

Swords to Plowshares: Veterans Rights Organization and Subsidiaries

Consolidated Financial Statements with Report of Independent Auditors

For the years ended June 30, 2021 and 2020

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of

Swords to Plowshares: Veterans Rights Organization and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Swords to Plowshares: Veterans Rights Organization (a California non-profit public benefit corporation) and Subsidiaries (collectively, the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 consolidated financial statements as a whole.

The schedule of the status of prior audit findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2021, 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.



Petaluma, California
December 28, 2021

**SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,792,912	\$ 3,686,044
Tenant security deposits	248,309	268,947
Pledges receivable	275,000	-
Grants and contracts receivable	1,891,728	1,898,853
Due from affiliates	192,073	354,017
Other receivables	290,312	26,890
Investments	428,218	414,565
Prepaid expenses	<u>150,127</u>	<u>144,926</u>
Total current assets	5,268,679	6,794,242
Property and equipment, net	6,836,741	5,082,292
Investment in affordable housing partnerships	444,130	444,149
Other assets		
Operating reserves	745,304	719,857
Replacement reserves	337,601	308,174
Deposits	<u>99,348</u>	<u>75,515</u>
	<u>1,182,253</u>	<u>1,103,546</u>
Total assets	<u>\$ 13,731,803</u>	<u>\$ 13,424,229</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 861,677	\$ 926,926
Tenant security deposits payable	249,114	265,106
Representative payee liability	3,257	96,131
Accrued expenses	908,660	975,538
Notes payable, current portion	<u>658,271</u>	<u>-</u>
Total current liabilities	2,680,979	2,263,701
Notes payable, less current portion	<u>2,045,458</u>	<u>2,492,690</u>
Total liabilities	4,726,437	4,756,391
Net assets		
Without donor restrictions	6,874,102	7,213,457
With donor restrictions	<u>2,131,264</u>	<u>1,454,381</u>
Total net assets	<u>9,005,366</u>	<u>8,667,838</u>
Total liabilities and net assets	<u>\$ 13,731,803</u>	<u>\$ 13,424,229</u>

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Grants and contributions	\$ 977,222	\$ 2,002,438	\$ 2,979,660
Government grants and contracts	26,266,961	-	26,266,961
Program fee income	964,162	-	964,162
Special event revenue net of \$65,476 of expenses	255,036	-	255,036
Investment income	90,272	-	90,272
Management and other fees	240,592	-	240,592
Development fee	225,000	-	225,000
Reimbursable expenses from limited partnerships	2,991,117	-	2,991,117
Debt forgiveness	1,256,893	-	1,256,893
Other income	114,092	-	114,092
	<u>33,381,347</u>	<u>2,002,438</u>	<u>35,383,785</u>
Net assets released from restrictions	<u>1,325,555</u>	<u>(1,325,555)</u>	<u>-</u>
Total revenue and other support	<u>34,706,902</u>	<u>676,883</u>	<u>35,383,785</u>
EXPENDITURES			
Program services	30,846,923	-	30,846,923
Management and general	3,449,433	-	3,449,433
Fundraising	<u>749,901</u>	<u>-</u>	<u>749,901</u>
Total expenditures	<u>35,046,257</u>	<u>-</u>	<u>35,046,257</u>
CHANGE IN NET ASSETS	(339,355)	676,883	337,528
NET ASSETS AT BEGINNING OF YEAR	<u>7,213,457</u>	<u>1,454,381</u>	<u>8,667,838</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,874,102</u>	<u>\$ 2,131,264</u>	<u>\$ 9,005,366</u>

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Grants and contributions	\$ 1,903,062	\$ 1,694,000	\$ 3,597,062
Government grants and contracts	18,993,800	-	18,993,800
Program fee income	1,435,462	-	1,435,462
Special event revenue net of \$167,897 of expenses	333,513	-	333,513
Investment income	15,948	-	15,948
Management and other fees	99,889	-	99,889
Development fee	304,608	-	304,608
Reimbursable expenses from limited partnerships	1,737,662	-	1,737,662
Debt forgiveness	680,437		680,437
Other income	<u>3,133</u>	<u>-</u>	<u>3,133</u>
	25,507,514	1,694,000	27,201,514
Net assets released from restrictions	<u>3,853,733</u>	<u>(3,853,733)</u>	<u>-</u>
Total revenue and other support	<u>29,361,247</u>	<u>(2,159,733)</u>	<u>27,201,514</u>
EXPENDITURES			
Program services	22,822,774	-	22,822,774
Management and general	3,160,102	-	3,160,102
Fundraising	<u>803,212</u>	<u>-</u>	<u>803,212</u>
Total expenditures	<u>26,786,088</u>	<u>-</u>	<u>26,786,088</u>
CHANGE IN NET ASSETS	2,575,159	(2,159,733)	415,426
NET ASSETS AT BEGINNING OF YEAR	<u>4,638,298</u>	<u>3,614,114</u>	<u>8,252,412</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 7,213,457</u></u>	<u><u>\$ 1,454,381</u></u>	<u><u>\$ 8,667,838</u></u>

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services					Supporting Services			Total
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Program Services Total	Management & General	Fundraising	
Salaries	\$ 657,424	\$ 645,873	\$ 3,157,021	\$ 5,127,757	\$ 450,892	\$ 10,038,967	\$ 1,956,034	\$ 551,310	\$ 12,546,311
Payroll taxes and benefits	165,491	151,496	828,560	1,630,481	91,239	2,867,267	375,283	112,194	3,354,744
Total personnel costs	822,915	797,369	3,985,581	6,758,238	542,131	12,906,234	2,331,317	663,504	15,901,055
Professional services	-	-	1,600	916,983	7,342	925,925	169,711	1,368	1,097,004
Client support	98,195	-	10,237,041	431,346	-	10,766,582	-	-	10,766,582
Occupancy	157,394	188,446	624,518	3,162,137	15,557	4,148,052	155,341	19,192	4,322,585
Insurance	5,470	13,196	29,829	290,535	2,035	341,065	17,849	2,569	361,483
Professional Development & Conferences	2,031	9,675	17,384	47,505	7,260	83,855	126,839	4,543	215,237
Supplies	15,192	16,659	136,976	257,350	3,099	429,276	151,178	10,615	591,069
Property Management	16	39	137	423,796	-	423,988	25,232	-	449,220
Bank & Payroll Service Fees	-	-	3,964	56,560	-	60,524	75,239	11,853	147,616
Printing & Outreach	894	4,071	12,019	16,235	29	33,248	67,884	21,079	122,211
Other expenses	17,170	9,061	186,450	266,925	3,747	483,353	197,604	15,178	696,135
Depreciation	215	524	21,280	222,802	-	244,821	131,239	-	376,060
Total expenses	<u>\$ 1,119,492</u>	<u>\$ 1,039,040</u>	<u>\$ 15,256,779</u>	<u>\$ 12,850,412</u>	<u>\$ 581,200</u>	<u>\$ 30,846,923</u>	<u>\$ 3,449,433</u>	<u>\$ 749,901</u>	<u>\$ 35,046,257</u>

