

**ALPHA PROJECT FOR THE HOMELESS**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**



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CONSOLIDATED FINANCIAL STATEMENTS  
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## Independent Auditor's Report

To the Board of Directors  
Alpha Project for the Homeless  
and Uptown Faith Community Service Center  
3737 Fifth Avenue, Suite 203  
San Diego, California 92103

We have audited the accompanying consolidated statement of financial position of Alpha Project for the Homeless and Uptown Faith Community Service Center as of June 30, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Alpha Project for the Homeless' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized information has been derived from the organization's 2009 consolidated financial statements and in our report dated August 28, 2009. We expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Alpha Project for the Homeless as of June 30, 2010, and the changes in their net assets and their cash flows for the year 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 November 1, 2010, on our consideration of Alpha Project for the Homeless' 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. That 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.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. 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 Nonprofit Organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Leaf & Cole LLP*  
San Diego, California  
November 1, 2010

**ALPHA PROJECT FOR THE HOMELESS  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b><u>Current Assets:</u></b> (Notes 1, 2, 3 and 4)		
Cash and cash equivalents	\$ 2,025,818	\$ 1,733,665
Investments	158,208	138,893
Grants and contracts receivable	466,075	413,105
Prepaid expenses	47,860	34,434
Total Current Assets	<u>2,697,961</u>	<u>2,320,097</u>
<b><u>Noncurrent Assets:</u></b> (Notes 1, 2, 5, 6 and 7)		
Property and equipment, net	1,963,408	2,062,914
Loan fees, net	8,441	10,903
Deposits	3,329	5,135
Beneficial interest in San Diego Foundation	42,131	38,167
Total Noncurrent Assets	<u>2,017,309</u>	<u>2,117,119</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,715,270</u></b>	<b><u>\$ 4,437,216</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

**ALPHA PROJECT FOR THE HOMELESS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**LIABILITIES AND NET ASSETS**

	<u>2010</u>	<u>2009</u>
<b><u>Current Liabilities:</u></b> (Note 1)		
Accounts payable	\$ 93,464	\$ 74,680
Accrued expenses	29,120	32,854
Client trust	4,907	8,376
Deferred revenue	-	307,200
Current portion of notes payable	112,107	104,004
Total Current Liabilities	<u>239,598</u>	<u>527,114</u>
 <b><u>Noncurrent Liabilities:</u></b> (Note 7)		
Notes payable, less current portion	1,259,640	1,378,928
Interest payable	44,687	40,937
Total Noncurrent Liabilities	<u>1,304,327</u>	<u>1,419,865</u>
Total Liabilities	<u>1,543,925</u>	<u>1,946,979</u>
 <b><u>Commitments</u></b> (Note 9)		
 <b><u>Net Assets:</u></b> (Notes 1 and 8)		
Unrestricted	3,121,345	2,440,237
Permanently restricted	50,000	50,000
Total Net Assets	<u>3,171,345</u>	<u>2,490,237</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ <u>4,715,270</u></b>	 <b>\$ <u>4,437,216</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

**ALPHA PROJECT FOR THE HOMELESS  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
<b><u>Support and Revenue:</u></b>				
Grants and contracts	\$ 2,651,082	\$ -	\$ 2,651,082	\$ 2,226,355
Program revenues	1,950,496	-	1,950,496	1,906,185
In-kind contributions	700,060	-	700,060	739,787
Contributions	575,454	-	575,454	552,714
Developer fee	521,885	-	521,885	-
Miscellaneous income	77,638	-	77,638	20,165
Investment income (loss)	33,897	-	33,897	(37,814)
Thrift Store	7,088	-	7,088	-
Total Support and Revenue	<u>6,517,600</u>	<u>-</u>	<u>6,517,600</u>	<u>5,407,392</u>
<b><u>Expenses:</u></b>				
<b>Program Services:</b>				
Rehabilitation Program Services	2,908,945	-	2,908,945	3,165,118
Special Projects	1,161,404	-	1,161,404	687,560
Winter Shelter	498,600	-	498,600	520,956
Outreach	444,921	-	444,921	127,748
UPTOWN	131,251	-	131,251	257,671
Alpha House	122,347	-	122,347	108,495
Counseling Center	104,801	-	104,801	93,744
Total Program Services	<u>5,372,269</u>	<u>-</u>	<u>5,372,269</u>	<u>4,961,292</u>
<b>Supporting Services:</b>				
Management and general	436,426	-	436,426	419,522
Fundraising	27,797	-	27,797	49,502
Total Supporting Services	<u>464,223</u>	<u>-</u>	<u>464,223</u>	<u>469,024</u>
Total Expenses	<u>5,836,492</u>	<u>-</u>	<u>5,836,492</u>	<u>5,430,316</u>
Change in Net Assets	681,108	-	681,108	(22,924)
Net Assets at the Beginning of Year	<u>2,440,237</u>	<u>50,000</u>	<u>2,490,237</u>	<u>2,513,161</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 3,121,345</u>	<u>\$ 50,000</u>	<u>\$ 3,171,345</u>	<u>\$ 2,490,237</u>

