

**Sacramento Steps Forward  
(A California Nonprofit Public Benefit Corporation)**

**Financial Statements**

**Years Ended December 31, 2016 and 2015**

**Richard E. Watson, Jr.  
Certified Public Accountant**

**Sacramento Steps Forward**  
**(A California Nonprofit Public Benefit Corporation)**  
**Financial Statements**  
**Years Ended December 31, 2016 and 2015**

**C O N T E N T S**

Independent Auditor’s Report on the financial statements. . . . . 1 - 2

Financial statements

Statements of financial position . . . . . 3  
Statements of activities . . . . . 4  
Statements of functional expenses . . . . . 5  
Statements of cash flows. . . . . 6  
Notes to the financial statements . . . . . 7 - 17

Uniform Guidance Reports

Schedule of Expenditures of Federal Awards. . . . . 18

Independent Auditor’s 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*. . . . . 19 - 20

Independent Auditor’s Report on Compliance for Each  
Major Program and on Internal Control Over Compliance  
Required by the Uniform Guidance . . . . . 21 - 22

Schedule of Findings and Questioned Costs. . . . . 23 - 24

Summary Schedule of Prior Audit Findings. . . . . 25

## **Richard E. Watson, Jr.**

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### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Sacramento Steps Forward  
Sacramento, California

I have audited the accompanying financial statements of Sacramento Steps Forward (A California Nonprofit Public Benefit Corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my 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 I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Steps Forward, as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters Other Information

My 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, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 30, 2017, on my consideration of Sacramento Steps Forward's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sacramento Steps Forward's internal control over financial reporting and compliance.



Sacramento, California  
August 30, 2017

**Sacramento Steps Forward  
Statements of Financial Position  
December 31, 2016 and 2015**

	<b>Assets</b>	
	<b>2016</b>	<b>2015</b>
Current assets		
Cash (note A)	\$ 443,943	\$ 1,002,860
Accounts receivable (note B)	690,962	590,038
Prepaid expenses (note M)	22,063	15,654
Promises to give (note K)	0	200,000
Total current assets	1,156,968	1,808,552
Deposits (note C)	6,300	6,300
Fixed assets, net (note P)	41,691	46,679
Total assets	\$ 1,204,959	\$ 1,861,531

**Liabilities and Net Assets**

Current liabilities		
Accounts payable	\$ 82,715	\$ 44,972
Accrued wages and taxes	53,963	57,183
Grants payable (note N)	436,061	197,838
Accrued vacation	58,276	48,853
Line of credit (note D)	0	66
Total current liabilities	631,015	348,912
Net assets		
Unrestricted	573,944	312,619
Temporarily restricted (note L)	0	1,200,000
Total net assets	573,944	1,512,619
Total liabilities and net assets	\$ 1,204,959	\$ 1,861,531

The accompanying notes are an integral part of this statement.

**Sacramento Steps Forward  
Statements of Activities  
For the Years Ended December 31, 2016 and 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>						
Government grants and contracts (note F) \$	13,373,566	0	\$ 13,373,566	\$ 11,449,170	0	\$ 11,449,170
Contributions and foundation grants	252,393	0	252,393	108,308	1,200,000	1,308,308
Program service fees (note Q)	419,541	0	419,541	256,749	0	256,749
Net assets released from restrictions	1,200,000	(1,200,000)	0	143,568	(143,568)	0
<b>Total revenue and support</b>	<b>15,245,500</b>	<b>(1,200,000)</b>	<b>14,045,500</b>	<b>11,957,795</b>	<b>1,056,432</b>	<b>13,014,227</b>
<b>Expenses:</b>						
<b>Program services</b>						
Supportive housing programs	10,715,050	-	10,715,050	9,883,342	-	9,883,342
Winter sanctuary	223,840	-	223,840	90,661	-	90,661
Neighborhood connect	821,400	-	821,400	180,529	-	180,529
Other programs	2,741,983	-	2,741,983	1,074,048	-	1,074,048
<b>Total program services</b>	<b>14,502,273</b>	<b>-</b>	<b>14,502,273</b>	<b>11,228,580</b>	<b>-</b>	<b>11,228,580</b>
<b>Supporting services</b>						
Management and general	411,923	-	411,923	387,778	-	387,778
Fundraising	69,979	-	69,979	63,210	-	63,210
<b>Total supporting services</b>	<b>481,902</b>	<b>-</b>	<b>481,902</b>	<b>450,988</b>	<b>-</b>	<b>450,988</b>
<b>Total expenses</b>	<b>14,984,175</b>	<b>-</b>	<b>14,984,175</b>	<b>11,679,568</b>	<b>-</b>	<b>11,679,568</b>
Increase / (decrease) in net assets	261,325	(1,200,000)	(938,675)	278,227	1,056,432	1,334,659
Net assets, beginning of year	312,619	1,200,000	1,512,619	34,392	143,568	177,960
Net assets, end of year	\$ 573,944	0	\$ 573,944	\$ 312,619	1,200,000	\$ 1,512,619