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services					Supporting Services			
	Employment	Legal	Health & Support Services	Housing	Institute for Veteran Policy	Program Services Total	Management & General	Fundraising	Total
Salaries	\$ 858,532	\$ 633,190	\$ 2,301,899	\$ 4,808,098	\$ 421,884	\$ 9,023,603	\$ 1,947,506	\$ 495,901	\$ 11,467,010
Payroll taxes and benefits	252,646	163,829	661,811	1,597,768	93,894	2,769,948	405,646	117,837	3,293,431
Total personnel costs	1,111,178	797,019	2,963,710	6,405,866	515,778	11,793,551	2,353,152	613,738	14,760,441
Professional services	7,084	4,163	14,804	784,205	12,294	822,550	233,740	15,405	1,071,695
Client support	370,234	-	3,891,104	549,789	50	4,811,177	4,604	6,308	4,822,089
Occupancy	151,205	184,149	612,365	2,484,864	39,593	3,472,176	114,591	39,324	3,626,091
Insurance	7,188	15,238	21,730	156,428	2,036	202,620	11,127	2,571	216,318
Professional Development & Conferences	16,270	32,052	49,804	76,076	27,957	202,159	50,400	10,455	263,014
Supplies	58,809	23,187	116,666	379,250	21,385	599,297	114,711	20,210	734,218
Property Management	-	-	-	208,170	-	208,170	-	-	208,170
Bank & Payroll Service Fees	57	-	5,150	4,169	71	9,447	68,082	11,640	89,169
Printing & Outreach	5,255	3,877	7,034	15,944	5,222	37,332	41,673	53,495	132,500
Other expenses	5,265	13,953	140,684	157,583	-	317,485	159,576	30,034	507,095
Depreciation	375	842	31,161	314,376	56	346,810	8,446	32	355,288
Total expenses	<u>\$ 1,732,920</u>	<u>\$ 1,074,480</u>	<u>\$ 7,854,212</u>	<u>\$ 11,536,720</u>	<u>\$ 624,442</u>	<u>\$ 22,822,774</u>	<u>\$ 3,160,102</u>	<u>\$ 803,212</u>	<u>\$ 26,786,088</u>

see accompanying notes

**SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 337,528	\$ 415,426
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	376,060	355,288
Net realized and unrealized gains on investments	(85,562)	(9,190)
Loss on investment in limited partnerships	19	14
Debt forgiveness	(1,256,893)	(680,437)
(Increase) decrease in assets:		
Pledges receivable	(275,000)	350,000
Grants and contracts receivable	7,125	(934,661)
Due from affiliates	161,944	(249,186)
Other receivables	(263,422)	24,081
Prepaid expenses	(5,201)	3,330
Deposits	(23,833)	-
(Decrease) increase in liabilities:		
Accounts payable	(65,249)	418,120
Tenant security deposits payable	(15,992)	10,088
Representative payee liability	(92,874)	70,850
Accrued expenses	(66,878)	321,538
Net cash (used in) provided by operating activities	(1,268,228)	95,261
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments, net	71,909	(104,672)
Purchases of property and equipment	(2,130,508)	(1,377,177)
Payment of construction costs	-	(303,971)
Net cash used in investing activities	(2,058,599)	(1,785,820)
CASH FLOWS FROM FINANCING ACTIVITIES		
Funding of notes payable	1,467,931	3,173,127
Net cash provided by financing activities	1,467,931	3,173,127
Net change in cash, cash equivalents and restricted cash	(1,858,896)	1,482,568
Cash, cash equivalents and restricted cash at beginning of year	4,983,022	3,500,454
Cash, cash equivalents and restricted cash at end of year	<u>\$ 3,124,126</u>	<u>\$ 4,983,022</u>
Cash and cash equivalents	\$ 1,792,912	\$ 3,686,044
Tenant security deposits	248,309	268,947
Operating reserves	745,304	719,857
Replacement reserves	337,601	308,174
Total cash, cash equivalents and restricted cash	<u>\$ 3,124,126</u>	<u>\$ 4,983,022</u>

see accompanying notes

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. Organization

Founded in 1974, Swords to Plowshares: Veterans Rights Organization (“Swords”) and Subsidiaries (collectively the “Organization”) is a community-based, not-for-profit organization that provides counseling and case management, employment and training, housing, and legal assistance to homeless and low-income veterans in the San Francisco Bay Area. The agency promotes and protects the rights of veterans through advocacy, public education, and partnerships with local, state, and national entities. War causes wounds and suffering that last beyond the battlefield. The Organization’s mission is to heal the wounds, to restore dignity, hope, and self-sufficiency to all veterans in need, and to significantly reduce homelessness and poverty among veterans.

2. Summary of significant accounting policies

Basis of accounting

The Organization prepares its consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. The Organization’s year end for tax and financial reporting purposes is June 30.

Basis of presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Principles of consolidation

The consolidated financial statements include the accounts of Swords to Plowshares: Veterans Rights Organization and its wholly owned subsidiaries, Swords-150 Otis, LLC, Swords-MB3E, LLC and Swords-Maceo May Apts, LLC. All intercompany transactions and balances have been eliminated in consolidation.

Investment in partnerships – equity method

The Organization uses the equity method of accounting for its investments in 150 Otis Associates, L.P. (“150 Otis LP”), MB3E, L.P. (“MB3E LP”) and Maceo May Apts, L.P. (“Maceo May Apts LP”), in which the Organization, who has a 0.005% ownership interest in each partnership, serves as the administrative general partner and has significant influence over, but not control of the major operating and financial policies of the limited partnerships. Under this method, the Organization’s share of income, losses, and distributions incurred by the limited partnerships is recognized as an increase or reduction of the carrying value of the investments. Impairment losses other than temporary impairment are recorded even if they reduce the investment more than what would have been recognized in the normal application of the equity method.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. Summary of significant accounting policies (continued)

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or fewer at the date of acquisition.