The accompanying notes are an integral part of the consolidated financial statements.

**ALPHA PROJECT FOR THE HOMELESS  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	Program Services						Supporting Services			2009 Total Expenses		
	Rehabilitation Program Services	UPTOWN	Alpha House	Winter Shelter	Special Projects	Counseling Center	Outreach	Total Program Services	Management and General		Fund- Raising	
Salaries and wages	\$ 1,119,269	\$ 29,023	\$ 12,250	\$ 210,027	\$ 667,190	\$ 58,304	\$ 185,182	\$ 2,281,245	\$ 57,874	\$ 754	\$ 2,339,873	\$ 2,269,178
In-kind expenses	574,855	28,279	22,123	54,844	-	-	-	680,101	19,959	-	700,060	739,786
Payroll taxes and fringe benefits	312,582	9,539	2,445	35,300	142,747	10,242	35,159	548,014	32,403	-	580,417	512,116
Food	138,213	-	48,619	84,566	-	413	-	271,863	108	-	271,971	263,055
Depreciation and amortization	96,293	617	13,964	-	51,522	-	14,787	177,183	7,813	-	184,996	170,263
Client Assst	3,845	10,248	-	237	-	-	125,807	140,137	2,825	-	142,962	61,266
Donation - program support	-	-	-	-	142,552	-	-	142,552	-	-	142,552	-
Gasoline	85,513	-	-	-	8,259	-	36,745	130,517	10,927	-	141,444	103,151
Equipment rental	12,040	1,913	219	77,712	3,864	1,311	1,403	98,462	12,689	-	111,151	97,180
Supplies	33,331	1,498	3,421	18,524	28,516	316	3,288	88,894	9,259	-	98,153	96,898
Professional fees	14,904	2,076	-	2,784	6,221	75	26,000	52,060	44,729	-	96,789	54,517
Advertising and marketing	-	-	-	-	130	-	-	354	86,521	9,613	96,488	81,041
Rent	28,529	28,466	-	1,571	5,153	22,200	-	85,919	4,646	-	90,365	97,664
Interest	46,952	6	22	4	30,504	3	21	77,512	827	-	78,339	56,981
Insurance	37,995	3,138	2,621	448	19,824	365	2,950	67,341	8,337	-	75,678	70,380
Stipends	74,110	-	-	-	-	-	-	74,110	500	750	74,610	74,030
Telephone	42,536	2,017	-	1,208	6,777	1,881	2,880	57,299	14,243	-	72,292	59,949
Utilities	54,394	1,781	4,945	-	4,360	2,562	525	68,567	666	-	69,233	63,138
Contracted services	53,746	-	-	-	-	-	-	53,746	-	-	53,746	53,746
Auto and truck	23,184	-	-	-	8,693	-	75	31,852	11,691	-	43,643	57,512
Miscellaneous	2,100	1,865	-	-	1,809	254	266	6,294	28,779	-	35,073	22,449
Meetings	1,646	-	-	-	-	126	80	1,852	33,099	-	34,951	36,747
Cost of newspapers	34,440	-	-	-	-	-	-	34,440	-	-	34,440	31,654
Property taxes	30,073	-	31	2,377	1,200	-	-	31,304	-	-	31,304	21,844
Trash	15,039	-	-	-	13,837	-	-	31,253	-	-	31,253	52,521
Medical expense	2,420	-	-	-	305	-	48	2,773	24,826	-	27,599	29,374
Office expense	12,997	720	193	5,493	1,023	1,247	2,106	23,779	2,406	-	26,185	33,949
Licenses and fees	6,677	-	-	-	3,501	3,452	544	14,174	4,730	-	18,904	38,452
Repairs and maintenance	5,479	618	636	2,884	6,443	648	-	16,708	731	-	17,439	17,316
Fundraising	-	-	-	-	-	-	-	-	-	16,680	16,680	39,321
Uniforms	11,528	-	-	-	2,982	-	75	14,585	1,258	-	15,843	25,310
Bus tokens	196	9,000	-	-	-	-	4,320	13,516	-	-	13,516	16,686
Technology	6,402	119	-	190	2,058	427	179	9,375	3,013	-	12,388	12,652
Drug testing	10,366	-	-	-	96	800	-	11,262	-	-	11,262	15,554
Vending machine	-	-	10,858	-	-	-	-	10,858	-	-	10,858	18,861
Dues and subscriptions	5,867	-	-	375	648	175	400	7,465	2,357	-	9,822	7,072
Parking	3,340	-	-	36	817	-	2,020	6,213	1,368	-	7,581	6,262
Postage	1,782	-	-	-	367	-	9	2,158	3,879	-	6,037	5,774
Travel	2,401	-	-	-	-	-	-	2,401	2,347	-	4,748	6,727
Supplies - Books	2,859	-	-	-	-	-	-	2,859	-	-	2,859	5,154
Bank fees	18	328	-	20	6	-	-	372	1,566	-	1,938	2,225
Training	800	-	-	-	-	-	-	800	50	-	850	2,361
<b>TOTAL EXPENSES</b>	<b>\$ 2,908,945</b>	<b>\$ 131,251</b>	<b>\$ 122,347</b>	<b>\$ 498,600</b>	<b>\$ 1,161,404</b>	<b>\$ 104,801</b>	<b>\$ 444,921</b>	<b>\$ 5,372,269</b>	<b>\$ 456,426</b>	<b>\$ 27,797</b>	<b>\$ 5,836,492</b>	<b>\$ 5,430,316</b>

