

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
INTERFAITH COMMUNITY SERVICES, INC.
JUNE 30, 2015**

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INDEPENDENT AUDITORS' REPORT

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

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, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Managements' 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' judgement, 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 Organization'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 Organization'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.

INDEPENDENT AUDITORS' REPORT

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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, 2015, and the changes in its cash flows for the year 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 March 15, 2016, 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.

INDEPENDENT AUDITORS' REPORT

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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 8, CASAWorks Apartments 99-FMTW-010, statement of operations on page 38-39 and CASAWorks Apartments 99-FMTW-010, statement of cash flows on page 40, 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.

Gurrera & Associates
GURRERA & ASSOCIATES

San Diego, California
March 15, 2016

INTERFAITH COMMUNITY SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS

ASSETS:	
Cash	\$ 839,031
Contracts receivable	769,719
Prepaid expenses and other current assets	165,076
Unamortized donated rent	213,201
Promises to give	148,300
Investments	7,337,156
Property and equipment, net of accumulated depreciation	<u>12,838,474</u>
TOTAL ASSETS	<u>\$ 22,310,957</u>

LIABILITIES AND NET ASSETS

LIABILITIES:	
Accounts payable	\$ 145,977
Accrued expenses	523,287
Accrued interest	431,824
Capital lease	59,052
Notes payable	<u>1,946,937</u>
Total Liabilities	3,107,077
NET ASSETS:	
Unrestricted:	
Undesignated	11,281,558
Board designated long-term	<u>1,874,998</u>
	13,156,556
Temporarily restricted	683,622
Permanently restricted	<u>5,363,702</u>
Total Net Assets	<u>19,203,880</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,310,957</u>

See notes to financial statements and independent auditors' report.

INTERFAITH COMMUNITY SERVICES, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE and SUPPORT:				
Federal contract revenue	\$ 5,186,623	\$ -0-	\$ -0-	\$ 5,186,623
Other contract revenue	600,112	-0-	-0-	600,112
Contributions	3,428,672	385,011	-0-	3,813,683
In-kind donations	936,844	-0-	-0-	936,844
Rental income	374,855	-0-	-0-	374,855
Investment return	(19,326)	-0-	-0-	(19,326)
Other income	108,151	-0-	-0-	108,151
Gain on the disposal of fixed assets	94,414	-0-	-0-	94,414
Net assets released from restrictions, satisfaction of program restrictions	1,016,317	(1,016,317)	-0-	-0-
Total Revenue and Support	11,726,662	(631,306)	-0-	11,095,356
EXPENSES:				
Program Services:				
Nutrition	380,586	-0-	-0-	380,586
Self sufficiency & supportive services	2,558,439	-0-	-0-	2,558,439
Housing & shelters	4,378,546	-0-	-0-	4,378,546
Employment services	1,405,781	-0-	-0-	1,405,781
Behavioral health & recovery	271,934	-0-	-0-	271,934
Other community services	81,106	-0-	-0-	81,106
Total Program Services	9,076,392	-0-	-0-	9,076,392
Supporting Services:				
Management and general	985,857		-0-	985,857
Fundraising	525,188	-0-	-0-	525,188
Total Supporting Services	1,511,045	-0-	-0-	1,511,045
TOTAL EXPENSES	10,587,437	-0-	-0-	10,587,437
Increase (decrease) in net assets	1,139,225	(631,306)	-0-	507,919
Net Assets - Beginning of year	12,017,331	1,314,928	5,363,702	18,695,961
Net Assets - End of year	\$ 13,156,556	\$ 683,622	\$ 5,363,702	\$ 19,203,880

See notes to financial statements and independent auditors' report.

