

**EMERGENCY HOUSING CONSORTIUM INCORPORATED
DBA EHC LIFEBUILDERS
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
AND SUBSIDIARY**

Report on Audits of Consolidated Financial Statements

For the Years Ended June 30, 2010 and 2009

EMERGENCY HOUSING CONSORTIUM INCORPORATED
DBA EHC LIFEBUILDERS
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Emergency Housing Consortium Incorporated, dba EHC LifeBuilders
and Subsidiary
(A California Nonprofit Public Benefit Corporation)

We have audited the accompanying consolidated statements of financial position of Emergency Housing Consortium Incorporated (a California nonprofit public benefit corporation) and Subsidiary as of June 30, 2010 and 2009, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emergency Housing Consortium Incorporated and Subsidiary as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2010, on our consideration of Emergency Housing Consortium Incorporated and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Member of The Leading Edge Alliance

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

Burr Pilsen Mayer, INC.

San Jose, California
October 6, 2010

**EMERGENCY HOUSING CONSORTIUM
INCORPORATED
dba EHC LifeBuilders
(A California Nonprofit Public Benefit Corporation)
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2010 and 2009**

ASSETS

| | 2010 | 2009 |
|---|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 504,181 | \$ 721,976 |
| Government grants receivable, less allowance for doubtful accounts of \$15,402 and \$16,445 at 2010 and 2009 | 1,027,624 | 785,430 |
| Current portion of contributions receivable | 150,100 | 138,700 |
| Accrued receivables | 393,136 | 523,382 |
| Other receivables, less allowance for doubtful accounts of \$2,850 at 2010 and 2009 | 146,499 | 426,855 |
| Prepaid expenses | 57,210 | 80,400 |
| Restricted cash | 150,392 | 127,671 |
| Assets available for sale | - | 6,068,557 |
| Total current assets | 2,429,142 | 8,872,971 |
| PROPERTY AND EQUIPMENT | | |
| Property and equipment, net | 32,172,275 | 33,170,553 |
| OTHER ASSETS | | |
| Projects in development | 2,543,969 | 2,543,969 |
| Contributions receivable, net of current portion | - | 50,000 |
| Investment in partnerships | 220 | 220 |
| Note receivable | - | - |
| Other assets | 26,168 | 38,942 |
| Total other assets | 2,570,357 | 2,633,131 |
| TOTAL ASSETS | \$ 37,171,774 | \$ 44,676,655 |

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

**EMERGENCY HOUSING CONSORTIUM
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AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2010 and 2009**

LIABILITIES AND NET ASSETS

| | 2010 | 2009 |
|---|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 134,088 | 242,458 |
| Government grant repayment liability | 1,200,304 | 1,200,304 |
| Accrued payroll and related liabilities | 324,511 | 357,239 |
| Current portion of mortgages and notes payable | 132,594 | 269,992 |
| Other liabilities | 284,003 | 331,245 |
| Line of credit -available for sale in 2010 | - | 1,100,000 |
| Bridge loan - available for sale in 2010 | - | 600,000 |
| Debts related to assets available for sale | - | 7,089,613 |
| Accrued interest related to assets available for sale | - | 2,135,196 |
| Total current liabilities | 2,075,500 | 13,326,047 |
| LONG-TERM LIABILITIES, NET OF CURRENT PORTION | | |
| Accrued interest | 2,515,081 | 2,233,432 |
| Mortgages and notes payable | 7,811,618 | 7,742,985 |
| Total long-term liabilities, net of current portion | 10,326,699 | 9,976,417 |
| Tenant security deposits | 50,877 | 58,076 |
| Total liabilities | 12,453,076 | 23,360,540 |
| NET ASSETS | | |
| Unrestricted net assets: | | |
| Total other assets | | |
| Restricted cash | 150,392 | 127,671 |
| Board designated for property maintenance | 25,000 | - |
| Long-term investment | 220 | 220 |
| Undesignated | 23,919,798 | 19,447,056 |
| Total unrestricted net assets | 24,095,410 | 19,574,947 |
| Temporarily restricted net assets | 623,288 | 1,741,168 |
| Total net assets | 24,718,698 | 21,316,115 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 37,171,774 | \$ 44,676,655 |

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

**EMERGENCY HOUSING CONSORTIUM
INCORPORATED**
dba EHC LifeBuilders
(A California Nonprofit Public Benefit Corporation)
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Year Ended June 30, 2010

| | 2010 | | |
|---|----------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total |
| REVENUE AND OTHER SUPPORT: | | | |
| Government grants | \$ 5,607,507 | \$ - | \$ 5,607,507 |
| Private grants and contributions | 991,521 | 701,146 | 1,692,667 |
| Donated goods and services | 1,381,783 | - | 1,381,783 |
| Rental income | 1,174,053 | - | 1,174,053 |
| Special events | 151,985 | - | 151,985 |
| Interest income | 163,756 | - | 163,756 |
| Gain on disposition of assets | 5,213,239 | - | 5,213,239 |
| Other support and revenue | 207,693 | - | 207,693 |
| Total revenue and other support | <u>14,891,537</u> | <u>701,146</u> | <u>15,592,683</u> |
| Net assets released from restrictions | <u>1,819,026</u> | <u>(1,819,026)</u> | <u>-</u> |
| Total revenue and other support releases from restrictions | <u>16,710,563</u> | <u>(1,117,880)</u> | <u>15,592,683</u> |
| EXPENSES: | | | |
| Program services | 10,549,591 | - | 10,549,591 |
| Supporting services | | | |
| Management and general expenses | 1,037,144 | - | 1,037,144 |
| Fundraising | 603,365 | - | 603,365 |
| Total supporting services | <u>1,640,509</u> | <u>-</u> | <u>1,640,509</u> |
| Total expenses | <u>12,190,100</u> | <u>-</u> | <u>12,190,100</u> |
| Change in net assets | 4,520,463 | (1,117,880) | 3,402,583 |
| Net assets at beginning of year | <u>19,574,947</u> | <u>1,741,168</u> | <u>21,316,115</u> |
| Net assets at end of year | <u>\$ 24,095,410</u> | <u>\$ 623,288</u> | <u>\$ 24,718,698</u> |

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**EMERGENCY HOUSING CONSORTIUM
INCORPORATED**
dba EHC LifeBuilders
(A California Nonprofit Public Benefit Corporation)
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
Year Ended June 30, 2009

| | 2009 | | |
|---|----------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total |
| REVENUE AND OTHER SUPPORT: | | | |
| Government grants | \$ 4,991,113 | \$ - | \$ 4,991,113 |
| Private grants and contributions | 1,717,526 | 576,085 | 2,293,611 |
| Donated goods and services | 1,207,720 | - | 1,207,720 |
| Rental income | 1,900,032 | - | 1,900,032 |
| Special events | 151,448 | - | 151,448 |
| Interest income | 179,489 | - | 179,489 |
| Other support and revenue | 211,858 | - | 211,858 |
| Total revenue and other support | <u>10,359,186</u> | <u>576,085</u> | <u>10,935,271</u> |
| Net assets released from restrictions | <u>984,402</u> | <u>(984,402)</u> | <u>-</u> |
| Total revenue and other support releases from restrictions | <u>11,343,588</u> | <u>(408,317)</u> | <u>10,935,271</u> |
| EXPENSES: | | | |
| Program services | 10,660,469 | - | 10,660,469 |
| Supporting services | - | - | - |
| Management and general expenses | 1,446,759 | - | 1,446,759 |
| Fundraising | 538,670 | - | 538,670 |
| Total supporting services | <u>1,985,429</u> | <u>-</u> | <u>1,985,429</u> |
| Total expenses | <u>12,645,898</u> | <u>-</u> | <u>12,645,898</u> |
| Change in net assets before other items | (1,302,310) | (408,317) | (1,710,627) |
| Impairment of asset | <u>(5,162,136)</u> | <u>-</u> | <u>(5,162,136)</u> |
| Change in net assets | (6,464,446) | (408,317) | (6,872,763) |
| Net assets at beginning of year | 26,039,393 | 2,149,485 | 28,188,878 |
| Net assets at end of year | <u>\$ 19,574,947</u> | <u>\$ 1,741,168</u> | <u>\$ 21,316,115</u> |