The accompanying notes are an integral part of the consolidated financial statements.

**ALPHA PROJECT FOR THE HOMELESS  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	<u>2010</u>	<u>2009</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ 681,108	\$ (22,924)
<b>Adjustments to reconcile change in net assets to net cash provided by operations:</b>		
Depreciation and amortization	184,996	170,263
Interest payable	3,750	3,750
Realized and unrealized (gains) and losses on investments	(22,315)	63,819
Gain on sale of property and equipment	-	1,024
<b>(Increase) Decrease in:</b>		
Grants and contracts receivable	(52,970)	287,589
Prepaid expenses	(13,426)	406
Deposits	1,806	-
<b>Increase (Decrease) in:</b>		
Accounts payable	18,784	(25,649)
Accrued expenses	(3,734)	(6,407)
Client trust	(3,469)	(6,587)
Deferred revenue	(307,200)	253,065
Net Cash Provided by Operating Activities	<u>487,330</u>	<u>718,349</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchase of investments	(2,110)	(3,663)
Sale of investments	1,146	72,673
Purchase of property and equipment	(83,028)	(886,489)
Proceeds from sale of property and equipment	-	14,000
Purchase of loan fees	-	(11,959)
Net Cash Used in Investing Activities	<u>(83,992)</u>	<u>(815,438)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Proceeds from notes payable	-	623,017
Repayments on notes payable	(111,185)	(106,744)
Net Cash Provided by (Used in) Financing Activities	<u>(111,185)</u>	<u>516,273</u>
Net Increase in Cash and Cash Equivalents	292,153	419,184
Cash and Cash Equivalents at Beginning of Year	<u>1,733,665</u>	<u>1,314,481</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ <u>2,025,818</u></b>	<b>\$ <u>1,733,665</u></b>
<b><u>Supplemental Disclosure of Cash Flow Information:</u></b>		
Cash paid for interest	<u>\$ 74,589</u>	<u>\$ 53,231</u>

The accompanying notes are an integral part of the consolidated financial statements.

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies:**

**Organization**

The consolidated financial statements of the Organization include the accounts of the following entities:

**Alpha Project for the Homeless**

Alpha Project for the Homeless (“Alpha Project”) was organized in February 1987 under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The mission of Alpha Project is to empower individuals, families, and communities by providing work, recovery and support services to people who are motivated to change their lives and achieve self-sufficiency. Alpha Project’s many programs are available to all persons in need regardless of race, creed, color, ethnicity, national origin, religion, gender, or sexual orientation.