INTERFAITH COMMUNITY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2015

	<u>Program Services</u>							<u>Supporting Services</u>			<u>Total Functional Expenses</u>
	<u>Nutrition</u>	<u>Self Sufficiency and Supportive Services</u>	<u>Housing & Shelter</u>	<u>Employment Services</u>	<u>Behavioral Health & Recovery</u>	<u>Other Community Services</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Wages, salaries, contract labor, and employee benefits	\$ 183,765	\$ 1,011,738	\$ 2,544,014	\$ 1,092,296	\$ 206,741	\$ 72,039	\$ 5,110,593	\$ 685,743	\$ 367,115	\$ 1,052,858	\$ 6,163,451
Living assistance	114,610	450,165	674,438	50,087	39,706	-0-	1,329,006	-0-	-0-	-0-	1,329,006
Training and employment assistance	216	915	3,786	149,961	-0-	-0-	154,878	-0-	-0-	-0-	154,878
Office	16,144	101,763	358,753	45,271	9,191	7,677	538,799	119,314	123,967	243,281	782,080
Depreciation	17,210	7,164	406,938	4,408	5,112	-0-	440,832	4,112	2,755	6,867	447,699
Interest	-0-	-0-	79,334	-0-	242	-0-	79,576	-0-	-0-	-0-	79,576
Operations and support services	41,699	949,845	244,542	39,152	6,456	-0-	1,281,694	1,325	1,104	2,429	1,284,123
Other	6,942	36,849	66,741	24,606	4,486	1,390	141,014	175,363	30,247	205,610	346,624
Total Expenses	<u>\$ 380,586</u>	<u>\$ 2,558,439</u>	<u>\$ 4,378,546</u>	<u>\$ 1,405,781</u>	<u>\$ 271,934</u>	<u>\$ 81,106</u>	<u>\$ 9,076,392</u>	<u>\$ 985,857</u>	<u>\$ 525,188</u>	<u>\$ 1,511,045</u>	<u>\$ 10,587,437</u>
% of total expense by activity	3.6%	24.2%	41.4%	13.3%	2.6%	0.8%	85.7%	9.3%	5.0%	14.3%	100.0%

See notes to financial statements and independent auditors' report.

INTERFAITH COMMUNITY SERVICES, INC.
STATEMENT OF CASH FLOWS
For the year ended June 30, 2015

	2015
CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 507,919
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	447,699
Realized gain on the sale of properties and equipment	(94,414)
Realized and unrealized loss on investments	54,535
Contribution of securities	(20,260)
Changes in operating assets and liabilities:	
Contracts receivable	(144,224)
Prepaid expenses and other current assets	(190,128)
Accounts payable	44,908
Accrued expenses	104,576
Accrued interest	31,140
Net cash provided by operating activities	741,751
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(1,029,615)
Sale of property and equipment	475,985
Purchase of investments	(500,000)
Proceeds from sales of investments	403,785
Net cash used by investing activities	(649,845)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on capital lease	(15,314)
Payments on notes payable	(51,873)
Net cash used by financing activities	(67,187)
NET INCREASE IN CASH	24,719
CASH, BEGINNING OF YEAR	814,312
CASH, END OF YEAR	\$ 839,031
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Interest paid	\$ 48,436

See notes to financial statements and independent auditors' report.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

Interfaith Community Services, Inc., (the "Organization") is a non-profit corporation established in August 1982 to assist persons 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.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)
June 30, 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(Continued)

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.

The carrying values of cash, receivables, and payable approximate fair value as of June 30, 2015, 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.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)
June 30, 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES
(Continued)

CONTRACTS RECEIVABLE

The contracts receivable arise in the normal course of operations. It is the policy of management to review the outstanding receivable 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, 2015, 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, see Note E. 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, 2015, because management believes that all amounts are collectible.

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, 2015, 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.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)
June 30, 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

PROPERTY AND EQUIPMENT

Acquisitions of property and equipment of \$5,000 or more are capitalized. Property and equipment are stated at cost, or if donated, at the approximate fair market value at 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 from 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.

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.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)
June 30, 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

INCOME TAXES

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

All tax-exempt Organizations 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 Organization under Internal Revenue Code Section and applicable state statutes.

At June 30, 2015, the federal statute of limitations remains open for the 2012 through 2015 tax years. The statute of limitations for the state income tax returns remains open for the 2011 through 2015 tax years.

NOTE B - 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 C - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets at June 30, 2015, consisted of the following:

Deposits	\$ 17,293
Prepaid insurance	47,441
Other accounts receivable	<u>100,342</u>
Total prepaid expenses and other current assets	<u>\$ 165,076</u>

NOTE D - UNAMORTIZED DONATED RENT

In January 2014, the Organization entered into a ten year agreement with Veteran's Association of North County to provide Veterans services in exchange for free rent at 1617 Mission Avenue, Oceanside, CA. This agreement expires January 30, 2024. The Organization began providing services at this location on April 1, 2014.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE D - UNAMORTIZED DONATED RENT - (Continued)

The unamortized donated rent of \$213,201 represents the fair market value of the rent for the remaining 103 months of this agreement discounted by five percent.