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**EMERGENCY HOUSING CONSORTIUM
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dba EHC LifeBuilders
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AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2010

| | 2010 | | | |
|---------------------------------------|----------------------|---------------------------|-------------------|----------------------|
| | Program Services | Management and General | Fundraising | Total |
| Salaries and related expenses: | | | | |
| Salaries | \$ 2,635,160 | \$ 530,246 | \$ 244,680 | \$ 3,410,086 |
| Payroll taxes and employee benefits | 617,490 | 91,820 | 51,712 | 761,022 |
| Total salaries and related expenses | <u>3,252,650</u> | <u>622,066</u> | <u>296,392</u> | <u>4,171,108</u> |
| Other expenses: | | | | |
| Professional fees | 57,483 | 217,229 | 26,998 | 301,710 |
| Occupancy | 1,000,284 | 48,032 | 35,777 | 1,084,093 |
| Donated rent | 128,725 | - | - | 128,725 |
| Donated goods and services | 1,175,600 | 1,700 | 75,758 | 1,253,058 |
| Interest expense | 568,594 | 2,524 | - | 571,118 |
| Financial assistance | 2,650,991 | - | 50 | 2,651,041 |
| Supplies | 145,560 | 17,694 | 38,813 | 202,067 |
| Rentals and maintenance | 24,437 | 19,498 | 9,912 | 53,847 |
| Telephone | 80,514 | 36,848 | 2,280 | 119,642 |
| Local transportation | 42,816 | 6,226 | 2,634 | 51,676 |
| Printing and publication | 3,577 | 1,677 | 60,371 | 65,625 |
| Allowance for bad debt | 252,719 | - | 24,109 | 276,828 |
| Other | 38,764 | 45,401 | 30,271 | 114,436 |
| Total other expenses | <u>6,170,064</u> | <u>396,829</u> | <u>306,973</u> | <u>6,873,866</u> |
| Depreciation and amortization | 1,126,877 | 18,249 | - | 1,145,126 |
| Total functional expenses | <u>\$ 10,549,591</u> | <u>\$ 1,037,144</u> | <u>\$ 603,365</u> | <u>\$ 12,190,100</u> |

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AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

| | 2009 | | | |
|---------------------------------------|----------------------|---------------------------|-------------------|----------------------|
| | Program Services | Management and General | Fundraising | Total |
| Salaries and related expenses: | | | | |
| Salaries | \$ 2,849,096 | \$ 624,282 | \$ 280,379 | \$ 3,753,757 |
| Payroll taxes and employee benefits | 720,268 | 123,093 | 66,038 | 909,399 |
| Total salaries and related expenses | <u>3,569,364</u> | <u>747,375</u> | <u>346,417</u> | <u>4,663,156</u> |
| Other expenses: | | | | |
| Professional fees | 40,375 | 255,308 | 43,058 | 338,741 |
| Special events | - | (75) | - | (75) |
| Occupancy | 1,135,952 | 46,888 | 30,802 | 1,213,642 |
| Donated rent | 128,725 | - | - | 128,725 |
| Donated goods and services | 1,061,332 | - | 17,663 | 1,078,995 |
| Interest expense | 639,791 | 196,955 | - | 836,746 |
| Financial assistance | 1,689,094 | - | - | 1,689,094 |
| Supplies | 244,526 | 14,745 | 19,718 | 278,989 |
| Rentals and maintenance | 26,126 | 35,060 | 5,128 | 66,314 |
| Telephone | 96,721 | 33,223 | 2,225 | 132,169 |
| Local transportation | 53,037 | 8,042 | 4,566 | 65,645 |
| Printing and publication | 5,936 | 502 | 43,241 | 49,679 |
| Allowance for bad debt | 179,358 | 222 | (1,273) | 178,307 |
| Other | 72,685 | 30,281 | 27,125 | 130,091 |
| Loss on disposal of asset | 546,337 | 45,674 | - | 592,011 |
| Total other expenses | <u>5,919,995</u> | <u>666,825</u> | <u>192,253</u> | <u>6,779,073</u> |
| Depreciation and amortization | 1,171,110 | 32,559 | - | 1,203,669 |
| Total functional expenses | <u>\$ 10,660,469</u> | <u>\$ 1,446,759</u> | <u>\$ 538,670</u> | <u>\$ 12,645,898</u> |

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

**EMERGENCY HOUSING CONSORTIUM
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CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|--|---------------|----------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 3,402,583 | \$ (6,872,763) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,145,126 | 1,203,669 |
| Amortization of loan fee | 512 | (14,761) |
| (Gain) / Loss on disposal of fixed assets | (5,213,239) | 592,011 |
| Accrued interest reversed through disposal of fixed assets | 2,505,156 | - |
| Impairment of investment in partnership | - | 5,162,136 |
| (Increase) decrease in assets: | | |
| Government grants receivable | (242,194) | (136,860) |
| Contributions receivable | 38,600 | 321,219 |
| Accrued receivables | 130,246 | 3,045 |
| Other receivables | 280,356 | (154,237) |
| Prepaid expenses | 23,190 | (34,911) |
| Other | 12,262 | 17,773 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (108,370) | (285,136) |
| Accrued payroll and related liabilities | (32,728) | (124,401) |
| Accrued Interest | (1,853,547) | 624,256 |
| Security deposits | (7,199) | (2,806) |
| Other liabilities | (47,242) | 172,346 |
| | (3,369,071) | 7,343,343 |
| Net cash provided by operating activities | 33,512 | 470,580 |
| Cash flows from investing activities: | | |
| Acquisition of property, equipment and projects in development | (54,822) | (205,936) |
| Proceeds from sale of property and equipment | - | 115,094 |
| Increase in restricted cash | (22,721) | (10,772) |
| Net cash (used in) investing activities | (77,543) | (101,614) |
| Cash flows from financing activities | | |
| Repayments of long - term debt | (173,764) | (382,686) |
| Net cash (used in) financing activities | (173,764) | (382,686) |
| Net (decrease) in cash and cash equivalents | (217,795) | (13,720) |
| Cash and cash equivalents, beginning of year | 721,976 | 735,696 |
| Cash and cash equivalents, end of year | \$ 504,181 | \$ 721,976 |
| Supplemental disclosure of cash flows information: | | |
| Cash paid for interest | \$ 214,349 | \$ 248,632 |
| Schedule of non-cash investing transactions: | | |
| Proceeds from sale of property through escrow | \$ 11,189,770 | \$ 227,094 |
| Debt forgiven | (1,349,844) | (112,000) |
| Repayment of long-term debt | (6,234,770) | - |
| Repayment of line of credit | (1,100,000) | - |
| Repayment of accrued interest | (2,505,156) | - |
| | \$ - | \$ 115,094 |

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

EMERGENCY HOUSING CONSORTIUM INCORPORATED
DBA EHC LIFEBUILDERS
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

1. Organization

Emergency Housing Consortium Incorporated, dba EHC LifeBuilders (the "Organization") is a California nonprofit public benefit corporation organized in 1980 that envisions a community where everyone has a home and whose mission is to confront homelessness by cultivating people's potential to procure and sustain housing.

The Organization is a leading provider of shelter and support services to the homeless and those at risk of homelessness in Santa Clara County, California, and has established a nationally recognized continuum of care, including prevention services, emergency shelter, transitional housing, and permanent affordable housing. The Organization serves more than 8,000 homeless families, single adults, and homeless youth with shelter, supported housing, information and referral, and a range of essential support and case management services designed to help end homelessness.

In 2004, the Organization formed EHC Delmas Park, LLC ("EHC Delmas") of which it is the sole member, in order to acquire and hold land in downtown San Jose. The land has been leased to an affordable housing project.

Program Services

Shelter, Housing and Supportive Services Programs:

Boccardo Reception Center - Provides emergency shelter, transitional housing, and on-site support services for up to 250 single adults each night in San Jose.

Sobrato Family Living Center - Provides emergency shelter, transitional housing and permanent affordable housing and support services for 51 homeless families with children in Santa Clara County.

Boccardo Family Living Center - Provides emergency shelter and transitional housing for 26 homeless families with children in San Martin, Gilroy and surrounding areas. Also provides a seasonal migrant worker housing program through the USDA.

Veterans Service Center - Provides drop-in and other supportive services to homeless veterans to help them increase their income and to obtain permanent housing.

Sobrato House - Provides transitional housing and services to youth ages 18-21 and emancipated youth ages 16-17 (See Note 11.)

Transitional Housing Program Plus - Provides scattered-site transitional housing with in-home support services to former foster youth ages 18-24.

Raising Income through Scholarship and Education (RISE) - Provides financial assistance, technical training scholarships and case management services for formerly homeless or at-risk parents.

Housing Services Partnership - Provides housing search assistance and financial assistance grants to prevent and end homelessness for residents of San Jose or those moving into the City of San Jose.

Continued

EMERGENCY HOUSING CONSORTIUM INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

1. **Organization, continued**

Shelter, Housing and Supportive Services Programs, continued:

Housing for Homeless Addicted to Alcohol - Provides scattered-site rapid re-housing and intensive support services for chronically homeless individuals addicted to alcohol.

Homeless Prevention and Rapid Re-Housing – Provides short- and medium-term financial assistance and intensive case management support for individuals and families who are homeless or at imminent risk of becoming homeless.