Alpha Project strives not to manage homelessness, but rather to end it for its clients. The agency’s programs do not aim at making homelessness easier, or less costly, or more tolerable. Alpha Project breaks the cycle of homelessness and provides an alternate direction for its clients out of hopelessness and despair, and into a life of responsibility and dignity.

Each program offered by the Alpha Project focuses on assisting participants to attain their own optimal level of independence. For most of the program participants, successful completion of the programs will mean complete and permanent independence through education, employment, sobriety, and stability. For those clients with special needs, the programs maximize their own potential and support as much independence as possible. All of the clients, regardless of their history, are encouraged, supported, and assisted in reaching their maximum potential with dignity and respect.

**Uptown Faith Community Service Center**

Uptown Faith Community Service Center (“Uptown”) mission is to help the homeless, poor, and needy, without discrimination, to become self-supporting members of our community. Uptown Faith Community Service Center was founded in 1984 as a charitable, nonprofit, nondenominational social service agency. Local congregations and supporters have joined to serve low-income individuals and families in our community through programs of crisis intervention, referrals, sponsorships, case management, HIV/AIDS services, and mail and message services.

The following is a brief description of the Organization’s programs:

**Rehabilitation Program Services**

**Casa Raphael**

The program is a state-licensed and certified residential treatment program for men in recovery from substance abuse. The program provides housing, food, recovery workshops, case management, mental health counseling, health and work and financial assistance.

**ALPHA PROJECT FOR THE HOMELESS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Organization (Continued)**

**Rehabilitation Program Services (Continued)**

**Casa Base**

The State licensed program provides a six-week rehabilitation program for men who are entering into Casa Raphael, which incorporates job training, education, and room and board and all services listed above.

**Sober Living House**

The Sober Living House is located in Oceanside, California. It provides permanent housing for graduates of the Casa Raphael and Casa Base pro-gram. The program provides a wide range of services to residents 24 hours a day, 7 days a week.

**UPTOWN**

The UPTOWN program provides crisis intervention, referrals, sponsorships, case management, HIV/AIDS services, and mail and message services to low-income individuals and families. In addition, the program provides assistance to veterans, homeless, and indigent people facing end-of-life issues on a case-by-case basis through its Living with Dignity Program.

**Alpha House**

Alpha House is designed to provide additional workforce housing for clients participating in Alpha's Take Back the Streets Program. Alpha House provides transitional housing to clients needing safe, clean and affordable housing while transitioning back into the workforce.

**Winter Shelter**

The program primarily provides shelter for participants from the elements during the winter months of December through March. However, the program also provides a comprehensive blend of services to assist participants to establish their own self-sufficiency such as employment and housing assistance.

**Special Projects**

Throughout the year, Alpha Project contracts directly with various public departments and private entities to provide weed and brush abatement services and other community benefit projects to neighborhoods and rural areas throughout San Diego County.

**ALPHA PROJECT FOR THE HOMELESS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Organization (Continued)**

**Counseling Center**

This program is a three to six month intensive substance abuse treatment program. The purpose of the program ranges from treating substance abuse to harm reduction. The program accepts men and women eighteen years and older and offers group counseling, individual counseling, education classes, life skills workshops, relapse prevention workshops, executive coaching and anger management program.

**Outreach**

At the core of all of Alpha Project's facilities and services is a program of Community Outreach, designed not only to assist those in need in accessing needed services, but also to assist the surrounding neighborhood in addressing homeless-related issues. Outreach workers are trained in crisis response and de-escalation, with access to transportation and a wealth of referral sources to help those in need connect with sources of support. Special focus is providing HIV/AIDS services, and placement of those with chronic illnesses or/and disabilities through the Living with Dignity Program.

Outreach services combine safe, quality, affordable housing with sensitive, professional property management and support services. The program supports residents with special needs in downtown San Diego. Rents are restricted in all units to make them affordable to persons who live on fixed incomes.

**Significant Accounting Policies**

**Consolidated Financial Statements**

The consolidated financial statements include the accounts of Alpha Project for the Homeless and Uptown Faith Community Service Center. All material intercompany transactions have been eliminated in consolidation.

**Method of Accounting**

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with U.S. generally accepted accounting principles and, accordingly, reflect all significant receivables, payables, and other liabilities.

In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) was issued. The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financials statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have a material impact on the consolidated financial position and results of operations.

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Financial Statement Presentation**

The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

**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 of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Risks and Uncertainties**

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statement of financial position.