NOTE E - PROMISES TO GIVE

Promises to give at June 30, 2015, consisted of the following:

Due in one year or less	\$ 71,700
Due after one year through five years	<u>76,600</u>
 Total promises to give	 <u>\$ 148,300</u>

No allowance was considered necessary at June 30, 2015, because management believes that all amounts are collectible. No discount was imputed at June 30, 2015, because management determined the amount of imputed interest to be insignificant.

NOTE F - 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.

The following table summarizes the valuation of the Organization's investments in accordance with authoritative fair value guidance at June 30, 2015:

	Level 1	Level 2	Total
Cash and cash equivalents	\$ 42,920	\$ -0-	\$ 42,920
Domestic equities	1,734,937	786,506	2,521,443
International equities	1,034,333	961,287	1,995,620
Domestic fixed income	1,410,352	786,505	2,196,857
International fixed income	-0-	373,665	373,665
Other	101,181	105,470	206,651
	<u>\$ 4,323,723</u>	<u>\$ 3,013,433</u>	<u>\$ 7,337,156</u>

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE F - INVESTMENTS - (Continued)

Investment return for the year ended June 30, 2015, consisted of the following:

Interest and dividends	\$ 232,668
Realized and unrealized gain	(252,000)
Investment fees	(35,203)
	<u>\$ (54,535)</u>

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015, consisted of the following:

Land	\$ 5,364,805
Buildings	10,727,894
Construction of progress	418,538
Leasehold improvements	603,013
Furniture and equipment	415,000
Software	6,369
Vehicles	153,260
	<u>17,688,879</u>
Less accumulated depreciation	(4,850,405)
	<u>\$ 12,838,474</u>

NOTE H - 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, 2015) or the floor rate of 5.00%. The line of credit expires in June 2016. The Organization had no outstanding balance at June 30, 2015.

NOTE I - NOTES PAYABLE

Notes payable at June 30, 2015, 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. There were no payments made during the year ended June 30, 2015. \$ 443,000

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE I - NOTES PAYABLE - (Continued)

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. 311,104

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. The noted was refinanced in February 2016. 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. There were no payments made during the year ended June 30, 2015. 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. 80,337

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, 2015) secured by real property due June 2025. 84,309

INTERFAITH COMMUNITY SERVICES, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2015

NOTE I - NOTES PAYABLE - (Continued)

Mortgage 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.

43,187
\$ 1,946,937

Future principal payments on notes payable at June 30, 2015, are due as follows:

Year Ending <u>June 30,</u>	
2016	\$ 444,586
2017	57,495
2018	60,518
2019	505,267
2020	53,803
Thereafter	825,268
	<u>\$ 1,946,937</u>

Notes payable contain certain financial and non-financial covenants for which the Organization was in compliance with as of June 30, 2105.

NOTE J - CAPITAL LEASE

The Organization leases solar equipment under a non-cancelable capital lease, which was included in property and equipment as of June 30, 2015, as follows:

Solar equipment	\$ 119,972
Less accumulated depreciation	<u>(71,411)</u>
	<u>\$ 48,561</u>

Depreciation expense related to this capitalized lease was approximately \$17,139 for the year ended June 30, 2015.

Future minimum lease payments are as follows:

Year Ending <u>June 30,</u>	
2016	\$ 21,968
2017	23,075
2018	22,110
Total minimum lease payments	<u>67,153</u>
Amount representing interest	<u>(8,101)</u>
Present value of minimum lease payments	<u>\$ 59,052</u>

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE K - COMMITMENTS

Operating Leases

The Organization leases space for its Coastal Service Center in Oceanside, California under an operating lease which expires in April 2019. The monthly lease payment was approximately \$990. Total rent expense was \$11,880 for the year ended June 30, 2015.

The Organization entered into an operating lease for office space for senior programs and administrative offices which expires in August 2018. The monthly lease payment was approximately \$2,293. Total lease expense was \$2,293 for the year ended June 30, 2015.