Cold Weather Emergency Shelters - Provides emergency shelter, food, and support services for 250 homeless adults (125 at each location) at National Guard armories in Sunnyvale and Gilroy. The shelters operate from the Monday after Thanksgiving through the end of March.

One-Stop Service Center - provides a continuum of services to the chronically homeless with the goal of permanent housing.

Acalanes - Provides 24 permanent housing apartment units located in Sunnyvale.

Programs discontinued as a result of asset sales in 2010

Markham Terrace - Provided 95 affordable permanent housing units to formerly homeless single adults, including those with disabilities, in a garden court setting in San Jose. (See Note 11.)

Gifford - Provided 8 apartments for low income tenants in San Jose. (See Note 11.)

Continuum of Care:

Provides self-sufficiency strategies and support services to supplement the housing programs. These wrap-around services facilitate a move into stable housing and employment. Programs include: food, clothing, and transportation assistance; housing search and rent assistance; adult education and literacy programs; on-site medical aid; legal aid; computer training; job training and employment assistance; life-skills workshops; children's education and mentoring programs; mental health outreach; and drug and alcohol workshops.

Projects in Development:

Sobrato Transitional Center - The Organization is developing a reception center in Gilroy, which is modeled after the Boccardo Reception Center. This facility was initially planned to provide emergency shelter and transitional housing for up to 140 individuals and families year-round, replacing the Gilroy Cold Weather Emergency Shelter. Construction began in November 2005 but was delayed while the Organization discussed with funders and an affordable housing developer the possible redesign of the project.

Continued

EMERGENCY HOUSING CONSORTIUM INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Consolidation of Financial Statements

The consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, EHC Delmas. The Organization is the single member owner of EHC Delmas. There were no significant intercompany accounts or transactions that required elimination.

Basis of Presentation

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. The provisions of these standards require the Organization to report its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. Unrestricted net assets currently include the operating fund and Board designated funds.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period. Donor restrictions expire when 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. When restrictions are satisfied in the same accounting period as the receipt of the contribution the Organization reports both the revenue and related expenses as unrestricted net assets.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Cash and Cash Equivalents

Cash consists of cash on hand and cash in demand deposit accounts. Not included in cash are funds restricted as to their use, regardless of their liquidity, such as cash restricted for the acquisition or construction of land and buildings. Cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

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. Management believes it is not exposed to any significant risk on cash accounts.

Continued

EMERGENCY HOUSING CONSORTIUM INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

2. Summary of Significant Accounting Policies, continued

Grants, Contributions, Notes and Other Receivables

The Organization considers all receivables to be fully collectible after reserves as estimated by management. It is the Organization's policy to charge off uncollectable accounts receivable when management determines the receivable will not be collected.

Available for Sale Assets and Liabilities

In 2009, management identified certain real property as available for sale and certain related liabilities. These assets were sold in fiscal year June 30, 2010. Included in the financial statements as of June 30, 2009 are assets held for sale in the amount of \$6,068,557, respectively, subject to notes payables and accrued interest of \$10,924,809.

| | 2010 | 2009 |
|--|------|---------------|
| Assets held for sale: | | |
| Markham Terrace | \$ - | \$ 4,601,087 |
| 5th Street, Younger Avenue in San Jose | - | 1,232,664 |
| Gifford Avenue in San Jose | - | 234,806 |
| Total assets held for sale | - | 6,068,557 |
| Related debt: | | |
| Markham Terrace | - | 3,575,191 |
| 5th Street, Younger Avenue in San Jose | - | 122,755 |
| Multiple Properties - Comerica Term Loan | - | 3,391,667 |
| | \$ - | \$ 7,089,613 |
| Multiple Properties - Comercia Bridge Loan | \$ - | \$ 600,000 |
| Multiple Properties - Comercia Line of Credit | - | 1,100,000 |
| Total debt related to assets held for sale | - | 8,789,613 |
| Related accrued interest: | | |
| Markham Terrace | - | 1,640,022 |
| 5th Street, Younger Avenue in San Jose | - | 44,797 |
| Gifford Avenue in San Jose | - | 450,377 |
| Total accrued interest related to assets held for sale | - | 2,135,196 |
| Total debt and accrued interest | \$ - | \$ 10,924,809 |

Continued

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2. Summary of Significant Accounting Policies, continued

The sale of all of the assets held for sale was concluded in 2010, resulting in a gain from the disposition of assets in the amount of \$5,213,239.

See Note 11 concerning the Organization's agreement to sell Sobrato Transitional Center and the Organization's lease and planned sale of Sobrato House.

Property and Equipment

Property and equipment are stated at cost of acquisition or construction or at fair value, if donated. The Organization capitalizes property and equipment with a cost of \$2,000 or more and a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty years.

Projects in Development

The Organization incurs costs during the development phase of each housing project undertaken. Such costs include governmental, legal and consulting fees, and actual construction costs. The Organization records these costs under the asset "project in development." "Project in development" costs are reclassified to property and equipment upon completion of the project.

Investment in Partnerships

The Organization uses the lower of the cost method, which approximates fair value as provided by management, or appraised value to account for its general partnership interests.

Revenue Recognition

The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions," and program fees are recognized as revenue in the period in which the service is provided. Loans expected to be forgiven by the lenders are treated as grants since it is management's intent to comply with the terms of the loans.

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets. The Organization records contributions whose restrictions are met in the same year as unrestricted support. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise became unconditional.

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2. Summary of Significant Accounting Policies, continued

Donated Rent, Goods and Services

Donated rent, goods and services are recorded at their estimated fair value as of the date of the donation. Donated services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which improve the efficiency of the Organization's operations. The value of these donated services is not reflected in the financial statements.

Functional Expense Allocation

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of salary expense or square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising costs for the years ended June 30, 2010 and 2009 were approximately \$585 and \$1,498, respectively.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

Income Taxes and Uncertainty in Income Taxes

Effective July 1, 2009, the Organization began reviewing and assessing tax positions taken or expected to be taken against more-likely-than-not recognition threshold and measurement attributes for financial statement recognition.

The Organization's policy for evaluating uncertain tax positions is a two step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. Based on an analysis prepared by the Organization, it was determined that the tax positions taken or expected to be taken had no material effect on the recorded tax assets and liabilities of the Organization.

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2. Summary of Significant Accounting Policies, continued

Income Taxes and Uncertainty in Income Taxes, continued

At July 1, 2009, the Organization applied this guidance to all tax positions for which the statute of limitations remained open (fiscal years ended since June 30, 2007) and determined there were no material unrecognized tax benefits as of that date. In addition, there have been no material changes in unrecognized benefits since July 1, 2009. There have been no related tax penalties or interest, which would be classified as tax expense in the statement of activities. As the Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal or state income taxes, the adoption of this guidance did not have a material effect on the Organization's financial statements.

Use of Estimates

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

Recent Accounting Pronouncements

Codification

In June 2009, the FASB issued *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles* (the "Codification"). The Codification supersedes all existing accounting and reporting standards. Updates to the Codification are being issued as Accounting Standards Updates, which will also provide background information about the guidance, and provide the basis for conclusions on changes in the Codification. The Codification became effective for the Organization on July 1, 2009 and did not have a material impact on the Organizations' financial statements.

Fair Value Measurements

In January 2010 a new update states that assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (i.e. trading securities), the valuation techniques and inputs used to develop those measurements should be disclosed. Additionally, reasons for transfers between Level 1 and Level 2 fair value measurements should also be disclosed. The update is effective for annual periods beginning after December 15, 2009.

Mergers and Acquisitions

In April 2009 a new update establishes the principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. This new update determines whether a combination is a merger or an acquisition; applies the carryover method in accounting for a merger; applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a merger or an acquisition. The update is effective for merger or acquisitions dates on or after the beginning of a reporting period on or after December 15, 2009.

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2. Summary of Significant Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the June 30, 2009 financial statement presentation to conform to the June 30, 2010 presentation.

Financial Results and Liquidity

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. The Organization shows working capital of approximately \$350,000 and negative \$4.5 million during the years ended June 30, 2010 and 2009, respectively. Working capital excluding the effect of assets held for sale was \$350,000 and \$400,000 during the years ended June 30, 2010 and 2009, respectively. Liabilities related to assets held for sale were repaid as a consequence of the sales.

3. Contributions Receivable

Contributions receivable as of June 30, consisted of the following:

| | 2010 | 2009 |
|--|------------|------------|
| Total contributions receivable | \$ 150,100 | \$ 188,700 |
| Current portion | (150,100) | (138,700) |
| Contributions receivable, net of current portion | \$ - | \$ 50,000 |

4. Restricted Cash

Restricted cash as of June 30, consisted of the following:

| | 2010 | 2009 |
|---------------------------------------|------------|------------|
| Sobrato House Construction | \$ 3,600 | \$ 3,600 |
| Youth Savings Program | 40,662 | 17,941 |
| Boccardo Family Living Center Reserve | 106,130 | 106,130 |
| Total Restricted Cash | \$ 150,392 | \$ 127,671 |

Restricted cash represents amounts which are required by grantors to be maintained in separate bank accounts.