**Fair Value Measurements**

The Organization has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). These standards do not change existing guidance as to whether or not an instrument is carried at fair value.

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Fair Value Measurements (Continued)**

The Organization's consolidated statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

Investments in mutual funds and common stocks are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

Investments in mortgage-backed securities are considered Level 2 assets and are reported at fair value based on quoted prices in active markets for similar assets at the measurement date.

Beneficial interest in San Diego Foundation is considered a Level 3 asset which represents an approximation of the discounted future cash flow based on the fair value of the underlying assets.

**Grants and Contracts Receivable**

Management believes that all grants and contracts receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded as of June 30, 2010 and 2009.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Capitalization and Depreciation**

Property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Buildings and improvements	7-40 years
Equipment, furniture and fixtures	5-7 years
Vehicles	5-7 years

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Capitalization and Depreciation (Continued)**

Depreciation aggregated \$182,534 and \$168,987 for the years ended June 30, 2010 and 2009, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

**Impairment of Real Estate**

The Organization reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2010 or 2009.

**Loan Fees**

Loan fees totaling \$24,455 and \$24,455 net of accumulated amortization of \$16,014 and \$13,552 at June 30, 2010 and 2009, respectively are being amortized on the straight-line method over five years. Amortization expense totaled \$2,462 and \$1,276 for the years ended June 30, 2010 and 2009, respectively.

**Revenue Recognition**

Grant and contract revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants and contracts receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned. Deferred revenue from grants and contracts totaled \$-0- and \$307,200 at June 30, 2010 and 2009, respectively.

**ALPHA PROJECT FOR THE HOMELESS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Donated Services and Materials**

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2010 and 2009, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

The Organization has received substantial donations of materials, food and supplies. The donations of materials, food and supplies are recorded at their fair value and totaled \$700,060 and \$739,787 for the years ended June 30, 2010 and 2009, respectively.

**Allocated Expenses**

Expenses by function have been allocated among program and supporting services classification on the basis of internal records and estimates made by the Organization's management.

**Income Taxes**

Alpha Project and Uptown are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. Alpha Project and Uptown are not private foundations.

Alpha Project and Uptown use a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings.

**Concentration of Credit Risk**

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

**ALPHA PROJECT FOR THE HOMELESS  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

For purposes of the consolidated statement of cash flows, the Organization considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

**Comparative Totals for June 30, 2009**

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2009, from which the summarized information was derived.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 1, 2010, the date the consolidated financial statements were available to be issued.

**Note 2 - Fair Value Measurements:**

The following table summarizes assets measured at fair value by classification within the fair value hierarchy as of June 30:

	2010			Balance as of June 30, 2010
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	\$ 141,837	\$ -	\$ -	\$ 141,837
Corporate stocks	2,357	-	-	2,357
Mortgage-backed securities	-	14,014	-	14,014
Beneficial interest in San Diego Foundation (Note 6)	-	-	42,131	42,131
	<u>\$ 144,194</u>	<u>\$ 14,014</u>	<u>\$ 42,131</u>	<u>\$ 200,339</u>

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 2 - Fair Value Measurements: (Continued)**

	2009			Balance as of June 30, 2009
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	\$ 121,907	\$ -	\$ -	\$ 121,907
Corporate stocks	2,439	-	-	2,439
Mortgage-backed securities	-	14,547	-	14,547
Beneficial interest in San Diego Foundation (Note 6)	-	-	38,167	38,167
	<u>\$ 124,346</u>	<u>\$ 14,547</u>	<u>\$ 38,167</u>	<u>\$ 177,060</u>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are included in the Notes as indicated above.

**Note 3 - Investments:**

Investments consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Mutual funds	\$ 141,837	\$ 121,907
Mortgage-backed securities	14,014	14,547
Corporate stocks	2,357	2,439
Total Investments	<u>\$ 158,208</u>	<u>\$ 138,893</u>

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest	\$ 11,582	\$ 26,005
Net realized and unrealized gains and (losses)	22,315	(63,819)
Total Investment Income (Loss)	<u>\$ 33,897</u>	<u>\$ (37,814)</u>

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 4 - Grants and Contracts Receivable:**

