME CHDO & SUHRP Projects-attach corresponding reserve account bank statements.***

| | Operating Reserve Account | Replacement Reserve Account | Transition Reserve Account | Other Reserve (specify) | Tenant Security Deposits |
|---|---|---|---|---|---|
| **Account Numbers:** | | | | | |
| **Annual Required Deposits** | | | | | |
| ***A. Beginning Account Balance:*** | | | | | $ 302 |
| Actual Deposits (if different than required Deposits, explain below) | | | | | |
| Security Deposits Received | | | | | $ - |
| Interest Earned | | | | | |
| ***Section A Subtotal:*** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 302** |

**Explanation of Deposits:**

***B. Withdrawals (enter withdrawal request number, date and amount below):***

| Withdrawal Request Number | Date of Withdrawal from Account | Operating Reserve | Replacement Reserve | Transition Reserve | Other Reserve | Tenant Security Deposits |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Bank Charges/Fees Paid | | | | | | |
| Other Debits/Reductions (explain below) | | | | | | |
| Security Deposit Amounts Returned to Tenants | | | | | | $ - |
| Security Deposit Amounts Deducted for Tenant Accounts Receivable | | | | | | |
| Interest Paid upon Move-Out | | | | | | |
| ***Section B Subtotal:*** | | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| ***C. Ending Account Balance:*** | | **$ -** | **$ -** | **$ -** | **$ -** | **$ 302** |

**Explanation of Withdrawals (include explanation of withdrawals made without HCD approval):**

**Additional Requested Information (explain any "No" and "N/A" answers):**

| Item | Yes | No | N/A | Comments |
|---|---|---|---|---|
| 1. **Operating Reserves:** Have deposits been made as required by HCD? | ○ | ◉ | ○ | No project cashflow for the period |
| 2. **Replacement Reserves:** Have deposits been made as required by HCD? | ○ | ◉ | ○ | No project cashflow for the period |
| 3. **Transition Reserves:** Have deposits been made as required by HCD? | ○ | ○ | ◉ | |
| 4. **Other Reserves (specify):** Have deposits been made as required by HCD? | ○ | ○ | ◉ | |
| 5. **Reserve Accounts:** Are all Accounts insured by the Federal Government? | ○ | ○ | ◉ | |
| 6. **Reserve Accounts:** Was HCD approval obtained prior to Account withdrawals? | ○ | ○ | ◉ | |
| 7. **Security Deposit Account:** Balance equal to/greater than security deposit liability plus interest? | ○ | ◉ | ○ | Security deposits are minimal. They are accounted for separately but not maintained in separate bank account due to the cost of such account. |