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5. Property and Equipment

| | 2010 | 2009 |
|--|---------------|---------------|
| Buildings | \$ 27,577,886 | \$ 31,759,910 |
| Land | 9,539,322 | 11,829,636 |
| Furniture and equipment | 1,950,410 | 2,027,588 |
| Building improvements | 900,638 | 3,824,867 |
| Motor vehicles | 155,092 | 155,092 |
| Land improvements | 118,383 | 118,383 |
| Work in progress | - | 4,333 |
| | 40,241,731 | 49,719,809 |
| Less accumulated depreciation and amortization | (8,069,456) | (10,480,699) |
| Less assets available for sale | - | (6,068,557) |
| | \$ 32,172,275 | \$ 33,170,553 |

Depreciation expense for the years ended June 30, 2010 and 2009 was \$1,145,126 and \$1,203,669, respectively.

In 2010 the Organization concluded the sale of the Markham Terrace, 5th Street, Younger Avenue and Gifford Avenue properties. A net gain of \$5,213,239 was recognized on the disposition of assets in the year ended June 30, 2010.

In December 2008 the Organization concluded the sale of the Casa SAY property. A loss in the amount of \$479,614 was recognized on the disposition of assets in the year ended June 30, 2009.

6. Project in Development

As described in Note 11, as of August 24, 2009, the Organization entered into an agreement to sell the Sobrato Transitional Center to a nonprofit housing developer in exchange for the assumption of all of the Organization's obligations with respect to the property. The sale and assumption of obligations is subject to the consents of certain governmental agencies. Construction in progress cost relating to this development were \$2,543,969 as of June 30, 2010 and 2009.

As of June 30, 2010 and June 30, 2009, no interest was capitalized.

7. Investment in Partnerships

The Organization holds .005% general partnership interests in Tully Gardens, L.P. and Tully Gardens Phase II, L.P., both California limited partnerships. Tully Gardens, L.P. owns and operates a 153 unit single-room occupancy project for low-income persons in San Jose, California. Tully Gardens Phase II, L.P. owns and operates a 152 unit single-room occupancy project for low-income persons in San Jose, California. Together, the two partnerships own the project known as Markham Plaza.

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7. Investment in Partnerships, continued

Investment in partnerships as of June 30, consisted of the following:

| | 2010 | 2009 |
|------------------------|--------|--------|
| Tully Gardens, L.P. | \$ 63 | \$ 63 |
| Tully Gardens II, L.P. | 157 | 157 |
| | \$ 220 | \$ 220 |

The investments are valued at the lower of cost, where such cost approximates fair value as represented by management, or appraised value. In 2009 management obtained an appraisal of its investment in the partnerships, resulting in an impairment in value of the assets in the amount of \$5,162,136. For further information regarding valuation, interested parties should consult the management of the Organization.

8. Note and Advances Receivable - Affiliates

The Organization entered into two notes receivable in connection with the construction of projects owned by Tully Gardens, L.P. and Tully Gardens Phase II, L.P. In 2008 the Organization determined that the notes, advances receivable, and accrued interest receivable are uncollectible and maintained a full reserve for uncollectible amounts as of June 30, 2010 and 2009.

Notes receivable - affiliates as of June 30, consisted of the following:

| | 2010 | 2009 |
|---|--------------|--------------|
| Tully Gardens, L.P. note dated June 21, 2002 for a maximum amount of \$2,147,793. The source of the funds is a grant to the Organization from the City of San Jose. Funds were used for the construction of Tully Gardens, L.P.'s low-income housing tax credit project. Annual payments are due and payable January 1st and payable January 1st of each year equal to 30% of net cash flow, as defined by the note. The interest rate is based on the Applicable Federal Rate for long-term debt instruments in effect at the time of each disbursement and is compounded annually. Unpaid principal and interest is due June 30, 2042. As of June 30, 2010 and 2009 accrued interest was \$902,507 and \$790,308, respectively. The partnership does not intend to draw down the balance of the note. | \$ 2,475,047 | \$ 2,362,848 |

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8. Note and Advances Receivable – Affiliates, continued

Tully Gardens Phase II, L.P. note dated October 1, 2002 for a maximum amount of \$1,336,691. The source of the funds is a grant to the Organization from the City of San Jose. Funds were used for the construction of Tully Gardens Phase II, L.P.'s low-income housing tax credit project. Annual payments are due and payable January 1st of each year equal to 30% of net cash flow, as defined by the note. The interest rate is based on the Applicable Federal Rate for long-term debt instruments in effect at the time of each disbursement and is compounded annually. Unpaid principal and interest is due October 1, 2042. As of June 30, 2010 and 2009 accrued interest was \$349,838 and \$299,013, respectively. The partnership does not intend to draw down the balance of the note.

| | | |
|--------------------------|-------------|-------------|
| | 1,059,685 | 1,008,860 |
| Less valuation allowance | (3,534,732) | (3,371,708) |
| | <u>\$ -</u> | <u>\$ -</u> |

Advances receivable - affiliates as of June 30, consisted of the following:

| | 2010 | 2009 |
|--------------------------|-------------|-------------|
| Tully I | \$ 334,435 | \$ 334,435 |
| Less valuation allowance | (334,435) | (334,435) |
| | <u>\$ -</u> | <u>\$ -</u> |

9. Government Grant Repayment Liability

In 2006, the Organization was informed by Housing and Urban Development (HUD) that certain costs reimbursed for support of homeless and related services did not qualify for reimbursement under HUD guidelines. As a result HUD requested that the Organization perform a review of certain Supportive Housing Grant monies received from HUD from 2002 to 2006. The amount of potential liability has been reviewed by the Organization's management and as a result, certain questioned costs have been accrued in these financial statements. The balances of accrued questioned costs are \$1,200,304 as of June 30, 2010 and 2009. Management has presented to HUD the results of its internal audit and is waiting on HUD's review of this audit and its determination of repayments that may be required of the Organization. In the opinion of the Organization's management, such accrual and disclosure of questioned costs are in compliance with the provisions of Accounting for Contingencies. (See Note 17).

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10. Credit Facilities

On May 15, 2006, the Organization entered into a secured demand line of credit agreement with Comerica Bank which allowed borrowings up to \$1,100,000. The line of credit bore interest at the Bank's base rate plus 0.25%. The outstanding balance was repaid in 2010 from proceeds of asset sales, and the line of credit agreement was terminated.

On March 30, 2007, the Organization entered into a secured bridge loan agreement with Comerica Bank which allowed borrowings up to \$600,000. The bridge loan bore interest at the Bank's base rate plus 0.50%. The outstanding balance was repaid in 2010 from proceeds of asset sales, and the bridge loan agreement was terminated.

On January 27, 2009, the Organization concluded a Forebearance Agreement with Comerica Bank, the City of San Jose (the "City") and the County of Santa Clara (the "County") that provided that (i) Comerica, the City and the County will forebear from exercising any and all of their rights under certain loan agreements, including the three Comerica loans, relating to the Organization's 5th Street, Younger and Markham Terrace properties (the "Properties"), (ii) the City will arrange the transfer of Affordability Restrictions attached to the 5th Street and Younger properties, (iii) the net proceeds from the sale of the Properties, after repayment of certain costs and other obligations including the Bank of the West loan, would be accepted by Comerica, the City and the County in full satisfaction of the Organization's obligations with respect to the related loan agreements. The Organization completed and closed the sale of the Properties on January 12, 2010. As such all the notes mentioned in the Forebearance Agreement were settled as the Organization closed escrow on the sale of the Gifford Avenue properties.