The Organization entered into a non-cancellable vehicle lease for a van which expires in August 2016. The monthly lease payment was \$391. Total lease expense was \$692 for the year ended June 30, 2015.

Future minimum lease payments under operating leases at June 30, 2015, are due as follows:

<u>Year Ending</u> <u>June 30,</u>	
2016	\$ 57,024
2017	55,963
2018	56,481
2019	<u>17,513</u>
Total lease payments	<u>\$ 186,981</u>

NOTE L - CONTINGENCIES

Grants and Contracts

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

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.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE L - CONTINGENCIES - (Continued)

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 M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following at June 30, 2015:

Purpose Restrictions:	
Transitional Youth Academy	\$ 125,708
Teens teaching tech	50,276
Veteran behavioral health	43,770
Senior services	25,542
Year round shelter	17,399
North County Labor Connection	15,000
Other	10,134
Time Restrictions:	
Unappropriated endowment earnings	34,292
Unamortized donated rent	213,201
Promises to give	148,300
	<u>\$ 683,622</u>

NOTE N - 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.

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE N - PERMANENTLY RESTRICTED ENDOWMENT - (Continued)

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, 2015, the endowment net asset composition by type of fund, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -0-	\$ 34,292	\$ 5,363,702	\$ 5,397,994

Changes in endowment net assets for the year ended June 30, 2015, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -0-	\$ 368,553	\$ 5,363,702	\$ 5,732,255
Activity:				
Donations	-0-	-0-	-0-	-0-
Interest and dividends	-0-	162,611	-0-	162,611
Realized and unrealized losses	-0-	(187,454)	-0-	(187,454)
Investment expense	-0-	(27,150)	-0-	(27,150)
Appropriations	-0-	(282,268)	-0-	(282,268)
Net Activity	-0-	(334,261)	-0-	(334,261)
Endowment net assets, end of year	\$ -0-	\$ 34,292	\$ 5,363,702	\$ 5,397,994

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE N - PERMANENTLY RESTRICTED ENDOWMENT - (Continued)

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) are 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 O - 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	\$ 1,374,998
Board designated contributions	500,000
Board releases	<u>-0-</u>
Board designated long-term investments, end of year	<u>\$ 1,874,998</u>

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE P - PENSION PLAN

The Organization has a 401(k) retirement plan which covers 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 year ended June 30, 2015, the Organization contributed at a rate of 1% employer contribution and a 1% employer match. The total employer contributions to the Plan for the year ended June 30, 2015, were \$64,126.

NOTE Q - 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 benefitted.

NOTE R - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 15, 2016, which is the date the financial statements were available to be issued.

The Organization established a line of credit with First Citizens Bank on July 13, 2015, 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, 2015) or the floor rate of 5.00%. The line of credit will expire in July 2016.

The Organization secured a note payable from First Citizens Bank on July 13, 2015, in the amount of \$2,000,000 that is collateralized by real property. Interest only is payable monthly at the Wall Street Journal's prime rate (3.25% at June 30, 2015) through April 2016. Beginning May 2016, the Organization will make monthly payments of principal and interest in the amount of \$11,390 due April 2021.

The Organization refinanced the \$390,000 note payable to an individual with a \$330,000 note payable to First Citizens Bank which is collateralized by real property. The note requires monthly payments of \$2,476 which includes interest at a fixed rate of 4.15%. The note is due February 2031.

INTERFAITH COMMUNITY SERVICES, INC.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