Tenant security deposits, operating reserves, and replacement reserves are treated as restricted cash, but not considered cash and cash equivalents, and include cash held with financial institutions for refunds of tenant security deposits, funding of operating deficits, and repairs or improvements to the buildings that extend their useful lives.

Concentrations of credit risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Pledges receivable and contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Unconditional pledges to give are recorded as contributions when pledged at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

Grants and contracts receivable

Contracts receivable represent balances due from various governmental agencies for contract services and are stated at the amount management expects to collect from outstanding balances. Should it become necessary, management will provide for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual accounts. Balances remaining after management has used reasonable collection efforts would be written off through a charge to bad debt expense.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. Summary of significant accounting policies (continued)

Other receivables

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Investments

Investments consist of mutual funds which are carried at fair value based on quoted prices in active markets and certificates of deposit with original maturity dates of one to four years which are carried at cost plus accrued interest (which approximates fair value).

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investments are made according to the finance policy adopted by the Organization's Board of Directors. The guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside advisors are utilized by the Organization for the purpose of providing investment and consulting advice.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Fair value measurements

The Organization applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

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 three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Organization's own assumptions.

The following tables present the Organization's assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2021 and 2020:

		June 30, 2021			Fair Value Measurements
		Level 1	Level 2	Level 3	
Investments					
Mutual funds	\$	328,103	\$ -	\$ -	\$ 328,103
Certificates of deposit		-	100,115	-	100,115
Total investments	\$	328,103	\$ 100,115	\$ -	\$ 428,218

		June 30, 2020			Fair Value Measurements
		Level 1	Level 2	Level 3	
Investments					
Mutual funds	\$	364,309	\$ -	\$ -	\$ 364,309
Certificates of deposit		-	50,256	-	50,256
Total investments	\$	364,309	\$ 50,256	\$ -	\$ 414,565

Certificates of deposits are classified within Level 2 of the fair market value hierarchy because the fair value of the certificates of deposit is based on interest rates, maturity date and other contract terms and is valued using a third-party.

Property and equipment

Property and equipment purchased with estimated useful lives in excess of one year are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Depreciation is computed over the estimated useful lives of the respective assets on a straight-line basis.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. Summary of significant accounting policies (continued)

Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses for each of the years ended June 30, 2021 and 2020.

Endowment funds

In August 2008, Financial Accounting Standards Board provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). This guidance also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Organization is subject to the required disclosures in that the Organization classifies its unrealized gains and losses on donor-restricted endowed funds as net assets with donor restrictions. To the extent unrealized losses exceed previous unrealized gains, the unrealized losses are recorded to net assets with donor restrictions. As of June 30, 2021 and 2020, no fund balances were below the historical gift amount.

Representative payee liability

As part of the service umbrella offered, the Organization serves as a representative payee to assist in budget management for the veterans by holding funds earmarked for budgeted expenses such as rent and living allowances. This is the liability for the cash currently held by the Organization for the veterans.

Revenue recognition

The Organization receives contract and grant funding from various government agencies. Revenue from such grants is recognized once all conditions are met in accordance with grant agreements. Revenue resulting from special events is recorded equal to the fair value of direct benefits to donors. Revenue resulting from fees charged by the Organization, reimbursable expenses from 150 Otis LP and MB3E LP and other income is recorded when realizable and earned.

Income taxes

The Organization is a non-profit corporation organized pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of the California Franchise Tax Code. As such, the Organization is exempt from taxes on its business-related income.

Swords-150 Otis, LLC, Swords-MB3E, LLC and Swords-Maceo May Apts, LLC are pass-through entities for income tax reporting purposes and, accordingly, do not pay tax on their taxable income. Instead, allocated income or loss is reported on the tax returns of the Organization. The entities are subject to a minimum franchise tax for the State of California.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. Summary of significant accounting policies (continued)

Income taxes (continued)

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and has measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Economic concentrations

The Organization receives a significant amount of revenue from managing various programs to support its mission. These sources of funds are dependent upon the continued successful development and management of these programs.

The Organization, either as a direct owner, advisor or general partner, has an economic interest in real estate projects that are subject to business risks associated with the economy and level of unemployment in California. In addition, these projects operate in a heavily regulated environment. The operations of these projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the Department of Housing and Urban Development ("HUD"). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD and may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Grant expense

Grants are recognized when all significant conditions are met, all due diligence has been completed and they are approved by staff or board committee. Grant refunds are recorded as a reduction of grant expense at the time the Organization receives or is notified of the refund.

Functional allocation of expenses

The Organization's costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Direct costs associated with specific programs are recorded as program expenses. Personnel costs are charged to programs and supporting services on the basis of time sheets. Occupancy and depreciation are allocated based on square footage. Other expenses are allocated based on time and effort. Management and general expenses include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction of the Organization.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

3. Liquidity and availability of financial assets

The following represents the Organization's financial assets at June 30, 2021 and 2020:

Financial assets at year end:	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,792,912	\$ 3,686,044
Tenant security deposits	248,309	268,947
Pledges receivable	275,000	-
Grants and contracts receivable	1,891,728	1,898,853
Other receivables	290,312	26,890
Investments	428,218	414,565
Operating reserves	745,304	719,857
Replacement reserves	<u>337,601</u>	<u>308,174</u>
Total financial assets	6,009,384	7,323,330

Less amounts not available to be used within one year:

Tenant security deposits	248,309	268,947
Replacement reserves	337,601	308,174
Representative payee	3,257	96,131
Net assets with donor restrictions	<u>2,131,264</u>	<u>1,454,381</u>
Total amounts not available to be used	<u>2,720,431</u>	<u>2,127,633</u>

Financial assets available to meet general expenditures

over the next twelve months	<u>\$ 3,288,953</u>	<u>\$ 5,195,697</u>
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The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

4. Investments

Securities are stated at current market value and consist of the following as of June 30, 2021 and 2020:

	<u>Cost</u>	<u>2021 Market Value</u>
Mutual funds	\$ 111,117	\$ 328,103
Certificates of deposit	<u>100,000</u>	<u>100,115</u>
Total securities	<u>\$ 211,117</u>	<u>\$ 428,218</u>

	<u>Cost</u>	<u>2020 Market Value</u>
Mutual funds	\$ 106,576	\$ 364,309
Certificates of deposit	<u>50,000</u>	<u>50,256</u>
Total securities	<u>\$ 156,576</u>	<u>\$ 414,565</u>

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

5. Property and equipment and depreciation

As of June 30, 2021 and 2020, the Organization's property and equipment consists of the following:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 9,187,831	\$ 7,307,994
Furniture and equipment	396,745	146,073
Land and building	761,939	761,939
Vehicles	173,715	173,715
Accumulated depreciation	<u>(3,683,489)</u>	<u>(3,307,429)</u>
Net	<u>\$ 6,836,741</u>	<u>\$ 5,082,292</u>

For the years ended June 30, 2021 and 2020, depreciation expense was \$376,060 and \$355,288, respectively.