The accompanying notes are an integral part of this statement.

**Sacramento Steps Forward**  
**Statements of Functional Expenses**  
**For the Years Ended December 31, 2016 and 2015**

	2016								2015							
	Program Services					Supporting Services			Program Services					Supporting Services		
	Supportive Housing Programs	Winter Sanctuary	Neighborhood Connect	Other Programs	Total	Management and General	Fundraising	Totals	Supportive Housing Programs	Winter Sanctuary	Neighborhood Connect	Other Programs	Total	Management and General	Fundraising	Totals
<b>Personnel</b>																
Salaries and wages	\$ 372,203	3,807	445,152	503,660	1,324,822	200,000	51,000	\$ 1,575,822	\$ 482,659	0	123,181	212,207	818,047	190,000	50,000	\$ 1,058,047
Payroll taxes	32,983	416	43,964	40,081	117,444	20,000	3,070	140,514	41,968	0	12,607	15,663	70,238	14,000	4,480	88,718
Health benefits	34,792	0	68,328	45,415	148,535	20,000	8,300	176,835	48,773	0	11,022	21,736	81,531	16,000	5,340	102,871
Moving, other expense	0	0	0	0	0	0	0	0	0	0	0	0	0	779	0	779
Workers' compensation insurance	0	0	78	11,262	11,340	2,500	900	14,740	7,832	0	0	2,100	9,932	2,000	640	12,572
<b>Total personnel</b>	<b>439,978</b>	<b>4,223</b>	<b>557,522</b>	<b>600,418</b>	<b>1,602,141</b>	<b>242,500</b>	<b>63,270</b>	<b>1,907,911</b>	<b>581,232</b>	<b>0</b>	<b>146,810</b>	<b>251,706</b>	<b>979,748</b>	<b>222,779</b>	<b>60,460</b>	<b>1,262,987</b>
<b>Occupancy and facilities</b>																
Rent - office (note G)	44,695	0	6,996	54,856	106,547	12,000	365	118,912	63,116	0	0	0	63,116	10,000	1,000	74,116
Depreciation expense (note P)	7,504	0	0	0	7,504	0	0	7,504	0	0	0	0	0	2,664	0	2,664
Small furniture and equipment	0	0	0	460	460	0	0	460	141	0	0	0	141	0	0	141
<b>Total occupancy and facilities</b>	<b>52,199</b>	<b>0</b>	<b>6,996</b>	<b>55,316</b>	<b>114,511</b>	<b>12,000</b>	<b>365</b>	<b>126,876</b>	<b>63,257</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>63,257</b>	<b>12,664</b>	<b>1,000</b>	<b>76,921</b>
<b>Professional fees</b>																
Audit and tax preparation	0	0	0	0	0	14,500	0	14,500	0	0	0	0	0	14,000	0	14,000
Accounting	0	0	0	0	0	80,000	0	80,000	0	0	0	0	0	76,000	0	76,000
Contract labor, grants and fees	241,186	217,152	134,800	1,961,812	2,556,950	1,500	0	2,556,450	313,762	90,618	17,572	691,605	1,113,557	168	600	1,114,325
Pension plan administration (note E)	0	0	0	0	0	3,310	0	3,310	0	0	0	0	0	1,320	0	1,320
Legal	0	0	0	0	0	2,803	0	2,803	0	0	0	0	0	0	0	0
Temporary help	0	0	0	24,393	24,393	0	0	24,393	11,596	0	0	10,000	21,596	0	0	21,596
Computer services	4,061	0	1,097	350	5,508	0	0	5,508	0	0	0	0	0	3,135	0	3,135
<b>Total professional fees</b>	<b>245,247</b>	<b>217,152</b>	<b>135,897</b>	<b>1,986,555</b>	<b>2,584,851</b>	<b>102,113</b>	<b>0</b>	<b>2,686,964</b>	<b>325,358</b>	<b>90,618</b>	<b>17,572</b>	<b>701,605</b>	<b>1,135,153</b>	<b>94,623</b>	<b>600</b>	<b>1,230,376</b>