11. Mortgages and Notes Payable

Mortgages and notes payable at June 30, consist of the following:

| | 2010 | 2009 |
|---|--------------|--------------|
| Acalanes | | |
| City of Sunnyvale note dated December 26, 2002, in the amount of \$2,600,000, secured by first deed of trust on the real property, bearing 7.5% interest for payments from January 2003 through January 2018 and 9% interest for payments from February 2018 through January 2033. Monthly payments of principal and interest in the amount of \$18,180 through January 2018, and \$19,890 for months from February 2018 through January 2033. Balance due January, 2033. | \$ 2,371,196 | \$ 2,409,920 |

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11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|--|---------|---------|
| <p>City of Sunnyvale CDBG note dated December 20, 2002, in the amount of \$400,000, secured by second deed of trust on the real property, bearing 5% interest. Semi-annual payments of principal and interest of \$10,500 on January 1st and June 2nd. Balance due June 30, 2026. Units are to be affordable to households at or below 30% of Area Median Income (AMI).</p> | 395,750 | 396,905 |
| <p>City of Sunnyvale HOME note dated December 20, 2002, in the amount of \$185,000 secured by third deed of trust on the real property, bearing 5% interest. Monthly payments of principal and interest of \$3,924 commencing January 1, 2024. Balance due January 1, 2033. Units are to be affordable to households at or below 50% of AMI.</p> | 185,000 | 185,000 |
| <p>City of Sunnyvale Housing Funds note dated December 20, 2002, in the amount of \$565,000, secured by fourth deed of trust on the real property, bearing 5% interest. Payment of principal and interest shall be deferred during the term of the note. Balance due January 1, 2033. Units are to be affordable to household at or below 50% of AMI.</p> | 565,000 | 565,000 |
| <p>City of Sunnyvale Housing Funds note dated December 20, 2002, in the amount of \$350,000, secured by fifth deed of trust on the real property, bearing 0% interest through July 1, 2006. Repayment of \$25,000 due July 1, 2006. Remaining balance of \$325,000 bearing simple interest of 3%. Semi-annual payments of \$16,775 due January 1st and June 2nd. Balance due June 30, 2016. Units are to be affordable to households at or below 30% of AMI.</p> | 224,008 | 250,205 |

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11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|--|---------|---------|
| Boccardo Family Living Center | | |
| City of Gilroy Housing and Community Development note dated April 1, 1991, \$30,000 secured by first deed of trust on the real property, bearing 2% interest. Annual payments of interest of \$600 commencing March 31, 1992. Unpaid principal and interest due March 2020. | 30,000 | 30,000 |
| County of Santa Clara HOME note dated December 3, 1996, in the amount of \$373,500, secured by second deed of trust on the real property, bearing 6% interest. Payment of principal and interest shall be deferred during the term of the note. Balance due December 3, 2026. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI. | 373,500 | 373,500 |
| County of Santa Clara CDBG note dated December 3, 1996, in the amount of \$332,552, secured by third deed of trust on real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 3, 2026. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI. | 332,552 | 332,552 |
| County of Santa Clara CDBG note dated December 3, 1996 in the amount of \$100,000, secured by fourth deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 3, 2026. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI. | 100,000 | 100,000 |

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11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|--|---------|---------|
| Boccardo Family Living Center, continued | | |
| County of Santa Clara CDBG note dated December 3, 1996 in the amount of \$50,000, secured by fifth deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 3, 2026. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI. | 50,000 | 50,000 |
| County of Santa Clara CDBG note dated December 3, 1996, in the amount of \$251,664, secured by sixth deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due December 3, 2026. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI. | 251,664 | 251,664 |
| County of Santa Clara CDBG note dated June 24, 1998, in the amount of \$11,750, secured by ninth deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due June 24, 2028. Units are to be affordable to households at or below 80% of AMI. Rent cannot exceed 30% of 80% of AMI. | 11,750 | 11,750 |
| Sobrato Family Living Center | | |
| City of Sunnyvale CDBG note dated April 3, 2001, in the amount of \$100,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due April 3, 2031. | 100,000 | 100,000 |

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11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|---|---------|---------|
| Sobrato Family Living Center, continued | | |
| Lenders for Community Development note dated April 1, 2004, in the amount of \$450,000, secured by deed of trust on the real property, bearing 0% interest. Annual payments of principal and interest shall be made out of 100% residual receipts from operations. Balance due April 1, 2034. | 445,380 | 445,380 |
| County of Santa Clara CDBG note dated February 26, 2001, in the amount of \$500,000, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due February 26, 2030. | 500,000 | 500,000 |
| Boccardo Reception Center | | |
| City of Sunnyvale CDBG note dated July 1, 1997, in the amount of \$50,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due July 1, 2027. | 50,000 | 50,000 |
| City of Sunnyvale CDBG note dated February 5, 1997, in the amount of \$50,000, secured by deed of trust on the real property, bearing 3% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due February 5, 2027. | 50,000 | 50,000 |
| Sobrato Transitional Center | | |
| County of Santa Clara CDBG note dated January 11, 2006 in the amount of \$198,140, secured by deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due May 15, 2036. | 198,140 | 198,140 |

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11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|---|---------|---------|
| Sobrato Transitional Center, continued | | |
| County of Santa Clara CDBG note dated May 7, 2002, in the amount of \$300,000, secured by the deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due May 7, 2032. | 300,000 | 300,000 |
| Sobrato House | | |
| City of Palo Alto note dated November 15, 2005, in the amount of \$75,000, secured by a deed of trust on the property, bearing 3% simple interest. Payments of principal and interest shall be deferred during the term of the note. Balance due November 15, 2035. | 75,000 | 75,000 |
| Opportunity Fund (formerly Lenders for Community Development) note dated December 8, 2006, secured by all personal and intangible assets of the Organization in the amount of \$1,230,000, as amended by the Change in Terms Agreement dated as of December 26, 2008, bearing 0% interest until December 31, 2013 and 1% over prime thereafter. Annual principal payments of \$61,500 commence December 31, 2010 and monthly interest payments commence in 2014. Balance due December 31, 2018. | 492,000 | 492,000 |
| City of Sunnyvale note dated June 1, 2006, in the amount of \$50,000, secured by deed of trust, bearing simple interest at 3%. Payments of principal and interest shall be deferred during the term of the note. Balance due June 1, 2061. | 50,000 | 50,000 |
| County of Santa Clara two notes dated November 17, 2006, in the amount of \$366,197, secured by deed of trust, bearing simple interest at 6%. Payments of principal and interest shall be deferred during the term of the note. Balance due November 17, 2036. | 366,197 | 366,197 |

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11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|--|---------|---------|
| Sobrato House, continued | | |
| Opportunity Fund (formerly Lenders for Community Development) note dated April 21, 2008 in the amount of \$240,000, secured by deed of trust, bearing 0% interest. Annual repayments of Residual Receipts, as defined in agreement, commence on March 30, 2009. Balance due on May 16, 2038. | 240,000 | 240,000 |
| EHC Delmas Park, LLC | | |
| City of San Jose note dated October 1, 2004, in the amount of \$185,912 secured by a deed of trust on the real property of Delmas Park. Interest is calculated at 1.25% during the construction period, 3% from after construction to the end of 15 years, and at 5% until maturity. Interest accrues and payments of principal and interest is due annually based on surplus cash. The City of San Jose is entitled to 50% of any surplus cash, of which 2.58% of the City of San Jose's portion will be used to pay this note, first interest, and then principal. Unpaid principal and interest are due on October 1, 2047. | 185,912 | 185,912 |
| Vehicle Loan | | |
| Vehicle note payable secured by the vehicles; monthly principal and interest payments totaling approximately \$236 per month, interest at rate of 5.29%, maturing in November 2010 | 1,163 | 3,851 |

Continued

EMERGENCY HOUSING CONSORTIUM INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|---|------|-----------|
| Markham Terrace | | |
| Bank of the West note dated January 26, 2004 in the amount of \$1,250,000, secured by first deed of trust on the real property, bearing 7% interest. Monthly payments of principal and interest of \$18,928 commenced June 1, 2004. Balance due March 1, 2011. Included in debts related to assets available for sale as of June 30, 2009. (See Note 2). As assets were sold in the current year the note was considered paid in full (See Note 10). | - | 404,802 |
| City of San Jose note dated May 23, 1996, in the amount of \$3,043,290, secured by second deed of trust on the real property, bearing 4% interest. Payments of principal and interest were deferred for the first ten years and should have commenced in May 2006. The Organization entered into a forbearance agreement with the City (see additional information at the end of this note). Balance due May 23, 2033. Units are to be affordable to households at or below 80% of AMI. Included in debts related to assets available for sale as of June 30, 2009. (See Note 2). As assets were sold in the current year the note was considered paid in full (See Note 10). | - | 3,043,290 |
| County of Santa Clara CDBG note dated December 1, 1994, in the amount of \$149,230, secured by third deed of trust on the real property, bearing 3% interest. Payments of principal and interest were deferred for the first ten years and commenced on December 1, 2004. Balance due December 1, 2024. Included in debts related to assets available for sale as of June 30, 2009 (See Note 2). As assets were sold in the current year the note was considered paid in full (See Note 10). | - | 127,100 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