6. Replacement and other operating reserves

The Organization is required to fund certain operating and replacement reserves for its four housing programs. Monthly deposit requirements are determined based on either explicit amount or calculated amount per the respective agreements. The operating reserves for the Presidio – Academy Program, Treasure Island – Halibut, Treasure Island – Chinook and DeMontfort Avenue have reached and maintained the required balances as of June 30, 2021 and 2020; therefore, monthly deposits are currently not required.

Operating reserve funds may be used for emergency operating needs associated with the programs. Replacement reserves may be used for replacement or repair of building components or large equipment.

7. Investment in affordable housing partnerships

150 Otis LP

150 Otis LP, a limited partnership was formed by Swords-150 Otis, LLC and CCDC-150 Otis, LLC, which is owned by Chinatown Community Development Center ("CCDC"). The limited partnership's purpose is to develop and operate 76 units of low-income housing located in San Francisco and provide supportive housing for homeless veterans and veterans at risk of homelessness ("Veterans Commons"). Veterans Commons participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code as modified by the State of California. Various loans, regulatory and other agreements dictate the maximum income levels of new tenants and provide for rent and other restrictions through 2067.

Under the limited partnership agreement, Swords-150 Otis, LLC and CCDC-150 Otis, LLC are co-general partners, with CCDC-150 Otis, LLC acting as the managing general partner and Swords-150 Otis, LLC as the administrative general partner, each with a 0.005% general partner interest, and with the remaining interest held by a limited partner. Swords-150 Otis, LLC's original investment in 150 Otis LP amounted to \$365,000.

As of June 30, 2021 and 2020, Swords-150 Otis, LLC's investment in 150 Otis LP was \$364,130 and \$364,149, respectively.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

7. Investment in affordable housing partnerships (continued)

MB3E LP

MB3E LP, a limited partnership was formed by Swords-MB3E LLC and CCDC-MB3E LLC, which is owned by CCDC. The limited partnership's purpose is to develop and operate a 119 unit project in Mission Bay in San Francisco similar to Veterans Commons described above.

Under the MB3E LP limited partnership agreement, Swords-MB3E, LLC and CCDC-MB3E, LLC are co-general partners, with CCDC-MB3E, LLC acting as the managing general partner with 0.0051% partner interest and Swords-MB3E, LLC as the administrative general partner with a 0.0049% general partner interest, and with the remaining interest held by a limited partner.

As of both June 30, 2021 and 2020, Swords-MB3E, LLC's investment in MB3E LP was \$80,000.

Maceo May Apts LP

Maceo May Apts, LP, a limited partnership was formed by Swords-Maceo May Apts LLC and CCDC-Maceo May Apts LLC, which is owned by CCDC. The limited partnership's purpose is to develop and operate 105 units of low-income housing located in San Francisco, similar to Veterans Commons as described above.

Under the limited partnership agreement, Swords-Maceo May Apts LLC and CCDC-Maceo May Apts LLC are co-general partners, each with a 0.005% general partner interest, and with the remaining interest held by limited partners. Swords-Maceo May Apts LLC's original investment in Maceo May Apts LP amounted to \$10. Swords-Maceo May Apts LLC is expected to make a supplemental contribution of \$250,000.

The condensed combined balance sheets of 150 Otis LP, Maceo May Apts LP, and MB3E LP as of December 31, 2020 and 2019, are as follows:

COMBINED BALANCE SHEETS
(unaudited)

	<u>2020</u>	<u>2019</u>
Total assets (primarily property and equipment)	<u>\$ 119,008,256</u>	<u>\$ 103,049,777</u>
Total liabilities (accounts payable and debt)	<u>\$ 95,662,273</u>	<u>\$ 80,510,560</u>
Partners' equity	<u>23,345,983</u>	<u>22,539,217</u>
	<u>\$ 119,008,256</u>	<u>\$ 103,049,777</u>

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

7. Investment in affordable housing partnerships (continued)

The condensed combined statements of operations of 150 Otis LP, Maceo May Apts LP and MB3E LP for the years ended December 31, 2020 and 2019, are as follows:

COMBINED STATEMENTS OF OPERATIONS
(unaudited)

	2020	2019
Total revenue	\$ 4,153,876	\$ 1,765,437
Total expense	<u>3,013,120</u>	<u>1,209,933</u>
Operating income	1,140,756	555,504
Depreciation	2,106,028	738,795
Interest expense	1,075,565	24,524
Other expense	<u>136,632</u>	<u>74,759</u>
Net loss	<u>\$ (2,177,469)</u>	<u>\$ (282,574)</u>

8. Related party transactions

150 Otis LP has various agreements with CCDC-150 Otis, LLC and Swords-150 Otis, LLC (collectively referred to as “General Partners”) as follows:

Tax credit compliance fee agreement - Under the terms of this agreement, the General Partners receive an annual fee totaling \$15,000 (shared equally) to advise 150 Otis LP with respect to compliance with applicable state law tax credit requirements and compliance with any and all obligations of the partnership under any agreements with lenders, to maintain all necessary office and accounting facilities and equipment, and to provide ongoing review during the compliance period of the leasing and management of the project. For the years ended June 30, 2021 and 2020, the Organization earned \$7,500 and \$0, respectively, in tax credit compliance fees, and is included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

Asset management fee agreement - Under the terms of this agreement, the General Partners are entitled to an annual cumulative general partner asset management fee in an annual amount of \$10,000, payable from excess/distributable cash, and increasing 3% per year thereafter, in consideration for services performed in accordance with the partnership agreement. For the years ended June 30, 2021 and 2020, the Organization earned \$6,150 and \$0, respectively, in asset management fees, and is included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

Incentive management fee agreement - Under the terms of this agreement, the General Partners are entitled to an annual non-cumulative incentive management fee, payable from excess/distributable cash for administrative and management services. The fee shall not exceed the lesser of i) \$25,000 when combined with the general partner asset management fee, or ii) 12% of the Partnership's effective gross income for such year when combined with the general partner asset management fee and the property management fee. For the years ended June 30, 2021 and 2020, the Organization earned \$6,350 and \$0, respectively, in incentive management fees, which is included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