Grants and contracts receivable consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Other grants and contracts	\$ 64,126	\$ 218,289
City of San Diego – Alpha Works contract	152,245	109,465
Environmental Programs	21,225	28,016
Crisis House	32,955	21,974
Environmental Disposal	31,044	19,699
San Diego Association of Governments	37,978	11,814
County of San Diego	69,263	2,485
Environmental Services Department	1,751	1,200
City of Vista	8,488	163
San Diego Unified Port District	22,000	-
United Way - PTECH Program	25,000	-
Total Grants and Contracts Receivable	<u>\$ 466,075</u>	<u>\$ 413,105</u>

**Note 5 - Property and Equipment:**

Property and equipment consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 992,592	\$ 992,592
Buildings and improvements	1,120,953	1,120,953
Equipment, furniture and fixtures	483,786	481,710
Vehicles	1,113,793	1,032,841
Subtotal	<u>3,711,124</u>	<u>3,628,096</u>
Less: Accumulated depreciation	<u>(1,747,716)</u>	<u>(1,565,182)</u>
Property and Equipment, Net	<u>\$ 1,963,408</u>	<u>\$ 2,062,914</u>

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 6 - Beneficial Interest in San Diego Foundation:**

Alpha Project has a beneficial interest in endowment funds held at San Diego Foundation, which are classified as permanently restricted as these investments must be maintained in perpetuity. The Beneficial interest in San Diego Foundation is invested in a portfolio of equity and debt securities which is structured for long-term return. .

The activity in the beneficial interest in San Diego Foundation consisted of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Balance, Beginning of Year	\$ 38,167	\$ 48,282
Investment income (loss)	4,885	(8,458)
Distributions	(921)	(1,657)
Balance, End of Year	<u>\$ 42,131</u>	<u>\$ 38,167</u>

**Note 7 - Notes Payable:**

Notes payable consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Note payable to Wells Fargo, payable in monthly payments of \$4,585 including interest at 9.00%, due November, 2016. Secured by real property.	\$ 322,275	\$ 346,655
Note payable to South Coast Mortgage & Investments, Inc., payable in monthly payments of \$1,065 including interest at 9.00%, due August, 2013. Secured by real property.	35,301	44,436
Note payable to the Community Development Commission of the City of Vista, payable in interest only payments at 3.00% from residual receipts, accrued interest and principal due August, 2053. Secured by real property. Accrued interest totaled \$44,687 and \$40,937 at June 30, 2010 and 2009, respectively.	125,000	125,000
Note payable to the County of San Diego Department of Housing and Community Development, no interest payable, principal due July, 2053. Secured by real property.	235,000	235,000
Note payable to California Bank & Trust, payable in monthly installments of \$560 including interest at 7.47%, due November 2009. Secured by a vehicle.	-	2,736
Note payable to California Bank & Trust, payable in monthly installments of \$757 including interest at 7.89%, due October 2011. Secured by a vehicle.	10,755	18,630

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 7 - Notes Payable: (Continued)**

	<u>2010</u>	<u>2009</u>
Note payable to California Bank & Trust, payable in monthly installments of \$536 including interest at 6.66%, due May 2012. Secured by a vehicle.	\$ 11,532	\$ 16,985
Note payable to California Bank & Trust, payable in monthly installments of \$556 including interest at 7.47%, due November 2009. Secured by a vehicle.	-	2,718
Note payable to California Bank & Trust, payable in monthly installments of \$2,421 including interest at 6.00%, due May 2019. Secured by real property.	394,113	399,022
Note payable to California Bank & Trust, payable in monthly installments of \$650 including interest at 6.99% due October 2013. Secured by a vehicle.	22,740	28,516
Note payable to California Bank & Trust, payable in monthly installments of \$575 including interest at 7.00% due November 2012. Secured by a vehicle.	15,208	20,805
Note payable to California Bank & Trust payable in monthly installments of \$554 including interest at 7.00%, due December 2012. Secured by a vehicle.	15,150	20,510
Note payable to California Bank & Trust payable in monthly installments of \$554 including interest at 7.00%, due December 2012. Secured by a vehicle.	16,696	22,384
Note payable to California Bank & Trust, payable in monthly installments of \$586 including interest at 7.00%, due January 2013. Secured by a vehicle.	16,551	22,189
Note payable to California Bank & Trust, payable in monthly installments of \$600 including interest at 7.00%, due January 2013. Secured by a vehicle.	16,931	22,699
Note payable to California Bank & Trust, payable in monthly installments of \$592 including interest at 7.00%, due March 2013. Secured by a vehicle.	17,188	22,849
Note payable to California Bank & Trust, payable in monthly installments of \$461 including interest at 7.00%, due April 2013. Secured by a vehicle.	14,151	18,504
Note payable to California Bank & Trust, payable in monthly installments of \$607 including interest at 7.00%, due May 2013. Secured by a vehicle.	19,130	24,838