<b>Administrative expenses</b>																
Payroll processing	0	0	0	0	0	1,853	0	1,853	0	0	0	0	0	1,119	0	1,119
Insurance	0	0	0	6,384	6,384	0	0	6,384	5,452	0	0	500	5,952	524	0	6,476
Telephone and internet	8,462	0	34,086	11,812	54,360	0	0	54,360	7,049	0	3,204	13,286	23,539	4,500	499	28,538
Marketing, advertising and website	0	0	0	0	0	6,980	0	6,980	0	0	0	0	0	6,104	0	6,104
Outreach materials and supplies	457	248	18,495	12,196	31,396	0	0	31,396	161	0	10,972	11,456	22,589	0	0	22,589
Office supplies	3,212	828	2,797	12,737	19,574	7,000	950	27,524	16,221	43	1,591	2,902	20,757	9,400	228	30,385
Bank fees	0	0	0	0	0	2,232	0	2,232	0	0	0	0	0	2,409	0	2,409
Postage and delivery	262	0	7	206	475	120	27	622	251	0	20	0	271	0	148	419
Memberships, dues and subscriptions	160	0	0	2,728	2,888	800	23	3,711	1,678	0	0	499	2,177	0	0	2,177
Print and copy	2,157	0	0	8,295	10,452	150	0	10,602	8,804	0	0	0	8,804	0	0	8,804
Tax, license and fees	0	0	0	0	0	823	0	823	0	0	0	0	0	170	0	170
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0	0	1,795	0	1,795
Miscellaneous	0	0	0	0	0	56	0	56	527	0	0	378	905	1,000	70	1,975
<b>Total administrative expenses</b>	<b>14,710</b>	<b>1,076</b>	<b>55,385</b>	<b>54,358</b>	<b>125,529</b>	<b>20,014</b>	<b>1,000</b>	<b>146,543</b>	<b>40,143</b>	<b>43</b>	<b>15,767</b>	<b>29,041</b>	<b>84,994</b>	<b>27,021</b>	<b>945</b>	<b>112,960</b>
<b>Travel, conference and mileage</b>																
Travel, mileage and meals	15,321	1,389	10,340	5,481	32,531	12,000	2,764	47,295	8,640	0	380	344	9,364	8,300	205	17,869
Program related travel	0	0	55,260	24,036	79,296	0	0	79,296	0	0	0	91,319	91,319	0	0	91,319
Conference and training	11,790	0	0	5,819	17,609	16,000	2,580	36,189	26,268	0	0	33	26,301	8,490	0	34,791
<b>Total travel, conference and mileage</b>	<b>27,111</b>	<b>1,389</b>	<b>65,600</b>	<b>35,336</b>	<b>129,436</b>	<b>28,000</b>	<b>5,344</b>	<b>162,780</b>	<b>34,908</b>	<b>0</b>	<b>380</b>	<b>91,696</b>	<b>126,984</b>	<b>16,790</b>	<b>205</b>	<b>143,979</b>
<b>Sub grants</b>	<b>9,935,805</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,935,805</b>	<b>0</b>	<b>0</b>	<b>9,935,805</b>	<b>8,838,444</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,838,444</b>	<b>0</b>	<b>0</b>	<b>8,838,444</b>
Other assistance and donations	0	0	0	10,000	10,000	0	0	10,000	0	0	0	0	0	0	0	0
Public events	0	0	0	0	0	7,296	0	7,296	0	0	0	0	0	13,901	0	13,901
<b>Total expenses</b>	<b>\$ 10,715,050</b>	<b>223,840</b>	<b>821,400</b>	<b>2,741,983</b>	<b>14,502,273</b>	<b>411,923</b>	<b>69,979</b>	<b>\$ 14,984,175</b>	<b>\$ 9,883,342</b>	<b>90,661</b>	<b>180,529</b>	<b>1,074,048</b>	<b>11,228,580</b>	<b>387,778</b>	<b>63,210</b>	<b>\$ 11,679,568</b>

The accompanying notes are an integral part of this statement.