<u>Federal/Pass-Through Grantor & Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>U.S Department Of Housing and Urqban Development</u>			
Direct programs:			
Continuum of Care Program - Genesis I	14.235	CA0699B9D011104	\$ 105,704
Continuum of Care Program - Genesis II	14.235	CA0700L9D011205	62,301
Continuum of Care Program - CasaWorks	14.235	CA0711L9D011205	75,949
Continuum of Care Program - Raymond's Refuge	14.235	CA0944L9D011203	78,376
Continuum of Care Program - Spruce Street	14.235	CA0710L9D011205	90,366
Pass-through from County of San Diego:			
Continuum of Care Program - Shelter Plus Care	14.238	CA0693L9D011205	171,973
CDBG - Family Self-Sufficiency-Shelter Services-Coastal	14.218	544433	24,753
CDBG - Family Self-Sufficiency-Shelter Services-Inland	14.218	544434	28,401
Pass-through from City of Carlsbad:			
CDBG - Social Services	14.218	N/A	5,000
Pass-through from City of Vista:			
CDBG - Senior Services	14.218	N/A	14,497
Pass-through from City of San Marcos:			
CDBG - Winter Shelter - Haven House	14.218	N/A	15,000
Pass-through from City of Escondido via Alliance for Regional Solutions:			
CDBG - Winter Shelter - Haven House	14.218	N/A	27,943
			<u>700,263</u>
<u>U.S. Department Of Labor</u>			
Direct program:			
Homeless Veterans Reintegration Project	17.805	HV-24644-13-60-5-6	218,562
HVRP-Homeless Female Veterans-Veterans with Families	17.805	HV-24727-13-60-5-6	124,017
Pass-though from San Diego Workforce Partnership:			
WIA Youth Activities - TYA Gang Prevention	17.259	193-25	239,276
Pass-through from California Employment Development Dept.:			
WIA Adult Program - VEAP	17.258	K399194	57,724
WIA Dislocated Worker Formula Grant	17.278	K399194	68,758
			<u>708,337</u>

INTERFAITH COMMUNITY SERVICES, INC.
Schedule of Expenditures of Federal Awards - (Continued)
Year Ended June 30, 2015

	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Pass-through from County of San Diego:			
Supplemental Nutrition Assistance Program - Coastal:			
Passed through to Vista Community Clinic	10.561	544433	105,354
Supplemental Nutrition Assistance Program - Inland:			
Passed through to Escondido Education COMPACT	10.561	544434	<u>108,872</u>
			214,226
<u>U.S. Department of Health and Human Services</u>			
Pass-through from County of San Diego:			
CSBG - Family Self-Sufficiency - Coastal:			
Passed through to Community Resource Center	93.569	544433	65,145
Passed through to Catholic Charities	93.569	544433	72,706
Passed through to Vista Community Clinic	93.569	544433	9,185
CSBG - Family Self-Sufficiency - Inland	93.569	544434	6,613
National Family Caregiver Support - Minor Home Repair	93.052	541674	205,291
			<u>53,400</u>
			412,340
<u>Department of Homeland Security</u>			
Pass-through from Catholic Charities:			
Emergency Food and Shelter National Board Program	97.024	N/A	20,608
			<u>20,608</u>
<u>U.S. Department of Veteran Affairs</u>			
<u>Direct Programs:</u>			
VA Homeless Providers Grant & Per Diem Program-Oceanside	64.024	07-716-CA	893,564
VA Homeless Providers Grant & Per Diem Program-Aster	64.024	98-027-CA	352,392
VA Homeless Providers Grant & Per Diem Program-Merle's Place	64.024	05-016-CA	566,416
VA Homeless Providers Grant & Per Diem Program-Recuperative Beds	64.024	VA262-P-0438	796,007
VA Supportive Services for Veteran Families Program	64.033	C15-CA-601B	307,966
Passed through to People Assisting the Homeless	64.033	C15-CA-601B	<u>214,504</u>
			<u>3,130,849</u>
			<u>\$ 5,186,623</u>

See Independent Auditors' Report and Notes to Schedule of Federal Awards

INTERFAITH COMMUNITY SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2015

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 year ended June 30, 2015. 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 Organization identifying numbers are presented where available.

3. Subrecipients

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

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, 2015, and related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2016.

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 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 Organization'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.

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 grants 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 one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2015-001.

The Organization's Response to Findings

The Organization's response to the 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 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 results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gurrera & Associates
Gurrera & Associates

San Diego, California
March 15, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY 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 Interfaith Community Services, Inc.'s (the Organization) 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 Interfaith Community Services, Inc.'s major federal programs for the year ended June 30, 2015. Interfaith Community Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Interfaith Community Services, 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 Interfaith Community Services, 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 Interfaith Community Services, Inc.'s compliance.

Opinion of Each Major Federal Program

In our opinion, Interfaith Community Services, 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, 2015.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

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.

Report on Internal Control over Compliance

Management of Interfaith Community Services, 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 Interfaith Community Services, 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 Interfaith Community Services, 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 a 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.