8. Related party transactions (continued)

Property sub-management agreement - Under the terms of this agreement, CCDC-150 Otis, LLC, as the appointed property manager, appointed Swords as the subagent to perform all obligations stated under the management agreement. The monthly fee is 5.75% of gross income less \$1,000. The term of the agreement is for one year and remains effective on a monthly basis thereafter. For the years ended June 30, 2021 and 2020, Swords earned \$84,206 and \$89,089, respectively, in property management fees. In addition, for each of the years ended June 30, 2021 and 2020, Swords earned \$10,800 for bookkeeping fees. Both fees are included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

Reimbursed expenses for 150 Otis LP - Swords also incurs expenses for the ongoing operations of Veterans Commons pursuant to agreements with CCDC-150 Otis, LLC. These expenses are reimbursed by 150 Otis LP and recorded as revenue in the Statement of Activities. For the years ended June 30, 2021 and 2020, total reimbursements earned were \$1,253,313 and \$1,116,159, respectively, and are included in reimbursable expenses from limited partnerships on the accompanying consolidated statements of activities and changes in net assets. Reimbursements earned but not paid are recorded as due from affiliate in the consolidated statements of financial position. As of June 30, 2021 and 2020, the related receivable from 150 Otis LP was \$142,975 and \$122,423, respectively.

Indemnification - The General Partners agreed to indemnify the investor limited partner in the event of a reduction in projected tax benefits.

Operating deficit guaranty- The General Partners agree and guarantee to fund operating deficits incurred by 150 Otis LP during the guaranty period, not to exceed in aggregate \$625,000. The guaranty period ends on February 2022 after all conditions precedent to all of the limited partner capital contribution funding installments have been met.

Purchase option - The limited partner has an option to require Swords to purchase the limited partner's interest for \$100. The option will commence on January 1, 2023, the end of the tax credit period, and will expire on December 31, 2026, the end of the 15-year compliance period. Swords has a right of first refusal to acquire the 150 Otis LP project commencing on January 1, 2027, the day after the end of the 15-year compliance period, and will expire on December 31, 2027. The purchase price of Veterans Commons is the greater of \$100 or the sum of the amount sufficient to pay all secured debt, including loans by a general partner, plus an amount sufficient to pay all debt and taxes owed to the limited partner. Swords has an option to acquire Veterans Commons or the limited partner's interest. The option will commence on January 1, 2027, the day after the end of the 15-year compliance period, and will expire on December 31, 2028. The purchase price of Veterans Commons is the sum of any amount owed to the limited partner and the greater of the fair market value of Veterans Commons or an amount sufficient to pay all existing debt and exit taxes. The purchase price of the limited partner's interest is the sum of any amount owed to the limited partner and the greater of the fair market value of the limited partner's interest or an amount sufficient to pay all existing debt and exit taxes.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

8. Related party transactions (continued)

MB3E LP has various agreements with CCDC-MB3E, LLC and Swords-MB3E, LLC (collectively referred to as “MB3E General Partners”) as follows:

GP asset management fee agreement - Under the terms of this agreement, the MB3E General Partners are entitled to an annual cumulative general partner asset management fee in an annual amount of \$21,649, payable from excess/distributable cash, and increasing 2% per year thereafter, in consideration for services performed in accordance with the partnership agreement. The GP asset management fee is distributed 50% each to CCDC-MB3E, LLC and Swords-MB3E, LLC and commenced on October 1, 2019. As of and for the years ended June 30, 2021 and 2020, the Organization did not earn an asset management fee.

Incentive management fee agreement - Under the terms of this agreement, the MB3E General Partners are entitled to an incentive management fee of up to 90% of available cash flow as defined in the incentive management agreement and the MB3E partnership agreement or \$100,000, whichever is the lesser amount. The GP asset management fee and the incentive management fee combined cannot exceed 12% of cash receipts received by the Partnership in that fiscal year. The incentive management fee is distributed 50% each to CCDC-MB3E, LLC and Swords-MB3E, LLC. The fee is non-cumulative and is incurred and payable only to the extent of cash flow available in the current year. As of and for the years ended June 30, 2021 and 2020, the Organization did not earn an incentive management fee.

Property sub-management agreement - Under the terms of this agreement, CCDC-MB3E, LLC as the appointed property manager, appointed Swords as the subagent to perform all obligations stated under the management agreement. The monthly fee is \$60 per unit, increasing annually by 2%, less \$1,000 of the monthly fee retained by CCDC-MB3E, LLC. The term of the agreement is for one year and remains effective on a monthly basis thereafter. For the years ended June 30, 2021 and 2020, Swords earned \$105,237 and \$0, respectively, in property management fees. In addition, for the years ended June 30, 2021 and 2020, Swords earned \$20,349 and \$0, respectively for bookkeeping fees. Both fees are included in management and other fees on the accompanying consolidated statements of activities and changes in net assets.

Operating deficit guaranty- The General Partners agree and guarantee to fund all operating deficits incurred by MB3E precedent to the limited partner’s third capital contribution, at which point the obligation is capped at \$1,250,000 in aggregate and continues to be subject to the provisions listed in MB3E’s partnership agreement.

Reimbursed expenses for MB3E LP - Swords also incurs expenses for the ongoing operations of the project pursuant to agreements with CCDC-MB3E, LLC. These expenses are reimbursed by MB3E LP and recorded as revenue in the Statement of Activities. For the years ended June 30, 2021 and 2020, total reimbursements earned were \$1,737,804 and \$621,503, respectively, and are included in reimbursable expenses from limited partnerships on the accompanying consolidated statements of activities and changes in net assets. Reimbursements earned but not paid are recorded as due from affiliate in the consolidated statements of financial position. As of June 30, 2021 and 2020, the related receivable from MB3E LP was \$49,098 and \$231,594, respectively.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Related party transactions (continued)

Development fee agreement - Under the terms of this agreement, Swords and CCDC earned a total development fee of \$3,500,000, subject to adjustments stipulated in the agreement, for services related to the development of the project. The unpaid balance of the development fee as of the investor limited partner's final contribution is deferred and payable from available cash flow. The development fee does not accrue interest. The development fee is distributed 50% each to CCDC-MB3E, LLC and Swords-MB3E, LLC. For the years ended June 30, 2021 and 2020, Swords earned and was paid \$225,000 and \$0, respectively, in development fees.