**Sacramento Steps Forward  
Statements of Cash Flows  
For the Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (938,675)	\$ 1,334,659
Adjustments to reconcile change in net assets to net cash provided / (used) by operating activities:		
Depreciation expense	7,504	2,664
(Increase)/decrease in assets:		
Accounts receivable	(100,924)	(459,121)
Prepaid expenses	(6,409)	(7,789)
Promises to give	200,000	53,204
Deposits	0	(1,800)
Increase/(decrease) in liabilities:		
Accounts payable	37,743	24,147
Accrued wages and taxes	(3,220)	48,670
Grants payable	238,223	21,341
Accrued vacation	9,423	30,556
Lease liability	0	(352)
Net cash provided / (used) by operating activities	(556,335)	1,046,179
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(2,516)	(49,343)
Net cash (used) by investing activities	(2,516)	(49,343)
<b>Cash flows from financing activities</b>		
Draws from line of credit	639,082	0
Repayment of line of credit	(639,148)	(47,318)
Net cash (used) by financing activities	(66)	(47,318)
<b>Net increase / (decrease) in cash</b>	(558,917)	949,518
<b>Cash at the beginning of the year</b>	1,002,860	53,342
<b>Cash at the end of the year</b>	\$ 443,943	\$ 1,002,860
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 0	\$ 1,795

The accompanying notes are an integral part of this statement.



**Sacramento Steps Forward**  
**Notes to the Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**Note A: Organization and Summary of Significant Accounting Policies**

**Organization**

Sacramento Steps Forward (the “Organization”) was incorporated as a California nonprofit public benefit corporation on February 1, 2011. The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1) of the Internal Revenue Code.

The Organization’s mission is to ensure that individuals and families experiencing homelessness or the risk of homelessness are able to access housing services and resources on their path to economic stability. The Organization is the lead agency for the Sacramento Homeless Continuum of Care and administers and oversees grants for homeless related programs in Sacramento County which are received from the U.S. Department of Housing and Urban Development and are passed through to various non-profit organizations as subgrants.

The Organization is supported through public contributions and through grants from the U.S. Department of Housing and Urban Development (HUD), the City and County of Sacramento and the Sacramento Housing and Redevelopment Agency.

It is estimated that four in ten households in Sacramento County pay-out 50% or more of their monthly income as rent. With continuing low and stagnant service-economy wages, limited housing availability and rising rents, this group is at risk of becoming homeless in the future. Add any of the following - loss of employment, health problems, mental illness and substance abuse - and this is the continuum along the path to homelessness. During 2016, the Organization made contact with, and tried to assist, 7,619 individuals who were at various places along this continuum. Through collaboration and innovation, the Organization seeks to provide those experiencing homelessness with needed support and services.

**Note A: Organization and Summary of Significant Accounting Policies (continued)**

Significant programs of the Organization include:

***Supportive Housing Programs***

The Organization's Supportive Housing Programs target the most vulnerable people who need housing and service supports to remain in stable housing and live healthy lives. The target population includes individuals experiencing chronic homelessness as well as people who are inappropriately placed in institutional care settings, such as nursing homes and state hospitals, due to a lack of affordable housing options and/or inadequate community-based care. Integrated models of supportive housing and health services, which have been proven effective in improving housing and health outcomes for this population, share a common set of guiding principles and dimensions of quality.

Supportive housing is affordable rental housing with no artificial time limits on residency. Rent is adequately subsidized such that extremely low-income tenants pay no more than thirty-percent of their gross monthly income for rent.

Supportive housing provides individuals access to immediate, permanent, quality affordable housing in their own apartments or homes without any preconditions or requirements for sobriety or treatment compliance to maintain housing. Residents of supportive housing hold their own leases and have the same rights and responsibilities as any other resident. Programs assertively engage residents and offer services to maximize housing stability, including regular communication with property managers, advocacy on behalf of residents and mediation of conflicts with landlords.

Individuals in supportive housing have access to a comprehensive array of flexible services including housing stability support, income and benefits support, coordinated health and behavioral health services, twenty-four hour crisis intervention, employment services, diet/nutrition counselors, and recovery/wellness peer support specialists. Services are provided as needed to ensure successful residency and to support recovery and engagement in community life. Programs facilitate full integration into the community by providing direct assistance to tenants around employment, volunteer work, social activities and tenant-led community building activities.