11. Mortgages and Notes Payable, continued

| | 2010 | 2009 |
|---|--------------|--------------|
| 5th Street in San Jose | | |
| County of Santa Clara CDBG note dated June 25, 2002, in the amount of \$122,755, secured by first deed of trust on the real property, bearing 6% interest. Payments of principal and interest shall be deferred during the term of the note. Balance due June 25, 2032. Included in debts related to assets available for sale as of June 30, 2009 (See Note 2). As assets were sold in the current year the note was considered paid in full (See Note 10). | - | 122,755 |
| Multiple Properties | | |
| Comerica Bank note dated April 5, 2006, in the amount of \$3,500,000, secured by deed of trust dated May 15, 2006 on nine individual parcels. The loan is bearing 7.70% interest. Payments are due monthly for principal and interest in the amount of \$28,871. Final payment of \$3,092,510 was due on May 1, 2011, but was paid in full in 2009. The Organization had entered into a forbearance agreement with the City (see Note 10). The debt is included in debts related to assets available for sale as of June 30, 2009 (See Note 2). During the year ending June 30, 2010 the property was sold and \$2,041,823 of this note was repaid and \$1,349,844 was discharged by Comerica Bank. | - | 3,391,667 |
| Total mortgages and notes payable | 7,944,212 | 15,102,590 |
| Debts related to assets available for sale (See Note 2) | - | (7,089,613) |
| Current portion | (132,594) | (269,992) |
| | \$ 7,811,618 | \$ 7,742,985 |

Aggregate future annual maturities on mortgages and notes payable are as follows:

| <u>Year Ending June 30,</u> | | |
|-----------------------------|----|-----------|
| 2011 | \$ | 132,594 |
| 2012 | | 135,479 |
| 2013 | | 139,940 |
| 2014 | | 144,634 |
| 2015 and thereafter | | 7,391,565 |
| | \$ | 7,944,212 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

11. Mortgages and Notes Payable, continued

On August 24, 2009, the Organization entered into an agreement to sell the Sobrato Transitional Center to a nonprofit housing developer in exchange for the assumption of all of the Organization's obligations with respect to the property. The sale and assumption of obligations is subject to the consents of certain governmental agencies.

On September 30, 2009 the Organization signed a Lease Agreement with another nonprofit agency with respect to a portion of Sobrato House. The Lease Agreement describes the intent of the parties that the Organization will sell the property to the agency in exchange for the assumption of government loans and related obligations and the agency's guarantee of the Organization's performance under the \$492,000 Opportunity Fund note relating to the property, subject to the negotiation and approval of definitive agreements. As of October 1, 2009 the Organization and the agency entered into a Monitoring Agreement that provides that the Organization will monitor the agency's performance with respect to various lender and grantor requirements for the property. The Monitoring Agreement will continue until June 2011 unless terminated earlier per the terms of the agreement.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, are restricted due to the following:

| | 2010 | 2009 |
|---|------------|--------------|
| Purpose Restriction: | | |
| Capital expenditure | \$ 69,000 | \$ 1,032,443 |
| Program services | 404,288 | 521,225 |
| Time restricted | 150,000 | 187,500 |
| Total temporarily restricted net assets | \$ 623,288 | \$ 1,741,168 |

Of the temporarily restricted net assets as of June 30, 2010, \$69,000 relates to facilities that the Organization is currently planning to sell to another agency. Such restricted assets must be used by the Organization for the donor-specified purposes or returned to the donor.

13. Net Assets Released From Restrictions

Net assets were released from restrictions by incurring expenses that satisfied the restricted purpose during the year, by the passage of time or by the direction of the donor as follows:

| | 2010 | 2009 |
|---------------------|--------------|------------|
| Capital expenditure | \$ 283,821 | \$ 407,054 |
| Program services | 1,347,705 | 489,848 |
| Time restricted | 187,500 | 87,500 |
| | \$ 1,819,026 | \$ 984,402 |

Continued

EMERGENCY HOUSING CONSORTIUM INCORPORATED
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For the Years Ended June 30, 2010 and 2009

14. Donated Food, Goods, Services and Rent

The estimated fair value of donated food, goods, services and rent received are recorded as contributions. During the years ended June 30, the following donations were received by the Organization:

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Food | \$ 633,277 | \$ 685,379 |
| Professional services | 500,000 | 300,000 |
| Goods for clients | 119,781 | 93,616 |
| Donated goods and services | 1,253,058 | 1,078,995 |
| Donated rent | 128,725 | 128,725 |
| Total donated food, goods, services and rent | <u>\$ 1,381,783</u> | <u>\$ 1,207,720</u> |

The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. In accordance with the standards of revenue recognition for not-for-profit entities, the value of these services is not reflected in the financial statements.

15. Ground Lease

Starting October 15, 2004 EHC Delmas Park, LLC entered into a ground lease agreement with Delmas Park Associates, L.P. for the land located in downtown San Jose owned by EHC Delmas Park, LLC. Delmas Park Associates, L.P. intends to construct and operate a multi-family low income housing project. The lease is for an initial period of 58 years with two options to extend of ten years each. Annual rent is to be paid to EHC Delmas Park, LLC in arrears in the amount of \$1,000 per year plus 1.324% of net cash flow of the project.

16. 401(k) Profit Sharing Plan

The Organization sponsors the Emergency Housing Consortium 401(k) Profit Sharing Plan (the "Plan") in which employees are eligible to participate at 21 years or older. The costs of administering the Plan are not material. The Organization makes contributions at the discretion of the Board of Directors. Discretionary contributions of \$0 and \$12,626 were made during the fiscal years ended June 30, 2010 and 2009, respectively.

17. Commitments and Contingencies

Economic Dependency

The Organization received approximately 54% and 46% of its funding from government agencies for the years ended June 30, 2010 and 2009, respectively. The continuation of this funding is dependent on the respective government agencies' budget and revenue constraints.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

17. Commitments and Contingencies, (continued)

Operating Deficit Guaranty

The Organization and Core Development, Inc., general partners of Tully Gardens, L.P. and Tully Gardens Phase II, L.P., agreed to advance amounts necessary to cover operating deficits up to a maximum amount of \$700,000 for each partnership. This guaranty is to continue through December 31 of the year in which the 36 month anniversary of the later of the Mortgage Loan Commencement or Breakeven Operation is achieved, as defined in the Amended and Restated Limited Partnership Agreements. The Mortgage Loan Commencement began in February 2004 for Tully Gardens Phase I and October 2004 for Tully Gardens Phase II. As of the fiscal year ended June 30, 2010, the guaranty has expired and there is no further commitment from the Organization.

Restrictions on Real Properties

Certain loan and grant agreements with governmental agencies impose restrictions on the operations of the properties owned by the Organization, including maximum tenant income limitations, maximum rents chargeable and the tenants' history of homelessness. Such tenant qualifications are monitored by the Organization on an ongoing basis. If such agreements and qualifications are not met, related loans and revenue received could become reimbursable to the agencies.

All of the real properties owned by the Organization are subject to liens by lenders or grantors who provided funding for the acquisition or development of the properties. None of these properties may be sold or hypothecated without the consent of the secured parties. (See Note 11 concerning the sale of Sobrato House and Sobrato Transitional Center.)

Grants and Contracts

Grants and contracts awarded to the Organization are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs.

During the year ended June 30, 2006, the Organization notified the United States Department of Housing and Urban Development (HUD) of potential over drawing of funds for certain Supportive Housing Grants. At the request of HUD, the Organization conducted an internal audit of certain grants specified by HUD to determine the amount potentially reimbursable to HUD. As of June 30, 2010 the amount of the potential liability accrued in the financial statements to the federal agency was determined by management to be \$1,200,304 (See Note 9.)

Continued

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

17. **Commitments and Contingencies, continued**

Leases

The Organization leases certain facilities and equipment under cancelable and non-cancelable operating leases expiring through 2015. Minimum commitments under operating leases are as follows:

Year Ending June 30:

| | | |
|---------------------|----|---------------|
| 2011 | \$ | 20,168 |
| 2012 | | 20,158 |
| 2013 | | 20,156 |
| 2014 | | 20,156 |
| 2015 and thereafter | | 16,796 |
| | \$ | <u>97,434</u> |

Total rental expense for the years ended June 30, 2010 and 2009 was \$144,595 and \$84,721, respectively.

In September 2008 the Organization entered into facility agreement with The Sobrato Foundation with a lease term of three years and an annual rent expense of \$12. The annual rent amount is subject to the Organization complying with the conditions of the lease agreement. The estimated fair value of rent for these facilities during the year ended June 30, 2010 and 2009 was \$128,725. The estimated fair value of rents for these facilities was recorded as a gift-in-kind at the years ended June 30, 2010 and 2009, for the use of these facilities.

Delmas Loan

The EHC Delmas Park Loan contains certain restrictions on the use of the property, and such restrictions are passed on to the ground lessee. If the ground lessee were to fail to comply with these restrictions, the lender would have the right to accelerate repayment of the loan balance.