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 7 - Notes Payable: (Continued)**

	<u>2010</u>	<u>2009</u>
Note payable to California Bank & Trust, payable in monthly installments of \$394 including interest at 7.50%, due November 2010. Secured by a vehicle.	1,526	5,956
Note payable to the City of San Diego, noninterest bearing, no monthly payments. Repayment only upon termination of the related housing program. Secured by real property.	<u>82,500</u>	<u>82,500</u>
Total Notes Payable	1,371,747	1,482,932
Less: Current Portion	<u>(112,107)</u>	<u>(104,004)</u>
Notes Payable, Net of Current Portion	<u>\$ 1,259,640</u>	<u>\$ 1,378,928</u>

Aggregate annual principal payments due on notes payable are as follows for the years ended June 30:

<u>Years Ended June 30,</u>	
2011	\$ 112,107
2012	111,796
2013	91,433
2014	46,570
2015	45,866
Thereafter	<u>963,975</u>
	<u>\$ 1,371,747</u>

**Note 8 - Endowment Net Assets:**

The endowment funds of the Organization are held by San Diego Foundation (the "Foundation"). The Foundation manages the funds in accordance with UPMIFA. The Foundation's objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require the Organization to retain as a fund of perpetual duration. The Organization classifies permanently restricted net assets held by the Foundation as:

1. The original value of gifts donated to the fund
2. The original value of Organization funds transferred to the fund
3. The original value of subsequent gifts donated to the fund
4. Investment income and realized and unrealized gains and losses on investments
5. Distributions from the fund in accordance with the spending policy

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of the nature that are reported in unrestricted net assets totaled \$7,869 and \$11,833 at June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred in the investment portfolio in 2010 and 2009.

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 8 - Endowment Net Assets: (Continued)**

The Foundation has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
4. Comply with applicable laws

The Foundation's endowment funds are invested in a portfolio of equity and debt securities, which is structured for long-term total return. The Foundation's spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all contributions made to the Endowment Principal, then distributions will be limited to interest and dividends received. Given the recent market declines, many of the Foundation's endowment funds distributions will be limited to income received, which is approximately 2.5% of the endowment principal.

Endowment composition by type of fund and changes in Endowment Net Assets as of and for the years ended June 30:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at June 30, 2008	\$ (1,718)	\$ 50,000	\$ 48,282
Net realized and unrealized depreciation	(8,458)	-	(8,458)
Appropriation of endowment assets for expenditure	<u>(1,657)</u>	<u>-</u>	<u>(1,657)</u>
Endowment Net Assets at June 30, 2009	(11,833)	50,000	38,167
Net realized and unrealized depreciation	4,885	-	4,885
Appropriation of endowment assets for expenditure	<u>(921)</u>	<u>-</u>	<u>(921)</u>
Endowment Net Assets at June 30, 2010	<u>\$ (7,869)</u>	<u>\$ 50,000</u>	<u>\$ 42,131</u>

**Note 9 - Commitments:**

**Operating Leases**

Alpha Project leases office equipment under non-cancelable operating leases that expire at various dates through October 2011. Rental expense under these leases totaled \$9,593 and \$13,863 for the years ended June 30, 2010 and 2009, respectively.

Alpha Project leases office space under lease agreements expiring through May, 2010. In addition, Alpha Project leases office space, storage facilities and other facilities under leases on a month-to-month basis. Rental expense under these leases totaled \$62,099 and \$69,368 for the years ended June 30, 2010 and 2009, respectively.

Uptown leases office space under a lease agreement expiring July 2010. Rental expense under the lease totaled \$28,466 and \$28,296 for the years ended June 30, 2010 and 2009, respectively.

**ALPHA PROJECT FOR THE HOMELESS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

**Note 9 - Commitments: (Continued)**

The following is a schedule of future minimum lease payments under the leases for the years ended June 30:

<u>Years Ended</u> <u>June 30,</u>	
2011	\$ 6,387
2012	<u>255</u>
	<u>\$ 6,642</u>

**Employee Benefit Plan**

Alpha Project established a 403(b) profit and sharing plan (the "Plan") covering all full-time employees of Alpha Project. Employees may defer up to 25% of their annual compensation, not to exceed the annual amount allowed by law. Alpha Project may contribute a discretionary matching contribution each year. There were no matching contributions for the years ended June 30, 2010 and 2009.