As the lead agency addressing homelessness in Sacramento County, the Organization is responsible for *distributing and managing federal funds* granted by the United States Department of Housing and Urban Development (HUD) for the Continuum of Care Program. Sacramento Steps Forward leads the effort, along with local nonprofit homeless service providers, to determine the needs of Sacramento's homeless population and to apply collectively for these funds in order to provide housing and services to individuals and families experiencing homelessness in Sacramento County. During 2016, the Organization passed-through \$9,935,805 in HUD grants to local nonprofit agencies which helped 2,232 individuals move out of emergency

**Note A: Organization and Summary of Significant Accounting Policies (continued)**

shelters and off the street into stable housing. Historically, only 11% of individuals housed by the Continuum of Care have returned to homelessness.

***Winter Sanctuary***

Winter Sanctuary is a seasonal emergency-shelter program for homeless men and women. Each winter, cold and wet weather conditions threaten the lives of the homeless who live on Sacramento-area streets. The Winter Sanctuary Program was founded to meet the needs of these individuals. Comprised of a network of religious congregations under the leadership Sacramento Steps Forward, Winter Sanctuary is the only winter shelter option for single, homeless adults and was successful in temporarily housing hundreds of individuals. The program is primarily funded by the County of Sacramento.

***Neighborhood Connect***

Neighborhood Connect is a neighborhood-centered outreach effort tailored to the needs of a group of individuals experiencing homelessness in a specific area. The Organization works with neighbors, community groups, businesses, emergency services providers, law enforcement and other stakeholders to identify hot-spots and develop a plan for matching people with services appropriate to their needs.

***Other Programs***

The *Capital Region Employment Connect* is a unique hiring event aimed at linking job ready participants from local homeless programs to Sacramento's top industries. The goal of this event is to help end homelessness in the region by solidifying long-term connections between employers and the programs that prepare homeless households to overcome challenges and barriers in entering the workforce.

The *Homeless Management Information System (HMIS)* is an electronic database used to house characteristic and service needs information of individuals experiencing homelessness. The program was developed in response to a mandate by Congress requiring states to collect data in order to receive funds from HUD to address homelessness. HMIS allows agencies within the Continuum of Care to better provide services to the homeless population by collecting basic demographic and other information in a secure site. During 2016, the Organization made contact with 7,619 unduplicated individuals.

The development and implementation of a *Housing Crisis Resolution System (HCRS)* by each Continuum of Care is a Federal mandate of HUD. The Organization, in partnership with its public and private partners, has implemented the essential building blocks of the HCRS. The HCRS partners with the County of Sacramento, three of the incorporated cities within its boundaries, five Property Based Business Improvement Districts, Sacramento Regional Transit and the Central Library to fund nineteen homeless outreach workers referred to as Navigators. Each Navigator is equipped with hand held devices programmed with a vulnerability assessment tool

**Note A: Organization and Summary of Significant Accounting Policies (continued)**

called the Vulnerability Index. This assessment tool assists the Organization with prioritizing housing options for the most vulnerable individuals with the highest barriers to housing. During 2016, HCRS helped 700 individuals to achieve housing stability.

*Common Cents* is a coordinated assessment and housing placement system focusing on the chronically homeless and veterans. Individuals are placed in permanent supportive housing with appropriate services utilizing an integrated outreach team. Project areas include the central city, oak park and public transportation routes.

Hotel rooms are utilized to serve clients in the *Winter Motel Voucher Program* which serves those individuals or families unable to access the Winter Sanctuary Program. Case management is provided by Next Move which develops individual service plans.

**Basis of Accounting**

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

**Basis of Presentation**

In accordance with U.S. Generally Accepted Accounting Principles, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. *Unrestricted net assets* are not subject to donor imposed restrictions as to purpose or use. *Temporarily restricted net assets* are subject to donor-imposed restrictions or stipulations that may be met either by the actions of the Organization or the passage of time. *Permanently restricted net assets* are subject to donor-imposed restrictions in perpetuity. As of December 31, 2016 and 2015, temporarily restricted net assets were \$0 and \$1,200,000, respectively (see Note L). There were no permanently restricted net assets.

**Cash and Equivalents**

The Organization considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

**Revenue Recognition**

All contributions are considered available for general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Revenues from government grants and contracts are recognized when qualifying expenses are incurred.