Report on Internal Control over Compliance - (Continued)

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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance 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 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.

In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Gurrera & Associates

Gurrera & Associates

San Diego, California
March 15, 2016

INTERFAITH COMMUNITY SERVICES, INC.
 Schedule of Findings and Questioned Costs
 for Federal Awards
 Year Ended June 30, 2015

Section I - SUMMARY OF AUDITOR' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

See item 2015-001.

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

Identification of Major Programs:

U.S. Department of Veteran Affairs:

VA Supportive Services for Veteran Families Program 64.033

U.S. Department of Housing and Urban Development:

Continuum of Care Program 14.235

Continuum of Care Program 14.238

Community Services Block Grant 14.218

U.S. Department of Agriculture:

Supplemental Nutrition Assistance Program 10.561

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

INTERFAITH COMMUNITY SERVICES, INC.
Schedule of Findings and Questioned Costs
for Federal Awards
Year Ended June 30,2015

Section II - Federal Award Findings and Questioned Costs

Item: 2015-001

Agency: VA Supportive Services for Veteran Families, CFDA #64.033, U.S. Department of Veteran Affairs

Award(s): VA Supportive Services for Veteran Families, 10/1/14-9/30/17, C15-CA-601B

Subject: Income Calculation Worksheets

Condition, Criteria, Effect:

We noted a few instances of calculation errors and missing information on the income calculation worksheets. These were also noted during the Department of Veterans Affairs' visit to monitor operations and compliance.

Recommendation:

We recommend the income calculations worksheets be carefully and accurately completed and that each client be required to provide proof of income per Federal Award requirements before receiving any support.

Current Status:

The Organization has implemented procedures requiring the collection of all required documents prior to the release of any supportive funds to clients.

Section III - Summary Schedule of Prior Year Findings

A. Findings relating to the financial statements prepared in accordance with Government Auditing Standards:

Item: 2014-001

Subject: Notes Payable

Condition, Criteria, Effect:

While Interfaith Community Services, Inc., monitored non-financial and compliance covenant requirements during the year, in one case, required compliance information was not submitted and in another, a new required reporting format wasn't followed. The result of not providing timely and accurate reporting to finding sources could have a potential impact on the Organization's relationship with these sources.

INTERFAITH COMMUNITY SERVICES, INC.
Schedule of Findings and Questioned Costs
for Federal Awards
Year Ended June 30, 2015

Section III - Summary Schedule of Prior Year Findings - (Continued)

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:

1. Interfaith Community Services, Inc.'s accounting department has custody of all original, completely executed loan agreements. The chief financial office (CFO) reviews all new agreements and all covenants are recorded in the covenant schedule.
2. Copies of all covenants are given to the appropriate program manager and they are provided with information regarding their role in satisfying compliance covenants and the importance of it.
3. Accounting staff monitors the covenant schedule on a monthly basis to ensure that the Organization is in compliance with all loan covenants. If new requirements or updates in reporting processes arise, the updates will be added to the covenant schedule by the CFO.
4. The grants and contracts compliance manager also has the covenant schedule and will send out notifications to appropriate directors/managers at least one month in advance of approaching due dates to ensure staff is preparing for those upcoming deadlines.

Interfaith Community Services, Inc. has incorporated a new compliance component to all Organization programs, including non-financial and compliance covenants. The Organization hired a grants and contracts compliance manager and chief programs officer, thus, the Organization now has additional oversight for the adherence to all non-financial and compliance covenants.

INTERFAITH COMMUNITY SERVICES, INC.
Schedule of Findings and Questioned Costs
for Federal Awards
Year Ended June 30, 2015

Section III - Summary Schedule of Prior Year Findings - (Continued)

B. Findings relating to the Federal Awards and Questioned Cost:

Item: 2014-002

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

Awards: Veteran's Recuperative Beds, 10/1/13-9/30/14, VA 262-12-D-0144 Veterans Transitional Housing - Oceanside, 4/1/14-3/31/15, 07-716-CA.

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 two of the four VA programs listed above. Out of a sample of 26 individuals selected for testing, 5 had not signed in every day during 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 internally for missing signatures and then monthly during the participants 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.

Current Status:

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.