Maceo May Apts LP has various agreements with CCDC-Maceo May Apts, LLC and Swords-Maceo May Apts, LLC (collectively referred to as "Maceo May General Partners") as follows:

Development fee agreement - Under the terms of this agreement, Swords and CCDC earned a total development fee of \$3,500,000, subject to adjustments stipulated in the agreement, for services related to the development of the project. The unpaid balance of the development fee as of the investor limited partner's final contribution is deferred and payable from available cash flow. The development fee does not accrue interest. The development fee is distributed 50% each to CCDC-Maceo May Apts, LLC and Swords-Maceo May Apts, LLC. For the years ended June 30, 2021 and 2020, Swords earned and was paid \$0 and \$304,608, respectively, in development fees.

Partnership management fee agreement - Under the terms of this agreement, the Maceo May General Partners are entitled to an annual cumulative partnership management fee in an annual amount of \$22,650, payable from excess/distributable cash, and increasing 3.5% per year thereafter, in consideration for services performed in accordance with the partnership agreement. The partnership management fee is distributed 50% each to CCDC-Maceo May Apts, LLC and Swords-Maceo May Apts, LLC and commenced on April 1, 2020. As of and for the years ended June 30, 2021 and 2020, the Organization did not earn a partnership management fee.

Indemnification - The General Partners agreed to indemnify the investor limited partner in the event of a reduction in projected tax benefits.

Operating deficit guaranty- The General Partners agree and guarantee to fund all operating deficits incurred by Maceo May Apts LP precedent to the limited partner's stabilization capital contribution, at which point the obligation is capped at \$1,600,000 in aggregate and continues to be subject to the provisions listed in Maceo May Apts LP's partnership agreement.

Purchase option - The limited partner has an option to require Swords to purchase the either the project or the limited partner's interest. The option to purchase period for Swords commences on the first date after expiration of the Credit Period (which is defined in the Internal Revenue Code ("IRC") Section 42(f)(1) as the first ten years starting either the first taxable year the project was placed in service or the immediate year after) until the year before the expiration of the Compliance Period (which is defined by IRC 42(i)(1) as the fifteen years starting the first year of the Credit Period).

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

9. Notes payable

Paycheck Protection Program Loan

On April 13, 2020, the Organization obtained a loan from the Bank of San Francisco through the Paycheck Protection Program in the amount of \$2,595,600 (the "PPP Loan"). The loan bears interest at a rate of 1%, and matures on April 13, 2022. The PPP Loan requires monthly interest and principal payments beginning on November 13, 2020; however, the Organization has applied for forgiveness of the PPP Loan as certain criteria was met. As of June 30, 2021 and 2020, the principal balance of the PPP Loan was \$658,271 and \$1,915,163, respectively. For the years ended June 30, 2021 and 2020, the Organization recognized debt forgiveness of \$1,256,893 and \$680,437, respectively.

Construction loan

The Organization was granted a construction loan in the amount of \$2,500,000 from the Bank of San Francisco to develop housing located on subleased property on Treasure Island. The loan bears interest at a rate of 5%, per annum, and requires monthly payments of interest. The loan matures on August 31, 2030. As of June 30, 2021 and 2020, \$2,045,458 and \$577,527, respectively was drawn on the construction loan and remained payable. For the years ended June 30, 2021 and 2020, interest was \$62,060 and \$5,440, respectively, of which \$62,060 and \$0, respectively, was capitalized to fixed assets, and \$0 and \$5,440, respectively, was expensed and included in other expenses on the consolidated statements of functional expense.

Minimum annual principal payments required under notes payable are as follows:

Year ending June 30,	
2022	\$ 658,271
2023	-
2024	-
2025	-
2026	-
Thereafter	<u>2,045,458</u>
Total	<u>\$ 2,703,729</u>

10. Forgivable debt

The Organization was granted a loan in the amount of \$426,586 from the City and County of San Francisco to develop housing located on subleased property on Treasure Island. The term of the loan is until the earlier of the termination of the sublease, including extensions and renewals for the Treasure Island property, or 50 years (2049). The Organization's obligation to repay the loan will be waived at the end of the loan term provided that the loan is not in default, as defined in the agreement. No interest will be charged on the loan unless the loan is in default. In the event of default, interest on the loan will be charged at the lesser of 10% or the maximum lawful rate, and the loan will be due and payable upon notice from the City and County of San Francisco. As of both June 30, 2021 and 2020, forgivable debt is \$426,586.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

10. Forgivable debt (continued)

Management has determined that the likelihood of the Organization violating the terms of the above loan agreement is remote. Therefore, the forgivable loan proceeds totaling \$426,586 were recorded as revenue when received, and are classified as net assets with donor restrictions (refer to Note 11). This amount will remain in net assets with donor restrictions until the loan is forgiven.

11. Net assets with donor restrictions

Net assets with donor restrictions are comprised of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Forgivable debt (refer to Note 10)	\$ 426,586	\$ 426,586
Institute for veteran policy	566,924	429,908
Supportive housing and services programs	159,525	86,663
Legal	568,872	136,785
Employment and training	57,567	46,949
Housing	230,650	128,049
East Bay	29,672	26,906
Academy	-	125,000
SF Dropin	43,933	-
Endowment	47,535	47,535
Total	<u>\$ 2,131,264</u>	<u>\$ 1,454,381</u>

During the years ended June 30, 2021 and 2020, releases from donor restrictions consist of the following:

	<u>2021</u>	<u>2020</u>
Legal	\$ 605,351	\$ 784,671
Institute for veteran policy	313,013	332,770
Supportive housing and services programs	32,138	313,002
Housing	399	78,961
Employment and training	4,353	128,405
East Bay	7,234	7,094
Academy	130,000	285,000
Fairfax	-	300,000
SF Dropin	233,067	-
Forgivable debt	-	1,623,830
Total	<u>\$ 1,325,555</u>	<u>\$ 3,853,733</u>

The Organization started an endowment fund in prior years to provide support to the Veterans Academy.

The Organization is subject to the requirement of UPMIFA governing endowments. However, the fund balance, which amounts to \$47,535 as of both June 30, 2021 and 2020, is too small to generate meaningful income. Accordingly, the Organization has not formalized spending and investing policies for this fund.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

12. Commitments

The Organization leases two buildings at the Presidio, which are used for the Veterans Academy Program. The lease term expires on June 30, 2037. For the years ended June 30, 2021 and 2020, the monthly rent was \$10,720 and \$12,521, respectively, per building and incrementally increases to \$17,202 per building by the end of the lease term.