Forgivable Loans

The Organization received forgivable loans which were used for the development of certain projects. These loans will be forgiven if the Organization has complied with certain terms and conditions of the loan throughout the loan term. If these conditions are not met, the monies would have to be repaid in full with accrued interest at varying interest rates. These loans are accounted for as contributions when received since management believes that they will be able to comply with the terms and conditions of these loans throughout their loan term.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

17. Commitments and Contingencies, continued

Forgivable Loans, continued

| | 2010 | 2009 |
|--|--------------|--------------|
| <u>Boccardo Reception Center</u> : Various notes with due dates ranging from May 2006 to July 2027 | \$ 3,600,614 | \$ 3,600,614 |
| <u>Sobrato Family Living Center</u> : Various notes with due dates ranging from August 2000 to December 2032 | 2,969,673 | 2,969,673 |
| <u>Sobrato House</u> : Various note with due dates ranging from May 2017 to December 2022 | 1,075,000 | 1,075,000 |
| <u>Remaining Centers</u> : Various notes with due dates ranging from October 2002 to October 2017 | 240,000 | 534,000 |
| | \$ 7,885,287 | \$ 8,179,287 |
| Accrued interest | \$ 1,740,960 | \$ 1,585,392 |

Restricted Grants

The Organization received grants which were used for the development of certain projects. These grants may be retained by the Organization as long as it has complied with certain terms and conditions of the grant throughout the grant term. If these conditions are not met, the partial or full repayment of the funds may be demanded by the funders. These grants are accounted for as contributions when received since management believes that they will be able to comply with the terms and conditions of these grants throughout their grant terms.

Balances as of June 30 are as follows:

| | 2010 | 2009 |
|-------------------------------|---------------|---------------|
| Boccardo Reception Center | \$ 1,000,000 | \$ 1,000,000 |
| Boccardo Family Living Center | 1,158,729 | 1,158,729 |
| Sobrato Family Living Center | 4,000,000 | 4,000,000 |
| Sobrato House | 8,876,293 | 8,876,293 |
| Sobrato Transitional Center | 1,411,818 | 1,411,818 |
| Tully I and Tully II | 2,660,324 | 2,660,324 |
| Remaining Centers | 100,000 | 1,495,387 |
| | \$ 19,207,164 | \$ 20,602,551 |

Continued

EMERGENCY HOUSING CONSORTIUM INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

17. Commitments and Contingencies, continued

Services for Partnerships

The Organization has participated in the development of Sobrato Transitional Center and Delmas Park and has received certain up-front fees for its participation. In both cases, the Organization has agreed to provide certain services, as may be required, for building tenants for periods of 15 to 40 years without further compensation by the property owner (See Note 11).

HUD BRC Families Receivable

At June 30, 2010 the Organization has accrued receivables totaling \$103,467 with respect to its BRC Families Program covering the period September 2006 through February 2007. The Organization is in continuing discussions with HUD concerning the payment of these receivables and certain allocations made in calculating their amounts. The Organization anticipates that these receivables will be paid substantially in full during the coming year.

HUD BRC Singles Compliance

In May 2009 the Organization determined that certain clients in its HUD BRC Singles program, a multi-year Department of Housing and Urban Development (“HUD”) grant which ended in December 2008, were ineligible for inclusion in the program because they lacked documented qualifying disabilities. The Organization disclosed the finding to HUD and proposed a resolution to which HUD has not yet responded definitively. After adjustments the Organization has accrued receivables totaling \$58,633 with respect to activities in the contract year ended December 2008. If HUD elects to recover amounts paid relative to prior contract years including the period subject to the HUD Internal audit (See Note 9), then an additional liability of up to approximately \$832,000 could result.

Legal Proceedings

The Organization is party to various legal proceedings and certain other matters that arise from time to time in the ordinary course of its business. Although litigation is inherently unpredictable, in the opinion of management the outcomes from these proceedings will not have a material adverse effect on the cash flows, financial condition or results of operations of the Organization.

18. Fair Value Measurement

The Organization defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Organization considers the principal or most advantageous market in which the Organization would transact and the market-based risk measurement or assumptions that market participants’ would use in pricing the assets or liability, such as inherent risk, transfer restrictions and credit risk.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

18. Fair Value Measurement, continued

The Organization applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1- instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.
- Level 2- instrument valuations are obtained from readily-available pricing sources for comparable instruments.
- Level 3- instrument valuations are obtained without observable market value and require a high level of judgment to determine the fair value.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring as of June 30:

| | Assets at Fair Value as of June 2010 | | | |
|---------------------------|--------------------------------------|---------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Checking | \$ 609,511 | \$ - | \$ - | \$ 609,511 |
| Savings | 40,662 | - | - | 40,662 |
| Certificate of Deposit | 3,600 | - | - | 3,600 |
| Investment in Partnership | - | - | 220 | 220 |
| | \$ 653,773 | \$ - | \$ 220 | \$ 653,993 |

| | Assets at Fair Value as of June 2009 | | | |
|---------------------------|--------------------------------------|---------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Checking | \$ 826,306 | \$ - | \$ - | \$ 826,306 |
| Savings | 17,941 | - | - | 17,941 |
| Certificate of Deposit | 3,600 | - | - | 3,600 |
| Investment in Partnership | - | - | 220 | 220 |
| | \$ 847,847 | \$ - | \$ 220 | \$ 848,067 |

The investment in partnership is categorized as a Level 3 item. The primary input utilized in calculating investment in partnerships fair value is its net asset, which represents fair market valuation of certain equity debt and other instruments held by partnerships. The Organization records 0.005% of partnerships discounted net asset value to approximate fair market value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

18. Fair Value Measurement, continued

Assets measured at fair value on recurring basis using significant unobservable inputs (level 3 inputs):

| | | |
|-----------------------------|----|------------|
| Balance as at July 1, 2009 | \$ | 220 |
| Change in value | | - |
| Balance as at June 30, 2010 | \$ | <u>220</u> |

There was no change in the value of investment in the partnership in the current year. In 2009 the change in value of investment in partnership included in the change in unrestricted net assets on the Statement of Activities was composed of impairment loss of \$5,162,136 on the investments in the partnership of the properties where the Organization is general partner for 0.005%.

19. Subsequent Events

The Organization has evaluated all events occurring subsequent to June 30, 2010 through October 6, 2010, and nothing has occurred outside the normal course of business operations.

SUPPLEMENTARY INFORMATION

**EMERGENCY HOUSING CONSORTIUM
INCORPORATED**
dba EHC LifeBuilders
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Agency or Pass-Through Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| Current year Expenditure of Federal Awards | | | |
| U.S. Department of Home Land Security: | | | |
| FEMA: Emergency Food and Shelter National Board Program | 97.024 | 27-0880-00-006 | \$ 168,000 |
| Total - U.S. Department of Home Land Security: | | | <u>168,000</u> |
| U.S. Department of Housing and Urban Development: | | | |
| Community Development Block Grants | | | |
| Pass-through programs from: | | | |
| Santa Clara County | 14.218 | NE-08-31 | 9,548 |
| City of Campbell | 14.218 | CA-10-35 | 6,604 |
| City of Milpitas | 14.218 | N/A | 5,000 |
| City of Mountain View | 14.218 | N/A | 2,960 |
| City of San Jose | 14.218 | Project #A25 | 50,320 |
| City of Sunnyvale | 14.218 | 0910-827210 | 10,647 |
| Supportive Housing Program | | | |
| Boccardo Family Living Center (BFLC) | 14.235 | CA01B700007 - CA5006/ CA0010B9T | 49,978 |
| HUD - BRC Families | 14.235 | CA01B700026 - CA5021/CA0004B9T | 147,651 |
| Permanent Housing Program (SFLC) | 14.235 | CA0022B9T000801 | 24,712 |
| Pass-through program from: | | | |
| County of Santa Clara | 14.235 | U-783 | 469,169 |
| Emergency Shelter Grants (ESG) Programs | | | |
| Pass-through program from: | | | |
| City of San Jose (Recovery Act Funded) | 14.231 | ESG-09-004 | 79,996 |
| ARRA - Homeless Prevention and Rapid Re-Housing Program | | | |
| Pass-through program from: | | | |
| City of San Jose | 14.257 | HPRP-09-002 | 742,847 |
| Total - U.S. Department of Housing and Urban Development | | | <u>1,599,432</u> |
| U.S. Department of Health and Human Services: | | | |
| Education and Prevention to Reduce Sexual Abuse of Runaway, Homeless and Street Youth | | | |
| | 93.557 | 09Y02089/03 | 88,762 |
| Total - U.S. Department of Health and Human Services | | | <u>88,762</u> |
| U.S. Department of Veteran Affairs: | | | |
| VA Homeless providers Grant and Per Diem Program | | | |
| VA Per Diem Program | 64.024 | 08-66-CA | 111,647 |
| VA Service Center | 64.024 | 640-98-024-CA | 60,911 |
| Total - U.S. Department of Veterans Affairs | | | <u>172,558</u> |
| U.S. Department of Transportation | | | |
| Job Access – Reverse Commute | | | |
| Pass-through program from: | | | |
| City of San Jose | 20.516 | N/A | 2,212 |
| Total Current Year Expenditure of Federal Awards | | | <u>\$ 2,030,964</u> |

See Accompanying Notes to the Supplementary Information.