INTERFAITH COMMUNITY SERVICES, INC.
Schedule of Findings and Questioned Costs
for Federal Awards
Year Ended June 30, 2015

Section III - Summary Schedule of Prior Year Findings - (Continued)

Item: 2014-003

Agency: WIA Adult Program, CFDA #17.258 and
WIA Dislocated Worker Formula Grants, CFDA #17.278
U.S. Department of Labor, pass-through from
California EDD

Award(s): Workforce Investment Act Sub grant,
6/1/13-3/31/15, K391994

Subject: Match

Condition, Criteria, Effect:

We noted that the grant agreement stated that the Organization will provide \$437,570 in matching contributions. The majority of the match will be funded by the Veterans Association who will provide a per diem rate in order to provide housing, food and basic needs to participants. Per testing performed, MHM noted that the match amount is not being calculated and reported by the Organization in accordance with the grant agreement.

Recommendation:

We recommend that the calculation and reporting of the match is reviewed by a person other than the preparer each month to ensure the accuracy of the calculation.

Current Status:

The specific findings related to this audit were corrected in the following ways:

1. The program manager was educated on proper calculation methods for match and the program manager immediately acknowledged the error. Subsequently, corrections to this calculation error were made by the program manager and verified by the accounting manager.

To mitigate future errors involving match/leverage in general, obligating match and leverage to grants will be a decision made with each program manager, chief programs officer, and chief financial officer prior to obligation. This will ensure that the match will be verifiable, allowable, and not previously obligated to other grants (this will include ensuring that obligations are in compliance with OMB Circular A-110, A-122 and A-133, Code for Federal Regulations, grant Solicitation for Proposals, etc.).

INTERFAITH COMMUNITY SERVICES, INC.
Schedule of Findings and Questioned Costs
for Federal Awards
Year Ended June 30, 2015

Section III - Summary Schedule of Prior Year Findings - (Continued)

Item: 2014-004

Agency: Supplemental Nutrition Assistance Program, CFDA 10.561,
CFDA 10.561 U.S. Department of Agriculture, Pass-through
from County of San Diego

Awards: Supplemental Nutrition Assistance Program,
4/1/2013-12/31/2014, 544434 and 544433

Subject: Subrecipient Monitoring

Condition, Criteria, Effect:

We noted that the Organization in not adequately monitoring two of its subrecipients to ensure that they are meeting all compliance requirements in accordance with the grant agreement.

Recommendation:

We recommend that the Organization establish a policy and procedure to properly monitor subrecipients. This policy should include site visits if possible and review of supporting documentation to ensure the subrecipient is operating in accordance with the grant agreement.

Current Status:

The Organization established a subrecipient monitoring policy. For the Supplemental Nutrition Assistance Programs, we require that our subcontractors submit the backup documentation for all expenses which are billed under the grants. We also require the submittal of the class packets for each training session. During the year we performed an onsite review of this information with each of our subcontractors.

Questioned Costs: \$169,996

INTERFAITH COMMUNITY SERVICES, INC.
 Supplementary Information
 For the Year Ended June 30, 2015

CASAWorks Apartments
 99-FMTW-010
 Statement of Operations
 For the Year Ended June 30, 2015

Acct No.		<u>FY2015</u>
	<u>Rent Revenue:</u>	
5100T	Total rent revenue	\$ 20,469
5152N	Net rental revenues (Rent revenue less vacancies)	<u>\$ 20,469</u>
	<u>Other Revenue:</u>	
5910	Laundry and vending revenue	\$ 699
5990	Misc. Revenue-HUD Continuum of Care Grant Reim.	75,949
5900T	Total Other Revenue	<u>\$ 76,648</u>
5000T	Total Revenue	<u>\$ 97,117</u>
	<u>Administrative Expenses:</u>	
6203	Conventions and meetings	\$ 570
6210	Advertising and marketing	-0-
6250	Other renting expenses	-0-
6310	Office salaries	3,265
6311	Office expenses	2,305
6330	Manager of Superintendent salaries	16,239
6340	Legal expense - project	2,516
6350	Audit expense	-0-
6390	Misc. administrative expenses	94
6263T	Total Administrative Expenses	<u>\$ 24,989</u>
	<u>Utilities Expenses:</u>	
6450	Electricity	\$ 3,226
6451	Water	5,689
6400T	Total Utilities Expenses	<u>\$ 8,915</u>
	<u>Operating and Maintenance Expenses:</u>	
6510	Payroll	\$ 9,112
6515	Supplies	6,416
6520	Contracts	11,270
6525	Garbage and trash removal	3,917
6546	Heating/cooling repairs and maintenance	-0-
6570	Vehicle & maint. equipment operations/repairs	1,279
6580	Lease expense	-0-
6590	Misc. Operating and Maintenance expenses	-0-
6500T	Total Operating and Maintenance expenses	<u>31,994</u>
	<u>Taxes and Insurance:</u>	
6710	Real Estate taxes	\$ 72
6711	Payroll taxes (Projects' Share)	4,074
6720	Property & liability insurance (Hazard)	2,169
6721	Fidelity Bond Insurance	-0-
6722	Worker's Compensation	3,874
6723	Health Insurance & Other employee benefits	9,787
6790	Misc. Taxes, licenses, permits and insurance	56
6700T	Total Taxes and Insurance	<u>\$ 20,032</u>