The Organization leases three floors of office space in San Francisco, which is used for intake, counseling and administrative offices. The lease term expires on December 31, 2028. For the years ended June 30, 2021 and 2020, the monthly rent was \$54,138 and \$52,561, respectively, and incrementally increases to \$66,583 by the end of the lease term.

The Organization leases space on the third floor of the War Memorial Building, located in San Francisco, which is used for their administrative offices. The lease term expires on March 5, 2034. For each of the years ended June 30, 2021 and 2020, the monthly rent was \$9,289.

The Organization leased office space in Oakland with a term of three years that ended October 31, 2017. On October 31, 2017, the Organization extended its lease to October 31, 2020. The Organization did not renew the lease. For the years ended June 30, 2021 and 2020, the monthly rent was \$0 and \$10,609, respectively.

The Organization leases office space in Oakland with a term of five years that ends November 1, 2025. For the years ended June 30, 2021 and 2020, monthly rent was \$20,600 and \$20,000, respectively.

The Organization leases a building for its Safe Haven housing program. The original term went through June 30, 2015 with fourteen one-year options to extend through June 30, 2029. For the years ended June 30, 2021 and 2020, the monthly rent was \$26,798 and \$26,289, respectively. The lease was extended to June 30, 2022.

The Organization has a sublease agreement with the Treasure Island Development Authority to provide transitional and permanent housing on Treasure Island (Chinook and Halibut). The Organization is required to pay monthly common area charges and utility fees. In August 2015, the sublease was renewed to September 30, 2021. On October 1, 2021, the sublease agreement was amended to extend the sublease to June 30, 2024. It is expected that Organization will not be required to vacate these units until replacement units have been constructed or alternative arrangements have been made for the occupants of these units. No rent is charged under this agreement, but for the years ended June 30, 2021 and 2020, the Organization was required to pay a monthly fee for common area maintenance of \$3,200 and \$3,100, respectively.

Minimum annual rental payments required under the above leases for the next five years are as follows:

Year ending June 30,	
2022	\$ 1,614,820
2023	1,656,369
2024	1,702,497
2025	1,751,810
2026	<u>1,512,729</u>
	<u>\$ 8,238,225</u>

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

12. Commitments (continued)

For the years ended June 30, 2021 and 2020, rent expense was \$1,382,701 and \$1,390,247, respectively, and is included in occupancy on the accompanying consolidated statements of functional expenses.

13. Retirement plan

The Organization has a 403(b) retirement plan (the “403(b) Plan”). The 403(b) Plan covers substantially all Organization employees who have met a one-year service requirement, as defined. Eligible employees may contribute any portion of their compensation up to the statutory maximum amount. The Organization may make discretionary employer contributions, which are immediately vested. For the years ended June 30, 2021 and 2020, total employer contributions were \$445,236 and \$369,200, respectively.

In addition, the Organization has a 457(b) retirement plan (the “457(b) Plan”). The 457(b) Plan covers officers of the Organization and management, as defined. Eligible employees may contribute any portion of their compensation up to the statutory maximum amount. The Organization does not make any employer contributions to the 457(b) Plan.

14. Vulnerability – Impact of COVID-19

In 2020, the spread of a novel strain of coronavirus (COVID-19) caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy.

Due to both the generosity of private funders and the constant support of government contracts, Swords have been responding intensely to the pandemic. The Department of Veterans Administration has revised the emergency housing restriction in response to getting the veterans off the street and into hotels. This has increased both Swords revenue and expenses as well as expanded Swords workforce to support this activity. This change in restrictions and increased funding is still in process in the current fiscal year.

Swords has also been improving sites with barriers, socially distanced meeting rooms, increase in personal protection equipment, individual food service implemented, and increases sanitization at all sites. As knowledge of this strain continues to grow, Swords strives to keep all sites safe for clients and staff.

The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on tenants, employees and vendors, all of which are uncertain and cannot be determined at this time.

15. Subsequent events

Subsequent events have been evaluated through December 28, 2021, which is the date the financial statements were available to be issued. The subsequent event is disclosed in Note 12.

SUPPLEMENTAL SCHEDULES

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

<u>Federal Grantor/Pass-through Agent/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>	<u>Pass Through to Subrecipients</u>
Department of Housing and Urban Development					
Passed through from State of California					
Passed through from San Francisco City and County					
Passed through from Mayor's Office of Community Development					
Community Development Block Grant	14.218	123397-19	7/1/19-9/30/20	\$ 20,278	\$ -
Community Development Block Grant	14.218	146015-20	10/1/20-6/30/22	88,449	-
				<u>108,727</u>	<u>-</u>
Passed through from San Francisco Housing Authority					
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/20-6/30/21	2,235,652	-
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/20-6/30/21	787,620	-
Section 8 Housing Subsidy	14.249	CA001SRO019	7/1/20-6/30/21	40,418	-
				<u>3,063,690</u>	<u>-</u>
Passed through from San Francisco City and County					
Passed through San Francisco Human Services Agency					
Veterans' Academy Support Services	14.267	469784	7/1/15-6/30/21	346,990	-
Passed through from San Francisco City and County					
Passed through Department of Homelessness and Supportive Housing					
Mission Bay/Edwin Lee Support Services	14.267	0000391141	11/1/19-10/31/20	17,623	-
Mission Bay/Edwin Lee Support Services	14.267	483889	11/1/20-10/31/21	49,075	-
Rental Assistance & Case Management for Veterans I	14.267	442404	4/1/20-3/31/21	73,336	-
Rental Assistance & Case Management for Veterans I	14.267	548824	4/1/21-3/31/22	24,973	-
Project Based Subsidies	14.267	442404	4/1/20-3/31/21	255,751	-
Project Based Subsidies	14.267	548824	4/1/21-3/31/22	89,455	-
Project Based Subsidies	14.267	0000374905	11/1/19-10/31/20	95,227	-
Project Based Subsidies	14.267	486323	11/1/20-10/31/21	260,439	-
				<u>865,879</u>	<u>-</u>
Total Department of Housing and Urban Development				<u>4,385,286</u>	<u>-</u>

see report of independent auditors and notes to schedule of expenditures of federal awards