**Note A: Organization and Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

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

**Income Taxes and Uncertain Tax Positions**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions relating to potential sources of unrelated business income. The Organization has analyzed its tax positions taken for filings with the Internal Revenue Service and believes that its positions will be sustained upon examination.

The Organization's federal *Return of Organization Exempt From Income Tax* (Form 990) for 2016, 2015 and 2014, are subject to examination by the IRS, generally for three years after they were filed.

**Unconditional Promises to Give**

Contributions are recorded at fair value and recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

**Functional Expenses**

Functional expenses are allocated to a category of program services and to supporting services based on direct expenditures incurred. Expenses not directly chargeable to a particular functional category are allocated based on an analysis of personnel time.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Accounts receivable includes amounts owed on government grants and contracts (see Note B).

**Property and Equipment**

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

**Note A: Organization and Summary of Significant Accounting Policies (continued)**

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. The estimated service lives of the assets for depreciation purposes may be different than actual economic useful lives.

Vehicles and equipment	5 and 7 years	Straight-Line
------------------------	---------------	---------------

Routine repairs and maintenance are expensed as incurred.

**Note B: Accounts Receivable**

The Organization administers and oversees grants for homeless related programs in Sacramento County which are received from the U.S. Department of Housing and Urban Development (HUD) and are passed through to various non-profit organizations as subgrants. The Organization also receives a grant from the Sacramento Housing and Redevelopment Agency for the administration of homeless programs as the Lead Agency in the Continuum of Care for the City and County of Sacramento. Management has determined that the receivables are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at December 31, 2016 or 2015.

	<u>2016</u>	<u>2015</u>
U.S. Department of Housing and Urban Development	\$0	\$134,803
TLCS, Inc.	0	16,000
CARES	14,250	0
City of Sacramento	243,168	148,475
City of Folsom	9,950	0
City of Rancho Cordova	9,500	0
County of Sacramento	295,681	169,186
Downtown Sacramento Partnership	27,666	27,666
Other receivables	15,381	12,281
Wind Youth Services	10,002	20,000
Sacramento Housing and Redevelopment Agency	65,364	61,627
Total accounts receivable	<u>\$690,962</u>	<u>\$590,038</u>

**Note C: Deposits**

As of December 31, deposits consisted of the following:

	<u>2016</u>	<u>2015</u>
Security deposit on the Organization's lease of office space at 1331 Garden Highway in Sacramento, California.	\$4,500	\$4,500
Workers' compensation insurance policy	1,800	1,800
Total deposits	<u>\$6,300</u>	<u>\$6,300</u>

**Note D: Line of Credit**

Secured revolving line of credit from Wells Fargo Bank dated February 18, 2013, in the original amount of \$50,000 for the purpose of providing operating cash flow. The loan bears interest at the simple rate of 5.0% per annum. Monthly payments of principal and interest are \$1,500. The loan is due in full on November 1, 2017. As of December 31, 2016 and 2015, the balance owed on the line of credit was \$0 and \$66, respectively.

Unsecured line of credit from the County of Sacramento dated June 24, 2014, in the original amount of \$750,000. The purpose of this non-interest bearing loan is to prevent delays in payments of subgrants to service providers under U.S. Department of Housing and Urban Development (HUD) Continuum of Care awards. The loan may not be used for non-HUD programs or the Organization's administrative or operating expenses. Repayment is due within thirty-days of receipt of funding from HUD. The line of credit expires on June 30, 2017.

Interest expense for the years ended December 31, 2016 and 2015, was \$0 and \$1,795, respectively.

**Note E: Retirement Plan**

Effective January 1, 2012, the Organization established the Sacramento Steps Forward 401(k) Plan & Trust for the benefit of eligible employees. Under the terms of the plan, employees can elect to defer a portion of their salary up to the limits prescribed by the Internal Revenue Code. Employer contributions are discretionary. There were no employer contributions during the years ended December 31, 2016 or 2015.