INTERFAITH COMMUNITY SERVICES, INC.
 Supplementary Information
 For the Year Ended June 30, 2015

CASAWorks Apartments
 99-FMTW-010
 Statements of Operations - (Continued)
 For the Year Ended June 30, 2015

		<u>FY2015</u>
	<u>Supportive Services Expenses:</u>	
6990	Salaries - Client Case Management-HUD-Continuum of Care Grant	\$ 18,388
6990	Client supportive Services Other - Daycare, Employment, Lifeskills, etc.	1,335
6990T	Total Supportive Services Expenses	<u>\$ 19,723</u>
6000	Total Cost of Operations before Depreciation	<u>\$ 105,653</u>
5060	Profit (Loss) before Depreciation	<u>\$ (8,536)</u>
6600	Depreciation	<u>\$ 14,239</u>
5060N	Operating Profit (Loss)	<u>\$ (22,775)</u>
7100T	Net Entity Expenses	<u>\$ -0-</u>
3250	Change in Total Net Assets from Operations	<u>\$ (22,775)</u>

		<u>FY2015</u>
Acct No.		
S1000-10	Total principal payments during audit period.	-0-
S1000-20	Total of all monthly reserve for replacement deposits.	-0-
S1000-30	Replacement reserves, or residual receipts and releases which are included in expense items.	-0-
S1000-40	Project improvement reserves which are included as expense items.	-0-

INTERFAITH COMMUNITY SERVICES, INC.
 Supplementary Information
 For the Year Ended June 30, 2015

CASAWorks Apartments
 99-FMTW-010
 Statement of Cash Flows
 For the Year Ended June 30, 2015

Acct No.		<u>FY2015</u>
	<u>Cash Flow from Operating Activities:</u>	
S1200-010	Rental receipts	\$ 20,469
S1200-030	Other operating receipts	76,648
S1200-050	Administrative	(5,485)
S1200-090	Utilities	(8,915)
S1200-100	Salaries and wages	(47,004)
S1200-110	Operating and maintenance	(22,882)
S1200-120	Real Estate taxes	(72)
S1200-140	Property insurance	(2,169)
S1200-150	Miscellaneous taxes and insurance	(17,791)
S1200-170	Other operating expenses	(1,335)
S1200-240	Net Cash Provided (used) by Operating Activities	<u>\$ (8,536)</u>
	<u>Cash Flow from Investing Activities:</u>	
S1200-250	Net deposits to the reserve for replacement acct.	\$ -0-
S1200-255	Net deposits to other reserves	-0-
S1200-260	Net deposits to residual receipts account	-0-
S1200-330	Net purchases of fixed assets	-0-
S1200-350	Net Cash (used) by Investing Activities	<u>\$ -0-</u>
	<u>Cash Flow from Financing Activities:</u>	
S1200-360	Principal payments - mortgage	\$ -0-
S1200-420	Distributions	-0-
S1200-430	Contributions	-0-
S1200-450	Other financing activities	-0-
S1200-460	Net Cash Provided (used) by Financing Activities	<u>\$ -0-</u>
	<u>Net Increase (decrease) in Cash & Cash Equivalents:</u>	<u>\$ (8,536)</u>