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021

<u>Federal Grantor/Pass-through Agent/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>	<u>Pass Through to Subrecipients</u>
Department of Labor					
Passed through from San Francisco City and County Workforce Development Division					
Office of Economic and Workforce Development	17.258	2137	7/1/20-12/31/20	\$ 76,757	\$ -
Office of Economic and Workforce Development	17.258	2197	1/1/21-6/30/21	81,180	-
				<u>157,937</u>	<u>-</u>
Passed through from State of California Employment Development Department					
WIA/WIOA VEAP 15% Governor's Discretionary	17.258	AA111069	4/1/21-9/30/22	148,785	-
Homeless Veterans Reintegration Program (EB)	17.805	HV-35321HVO	7/1/20-6/30/21	500,000	-
				<u>500,000</u>	<u>-</u>
Total Department of Labor				<u>806,722</u>	<u>-</u>

see report of independent auditors and notes to schedule of expenditures of federal awards

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021

Federal Grantor/Pass-through Agent/Program Title	Catalog of Federal Domestic Assistance Number	Pass Through Identifying Number	Contract Period	Federal Expenditures	Pass Through to Subrecipients
Department of Veterans Administration					
Homeless Veterans' Residential Treatment	64.024	662-C99161	9/1/19-8/31/20	\$ 127,214	\$ -
Homeless Veterans' Residential Treatment	64.024	662-C09189	9/1/20-8/31/21	465,792	-
				<u>593,006</u>	<u>-</u>
GPD Service Center	64.024	STP0626-0924-662-SC-19	10/01/19-9/30/20	9,963	-
GPD Service Center	64.024	STP0626-1543-662-SC-21	10/01/19-9/30/21	150,964	-
GPD Service Center	64.024	STP0626-1528-662-SC-21	10/01/19-9/30/21	505	-
				<u>161,432</u>	<u>-</u>
GPD Mobile Case Manager-SF	64.024	STP0626-1119-612-CM-20	10/01/19-9/30/21	89,635	-
GPD Mobile Case Manager-EB	64.024	STP0626-1120-612-CM-20	10/01/19-9/30/21	82,286	-
				<u>171,921</u>	<u>-</u>
Tramatic Brain Injury Transitional Living Program (Star Vets)	64.024	612-19-3-289-0073	7/14/20-4/13/21	382,292	-
Housing Support Specialists - Stanford Hotel	64.024	662-C09133	4/1/20-9/30/20	126,033	-
Housing Support Specialists - Stanford Hotel	64.024	36C26121D0019	10/1/20-9/30/25	373,988	-
				<u>500,021</u>	<u>-</u>
Safe Haven Low Demand Housing	64.024	662-C99176	9/30/19-9/29/20	460,148	-
Safe Haven Low Demand Housing	64.024	662-C09197	9/30/20-9/29/21	1,416,699	-
				<u>1,876,847</u>	<u>-</u>
Supportive Services for Veteran Families	64.033	18-CA-091-20	10/1/19-9/30/20	2,055,798	-
COVID-19 - Supportive Services for Veteran Families-CARES	64.033	18-CA-091-CA	4/1/20-10/31/20	4,126,187	-
COVID-19 - Supportive Services for Veteran Families-CARES	64.033	18-CA-091-C2	11/1/20-9/30/21	5,036,364	-
COVID-19 - Supportive Services for Veteran Families-CARES	64.033	18-CA-091-C3	11/1/20-9/30/21	2,478,328	-
Supportive Services for Veteran Families-Surge	64.033	S20-CA-501	10/1/19-9/30/21	251,775	-
Supportive Services for Veteran Families-Surge	64.033	S20-CA-501-C3	4/1/20-9/30/21	1,431,057	-
				<u>15,379,509</u>	<u>-</u>
Total Department of Veterans Administration				<u>19,065,028</u>	<u>-</u>

see report of independent auditors and notes to schedule of expenditures of federal awards

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021

<u>Federal Grantor/Pass-through Agent/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Identifying Number</u>	<u>Contract Period</u>	<u>Federal Expenditures</u>	<u>Pass Through to Subrecipients</u>
Department of Health and Human Services					
Passed through from San Francisco City and County					
Community Mental Health Services					
COVER Program - Sheriff's Dept	93.150	1000011102	7/1/20-6/30/21	\$ 196,361	\$ -
Total Department of Health and Human Services				<u>196,361</u>	<u>-</u>
Federal Emergency Management Agency					
Phase 37	97.024	LRO ID: 0858-00-033	6/1/20-10/31/21	<u>22,315</u>	<u>-</u>
Total Federal Expenditures				<u><u>\$ 24,475,712</u></u>	<u><u>\$ -</u></u>

see report of independent auditors and notes to schedule of expenditures of federal awards

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2021

1. Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the expenditures of Swords to Plowshares: Veterans Rights Organization and Subsidiaries (the "Organization") under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

For purposes of the Schedule, federal awards include all sub awards to the Organization by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

2. Summary of significant accounting policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed. Catalogue of Federal Domestic Assistance numbers ("CFDA No.") are provided when available.

The Organization elected not to use the 10% de minimis indirect cost rate.



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

To the Board of Directors of
Swords to Plowshares: Veterans Rights Organization and Subsidiaries:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Swords to Plowshares: Veterans Rights Organization and Subsidiaries (a California non-profit organization) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 28, 2021.

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. 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Novogradac & Company LLP

Petaluma, California
December 28, 2021



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

To the Board of Directors of
Swords to Plowshares: Veterans Rights Organization and Subsidiaries:

Report on Compliance for Each Major Federal Program

We have audited Swords to Plowshares: Veterans Rights Organization and Subsidiaries' (a California non-profit corporation) (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2021. The Organization'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 each 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 each of its major federal programs for the year ended June 30, 2021.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Novogradac & Company LLP

Petaluma, California
December 28, 2021

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u> x </u>	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	<u> x </u>	None reported
Noncompliance material to financial statements noted?	_____ Yes	<u> x </u>	No

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> x </u>	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	<u> x </u>	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified		
Audit findings required to be reported in accordance with 2 CFR section 200.516(a)?	_____ Yes	<u> x </u>	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
64.033	VA Supportive Services for Veteran Families Program

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

Auditee qualified as low-risk auditee? x Yes No

Section II - Financial Statement Findings

There were no findings noted.

Section III - Federal Award Findings and Questioned Costs

There were no findings noted.

SWORDS TO PLOWSHARES: VETERANS RIGHTS ORGANIZATION AND SUBSIDIARIES
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
(UNAUDITED)
For the year ended June 30, 2021

Status of Prior Year Findings and Recommendations

There were no findings and recommendations reported in the June 30, 2020 financial statements.