**Note F: Government Grants and Contracts**

Government grants and contracts consisted of the following for the year ended December 31:

	<u>2016</u>	<u>2015</u>
U.S. Department of Housing and Urban Development	\$10,678,201	\$9,626,423
Sacramento Housing and Redevelopment Agency	750,000	800,000
County of Sacramento	1,274,637	381,873
City of Sacramento	670,728	640,874
Total government grants and contracts	<u>\$13,373,566</u>	<u>\$11,449,170</u>

**Note G: Lease Commitment**

Sacramento Steps Forward leases space for its office under the terms of a non-cancelable operating lease dated August 6, 2014, and amended on January 1, 2015, and September 14, 2015, with the Sierra Health Foundation. Sierra Health Foundation provides the majority of the office furniture and equipment used by the Organization. The term of the lease is for three years beginning on August 6, 2014. The lease contains an option to extend the term for one additional three year period. One member of the Board of Directors of the Organization is the President of Sierra Health Foundation (see Note I, *Related Parties*). The Organization also leases office space from TLCS under the terms of a cancelable lease. Future minimum lease payments under the operating leases as of December 31, 2016, are:

Year ending December 31, 2017	\$63,963
Total minimum lease payments	<u>\$63,963</u>

Rent expense is recognized on a straight-line basis, and the difference between rent expense and rent paid is recorded as lease liability. Total rent expense for office space for the years ended December 31, 2016 and 2015, was \$118,912 and \$74,116, respectively.

**Note H: Subsequent Events**

Subsequent events were evaluated by management through August 30, 2017, which is the date the financial statements were available to be issued.



**Note I: Related Parties**

One member of the Board of Directors of the Organization is a director of Sierra Health Foundation from which the Organization leases office space (see Note G, *Lease Commitment*). During the years ended December 31, 2016 and 2015, the Organization paid Sierra Health Foundation \$111,551 and \$74,116, respectively, in connection with its office lease.

**Note J: Concentration of Funding and Contingencies**

During the years ended December 31, 2016 and 2015, the Organization received approximately 76% and 74%, respectively, of its annual revenue under various contracts with the U.S. Department of Housing and Urban Development (HUD).

No contracts, grants or pledges exist as a guarantee that this level of funding will continue. Funds received under these contracts are for specific purposes that are subject to review and audit by HUD. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the agreements. Management believes that no material liabilities would result from such potential audits.

**Note K: Promises to Give**

Unconditional promises to give are expected to be realized in one year or less. Uncollectible promises are expected to be insignificant.

	<u>2016</u>	<u>2015</u>
Dignity Health	\$0	\$200,000

**Note L: Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Coordinated Exit (Sutter Health)	\$0	\$1,000,000
Service Area Hospitals (Dignity Health)	0	200,000
Total temporarily restricted net assets	<u>\$0</u>	<u>\$1,200,000</u>

**Note M: Prepaid Expenses**

Prepaid expenses consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Prepaid health insurance	\$17,554	\$15,586
Other prepaid expenses	4,391	0
Prepaid insurance	118	68
Total prepaid expenses	<u>\$22,063</u>	<u>\$15,654</u>

**Note N: Grants Payable**

Grants are recognized in the period the grant is approved. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2016 and 2015, all grants payable were due within one year and were not discounted.

Grants payable consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Downtown Sacramento Foundation	\$0	\$33,250
Volunteers of America	170,592	0
Sacramento Self Help Housing	36,997	0
Loaves and Fishes	21,965	57,840
Lutheran Social Services	45,713	45,713
Next Move	99,759	0
TLCS Inc	61,035	61,035
Total grants payable	<u>\$436,061</u>	<u>\$197,838</u>

**Note O: Concentration of Risk**

The Organization maintains its cash balances at several financial institutions. The Organization's cash deposits exceeded the Federal Deposit Insurance Corporation limits at various times during the years ended December 31, 2016 and 2015. The Organization has not experienced any losses in such accounts and does not believe that it is exposed to any significant credit risk on cash and cash equivalents.

**Note P: Fixed Assets**

A summary of fixed assets at December 31 is as follows:

	<b>2016</b>	<b>2015</b>
Vehicle	\$42,843	\$42,843
Equipment	9,016	6,500
Subtotal	51,859	49,343
Less accumulated depreciation	(10,168)	(2,664)
Fixed assets, net	<u>\$41,691</u>	<u>\$46,679</u>

Depreciation expense was \$7,504 and \$2,664 for the years ended December 31, 2016 and 2015, respectively.

**Note Q: Program Service Fees**

The Organization receives fees from Downtown Sacramento Partnership, Midtown Business Association, CARES, the River District, Regional Transit, the cities of Folsom and Rancho Cordova, the Sacramento Public Library and Wind Youth Services in connection with its outreach to the homeless under its Neighborhood Connect program. See Note A.