**EMERGENCY HOUSING CONSORTIUM OF SANTA CLARA COUNTY
INCORPORATED
dba EHC LifeBuilders
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010**

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Agency or Pass-Through Number | Federal Expenditures |
|---|---------------------------|-------------------------------------|-------------------------|
| Prior Year Federal Awards Requiring Continuing Compliance | | | |
| <i>U.S. Department of Housing and Urban Development:</i> | | | |
| Prior year loans and grants for which continuing compliance is required | | | |
| Community Development Block Grant | | | |
| Pass-through loans from: | | | |
| City of San Jose | 14.218 | | \$ 1,100,000 |
| City of San Jose | 14.218 | | 756,021 |
| Santa Clara County | 14.218 | | 500,000 |
| City of Sunnyvale | 14.218 | | 396,905 |
| City of San Jose | 14.218 | | 366,197 |
| Santa Clara County | 14.218 | | 300,000 |
| Santa Clara County | 14.218 | | 300,000 |
| Santa Clara County | 14.218 | | 251,664 |
| Santa Clara County | 14.218 | | 198,140 |
| City of Mountain View | 14.218 | | 150,000 |
| City of Sunnyvale | 14.218 | | 100,000 |
| Santa Clara County | 14.218 | | 100,000 |
| City of Mountain View | 14.218 | | 75,000 |
| City of Palo Alto | 14.218 | | 75,000 |
| City of Milpitas | 14.218 | | 50,000 |
| City of Palo Alto | 14.218 | | 50,000 |
| City of Sunnyvale | 14.218 | | 50,000 |
| City of Sunnyvale | 14.218 | | 50,000 |
| City of Sunnyvale | 14.218 | | 50,000 |
| Santa Clara County | 14.218 | | 50,000 |
| City of Gilroy | 14.218 | | 30,000 |
| Santa Clara County | 14.218 | | 11,750 |
| HOME Investment Partnership Program Loans | | | |
| Pass-through loans from: | | | |
| City of Santa Clara | 14.239 | | 1,770,533 |
| County of Santa Clara | 14.239 | | 373,500 |
| County of Santa Clara | 14.239 | | 332,552 |
| City of Sunnyvale | 14.239 | | 185,000 |
| Others | | | |
| US Department of Agriculture | 10.446 | | 953,966 |
| US Department of Veterans Affairs | 64.024 | | 100,000 |
| | | | <u>\$ 8,726,228</u> |

See Accompanying Notes to the Supplementary Information.

EMERGENCY HOUSING CONSORTIUM INCORPORATED
dba EHC LifeBuilders
(A California Nonprofit Public Benefit Corporation)
AND SUBSIDIARY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activity of Emergency Housing Consortium Incorporated and Subsidiary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Prior Year's Expenditures

The accompanying schedule of expenditures of federal awards includes \$8,726,228 of expenditures from prior years for which continuing compliance is required.

3. Subrecipients

Of the Federal expenditures presented in the schedule of expenditures of federal awards, the Organization provided Federal awards to subrecipients as follows:

| <u>CFDA Number</u> | <u>Program Title</u> | <u>Expenditures</u> |
|--------------------|---|---------------------|
| 14.257 | Homeless Prevention and Rapid Re-Housing Program | \$ 31,267 |
| | Subrecipients total | <u>\$ 31,267</u> |



Building your future

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

To the Board of Directors
Emergency Housing Consortium Incorporated
(A California Non-Profit Public Benefit Corporation)
and Subsidiary
San Jose, California

We have audited the financial statements of Emergency Housing Consortium Incorporated (a California non-profit public benefit corporation) and Subsidiary as of and for the year ended June 30, 2001, and have issued our report thereon dated October 6, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Emergency Housing Consortium Incorporated and Subsidiary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emergency Housing Consortium Incorporated and Subsidiary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emergency Housing Consortium Incorporated and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Member of The Leading Edge Alliance

We noted certain matters that we reported to management of Emergency Housing Consortium Incorporated and Subsidiary in a separate letter dated October 6, 2010.

This report is intended solely for the information and use of the audit committee, management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Burr Pilger Mayer, INC.

San Jose, California
October 6, 2010



Building your future

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Emergency Housing Consortium Incorporated
(A California Nonprofit Public Benefit Corporation)
and Subsidiary
San Jose, California

Compliance

We have audited Emergency Housing Consortium Incorporated (a California nonprofit public benefit corporation) and Subsidiary's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Emergency Housing Consortium Incorporated and Subsidiary's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of Emergency Housing Consortium Incorporated and Subsidiary's management. Our responsibility is to express an opinion on Emergency Housing Consortium Incorporated and Subsidiary's compliance based on our audit.

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 identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about Emergency Housing Consortium Incorporated and Subsidiary'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. Our audit does not provide a legal determination of Emergency Housing Consortium Incorporated and Subsidiary's compliance with those requirements.

In our opinion, Emergency Housing Consortium Incorporated and Subsidiary complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010.

Member of The Leading Edge Alliance

Internal Control Over Compliance

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

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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Emergency Housing Consortium Incorporated and Subsidiary's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Emergency Housing Consortium Incorporated and Subsidiary's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the audit committee, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Burr Pilger Mayer, INC.

San Jose, California
October 6, 2010

EMERGENCY HOUSING CONSORTIUM INCORPORATED
dba EHC LifeBuilders
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Section I- Summary of Audit Results

- The auditors' report expresses an unqualified opinion on the financial statements of Emergency Housing Consortium Incorporated and Subsidiary.
- No significant deficiency relating to the audit of the financial statements are reported in the 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*.
- No instances of noncompliance material to the financial statements of Emergency Housing Consortium Incorporated and Subsidiary which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.
- No significant deficiency relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- The auditors' report on compliance for the major federal award programs for Emergency Housing Consortium Incorporated and Subsidiary expresses an unqualified opinion on all major federal programs.
- The audit findings which are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- The programs tested as major programs include Supportive Housing Programs, and Homeless Prevention and Rapid Re-Housing Program.
- The threshold for distinguishing Types A and B programs was \$300,000.
- Emergency Housing Consortium Incorporated and Subsidiary did not qualify as a low-risk auditee.

Section II - Financial Statement Findings

No matters were reported.

Section III- Federal Findings and Questioned Costs

No matters were reported.

EMERGENCY HOUSING CONSORTIUM INCORPORATED
dba EHC LifeBuilders
(A California Nonprofit Public Benefit Corporation)
AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2010

Item 2007-1

Condition

During prior year, the Organization had voluntarily notified the Department of Housing and Urban Development (HUD) of a potential overdraw of funds for various grants relating to prior years. Following this notification, HUD subsequently asked the Organization to perform an internal audit of ten HUD grants awarded to the agency for certain prior years, from FY2004 to FY 2007. A preliminary internal audit report showed approximate amount owed of \$300,000 as of June 30, 2006. During fiscal year ending June 30, 2007, the Organization further identified ineligible expenses and increased such accrual to approximately \$900,000. This amount will change as the internal audit is finalized and accepted by HUD.

Criteria

The Organization is required to draw only those Federal funds that are for eligible expenses determined by the grant budget in each grant. Repayment for ineligible expenditures should be made as outlined by the Federal grantor.

Effect

The Organization has to reimburse HUD for payment on non-eligible expenses.

Cause

High turnover of employees in the accounting department, lack of training regarding proper supporting documentation for government grant draws and cash flow difficulties caused the Organization to incur repayments to HUD.

Recommendation

The Organization should strengthen its internal control procedures over federal grants. It should provide adequate training to staff regarding proper grant documentation requirements and all draws should be reviewed by the Compliance Manager before going to the CEO for signature.

Management's Response

The Organization significantly strengthened its internal controls through staffing changes. The Organization has also provided staff training concerning government accounting requirements, created additional reviews of government grant draws prior to issuance, implemented accounting software that facilitates grant tracking and through the process of auditing past grants established procedures that help ensure accurate billing processes.

Current Status

The Organization completed the internal audit and submitted to HUD on July 3, 2008. The total of identified ineligible expenses as per the internal audit as of June 30, 2010 and June 30, 2009 is approximately \$1.2 Million which has been accrued as liability. The Organization is waiting on HUD's review of the internal audit and its final determination timing and amount of the organization's repayment obligation.