**Developer Fee**

A developer fee was earned by Alpha Project for development services provided to Oxford Terrace Partners, LP, in the amount of \$1,152,934. Alpha Project received \$521,885 as developer fee payment during the year ended June 30, 2010. The balance of the developer fee receivable totaling \$631,049 has not been recorded by Alpha Project at June 30, 2010, due to the uncertainty of the collectability of the remaining balance. Any payments received will be recognized as revenue in the period they are received.

**ALPHA PROJECT FOR THE HOMELESS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal Grants/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>		
<b>Direct Program:</b>		
Supportive Housing Program	14.235	\$ 159,345
Total Direct Program		<u>159,345</u>
<b>Pass-Through Programs From:</b>		
City of San Diego:		
Community Development Block Grants/Entitlement Grants	14.218	93,000
Emergency Shelter Grants Program	14.231	195,000
Crisis Housing, Inc.		
Supportive Housing Program	14.235	144,801
Total Pass-Through Programs		<u>432,801</u>
Total U.S. Department of Housing and Urban Development		<u>592,146</u>
<b>U.S. Department of Health and Human Services:</b>		
<b>Pass-Through Program From:</b>		
Family Health Centers of San Diego:		
Consolidated Health Centers	93.224	30,996
County of San Diego:		
Substance Abuse Prevention and Treatment	93.959	95,059
Total U.S. Department of Health and Human Services		<u>126,055</u>
<b>U.S. Department of Homeland Security:</b>		
<b>Pass-Through Program From:</b>		
Catholic Charities:		
Emergency Food and Shelter National Board Program	97.024	42,574
Total U.S. Department of Homeland Security		<u>42,574</u>
<b>U.S. Department of Justice:</b>		
<b>Pass-Through Program From:</b>		
County of San Diego:		
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.803	107,320
Total U.S. Department of Justice		<u>107,320</u>
Total Expenditures of Federal Awards		<u>\$ 868,095</u>

Note: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.



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**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  
Alpha Project for the Homeless

We have audited the financial statements of Alpha Project for the Homeless as of and for the year ended June 30, 2010, and have issued our report thereon dated November 1, 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 Alpha Project for the Homeless' 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 Alpha Project for the Homeless' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Alpha Project for the Homeless' 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 Alpha Project for the Homeless' 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.

This report is intended solely for the information and use of management, the Board of Directors, 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.

Leaf & Cole LLP  
San Diego, California  
November 1, 2010



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**Independent Auditor's Report on Compliance With  
Requirements That Could Have a Direct and Material  
Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

To the Board of Directors  
Alpha Project for the Homeless

**Compliance**

We have audited Alpha Project for the Homeless' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Alpha Project for the Homeless' major federal programs for the year ended June 30, 2010. Alpha Project for the Homeless' 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 of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Alpha Project for the Homeless' management. Our responsibility is to express an opinion on Alpha Project for the Homeless' 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 occurred. An audit includes examining, on a test basis, evidence about Alpha Project for the Homeless' 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 Alpha Project for the Homeless' compliance with those requirements.

In our opinion, Alpha Project for the Homeless complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

### **Internal Control Over Compliance**

Management of Alpha Project for the Homeless is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Alpha Project for the Homeless' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 Alpha Project for the Homeless' 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 over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, others within the entity, 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.

Leaf & Cole LLP  
San Diego, California  
November 1, 2010

**ALPHA PROJECT FOR THE HOMELESS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Section I - Summary of Auditor's Results:**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiencies identified not considered to be material weaknesses?	_____	Yes	_____	X	No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ X No

**Federal Awards**

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiencies identified not considered to be material weakness(es)?	_____	Yes	_____	X	No

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? \_\_\_\_\_ Yes \_\_\_\_\_ X No

Identification of major programs:

<u>CDEA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.235	Supportive Housing Program
16.803	Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ X Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings:**

None

**Section III - Federal Award Findings and Questioned Costs:**

None

**ALPHA PROJECT FOR THE HOMELESS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

There were no prior audit findings for Alpha Project for the Homeless relative to federal awards.