**Note R: Fundraising Expense**

Total fundraising expense for the years ended December 31, 2016 and 2015, was \$69,979 and \$63,210, or 0.5% in both years of government grants and contracts and contributions and foundation grants. The ratio of expense to amounts raised is computed using actual expenses and related contributions on an accrual basis.

**Note S: Contingent Liability**

The Organization's subrecipient monitoring activities disclosed that a subrecipient of federal funds was not in compliance with program requirements concerning the method used to calculate rents charged to program participants.

A subsequent On-Site Monitoring report dated July 18, 2016, by the U.S. Department of Housing and Urban Development (HUD) agreed with the Organization's finding and found that the subrecipient was not in compliance with the applicable requirements the Continuum of Care Program. HUD has asked that the subrecipient recalculate rents in accordance with program requirements to determine whether amounts may be due to the program participants.

While the amount of the contingency is not presently determinable, the Organization believes that the amount it may be liable for will not be material. The resolution of this finding is subject to inherent uncertainties, and it is possible that such liabilities, if any, will differ from the Organization's current expectations.

**Sacramento Steps Forward  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Grant Number or Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Housing and Urban Development				
Direct programs:				
Continuum of Care	14.267	various	\$10,678,201	\$9,935,805
Total direct programs			10,678,201	9,935,805
Pass-through programs from:				
County of Sacramento	14.235	DHA SSF-04-16	199,038	0
Total pass-through programs			199,038	0
Total U.S. Department of Housing and Urban Development			10,877,239	9,935,805
Total expenditures of federal awards			\$10,877,239	\$9,935,805

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Sacramento Steps Forward under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of Sacramento Steps Forward, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Sacramento Steps Forward.

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization did not elect to use the de minimis indirect cost rate as allowed under the Uniform Guidance.

**Independent Auditor’s 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 of  
Sacramento Steps Forward  
Sacramento, California

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sacramento Steps Forward (a California Nonprofit Public Benefit Corporation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated August 30, 2017.

**Internal Control over Financial Reporting**

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

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

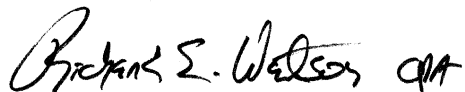
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sacramento Steps Forward's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

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

Handwritten signature of Richard E. Wilson, CPA in black ink.

Sacramento, California  
August 30, 2017

**Independent Auditor's Report on Compliance for  
Each Major Program and on  
Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors of  
Sacramento Steps Forward  
Sacramento, California

I have audited Sacramento Steps Forward's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sacramento Steps Forward's major federal programs for the year ended December 31, 2016. Sacramento Steps Forward's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of Sacramento Steps Forwards's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sacramento Steps Forward's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Sacramento Steps Forwards's compliance.

**Opinion on Each Major Federal Program**

In my opinion, Sacramento Steps Forward complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

## Report on Internal Control Over Compliance

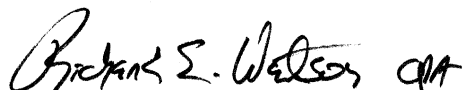
Management of Sacramento Steps Forward is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Sacramento Steps Forward's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Sacramento Steps Forward's internal control over compliance.

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

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

### Purpose of This Report

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



Sacramento, California  
August 30, 2017



**Sacramento Steps Forward  
(a California Nonprofit Corporation)  
Schedule of Findings and Questioned Costs**

**For the Year Ended December 31, 2016**

**A. Summary of Auditor's Results**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Sacramento Steps Forward were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's 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 material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Sacramento Steps Forward, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for Sacramento Steps Forward expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were:
  - a) U.S. Department of Housing and Urban Development, *Continuum of Care Program*, CFDA 14.267.
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. Sacramento Steps Forward was determined to be a low-risk auditee.

**Sacramento Steps Forward  
(a California Nonprofit Corporation)  
Schedule of Findings and Questioned Costs (continued)**

**For the Year Ended December 31, 2016**

**B. Findings - Financial Statement Audit**

None.

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

None.

**Sacramento Steps Forward  
(A California Nonprofit Corporation)  
Summary Schedule of Prior Audit Findings**

**For the Year Ended December 31, 2016**

Not Applicable.