



**AUDITED FINANCIAL STATEMENTS
AND COMPLIANCE REPORTS**

HOMEWARD BOUND OF MARIN, INC.

June 30, 2018 and 2017

HOMeward BOUND OF MARIN, INC.

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors,
Homeward Bound of Marin, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Homeward Bound of Marin, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risk 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homeward Bound of Marin, Inc. as of June 30, 2018 and 2017, 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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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 our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of Homeward Bound of Marin, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Homeward Bound of Marin, Inc.'s 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 Homeward Bound of Marin, Inc.'s internal control over financial reporting and compliance.



Sacramento, California
November 27, 2018

HOMeward BOUND OF MARIN, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,372,740	\$ 477,787
Investments	1,413	220,279
Grants receivable	412,453	538,051
Accounts receivable	75,309	47,226
Prepaid rents	114,967	-
Prepaid expenses and deposits	232,698	155,134
Property and equipment, net	<u>15,780,432</u>	<u>16,167,688</u>
TOTAL ASSETS	\$ <u>17,990,012</u>	\$ <u>17,606,165</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 82,357	\$ 80,109
Accrued expenses	364,153	308,538
Deferred revenue	9,773	201,921
Notes payable	<u>3,043,874</u>	<u>2,990,961</u>
TOTAL LIABILITIES	3,500,157	3,581,529
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Unrestricted	12,636,996	12,859,910
Temporarily restricted	<u>1,852,859</u>	<u>1,164,726</u>
	<u>14,489,855</u>	<u>14,024,636</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>17,990,012</u>	\$ <u>17,606,165</u>

See accompanying notes to the financial statements.

HOMeward BOUND OF MARIN, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Government grants	\$ 3,614,793	\$ -	\$ 3,614,793
Foundation and organization grants	576,500	859,000	1,435,500
Contributions	1,188,583	168,043	1,356,626
Client fees	1,059,199	-	1,059,199
Social enterprises	854,950	-	854,950
In-kind contributions	101,500	-	101,500
Other income	3,692	-	3,692
Investment income	3,459	-	3,459
<i>Net assets released from restrictions</i>	338,910	(338,910)	-
	<hr/>	<hr/>	<hr/>
TOTAL SUPPORT AND REVENUE	7,741,586	688,133	8,429,719
 EXPENSES			
Program services			
Adult services	3,464,981	-	3,464,981
Mental health services	1,301,298	-	1,301,298
Family services	1,353,027	-	1,353,027
Workforce training and social enterprises	939,489	-	939,489
Total program services	7,058,795	-	7,058,795
Supporting services			
General and administrative	609,094	-	609,094
Fundraising	296,611	-	296,611
Total supporting services	905,705	-	905,705
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	7,964,500	-	7,964,500
	<hr/>	<hr/>	<hr/>
CHANGE IN NET ASSETS	(222,914)	688,133	465,219
 NET ASSETS AT BEGINNING OF YEAR	 12,859,910	 1,164,726	 14,024,636
	<hr/>	<hr/>	<hr/>
NET ASSETS AT END OF YEAR	\$ 12,636,996	\$ 1,852,859	\$ 14,489,855
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See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Government grants	\$ 3,701,624	\$ -	\$ 3,701,624
Foundation and organization grants	903,688	294,000	1,197,688
Contributions	1,138,805	153,063	1,291,868
Client fees	958,761	-	958,761
Social enterprises	1,027,366	-	1,027,366
In-kind contributions	90,100	-	90,100
Other income	92,950	-	92,950
Investment income	37,352	-	37,352
<i>Net assets released from restrictions</i>	447,663	(447,663)	-
	8,398,309	(600)	8,397,709
EXPENSES			
Program services			
Adult services	3,412,847	-	3,412,847
Mental health services	1,297,389	-	1,297,389
Family services	966,167	-	966,167
Workforce training and social enterprises	1,374,685	-	1,374,685
Total program services	7,051,088	-	7,051,088
Supporting services			
General and administrative	504,473	-	504,473
Fundraising	327,750	-	327,750
Total supporting services	832,223	-	832,223
	7,883,311	-	7,883,311
	CHANGE IN NET ASSETS	(600)	514,398
	514,998		
NET ASSETS AT BEGINNING OF YEAR	12,344,912	1,165,326	13,510,238
NET ASSETS AT END OF YEAR	\$ 12,859,910	\$ 1,164,726	\$ 14,024,636

See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services				Supporting Services			
	Adult Services	Mental Health Services	Family Services	Workforce Training and Social Enterprises		General and Administrative	Fundraising	Total
				Total	Total			
Salaries	\$ 1,383,424	\$ 517,601	\$ 501,730	\$ 561,091	\$ 2,963,846	\$ 166,781	\$ 162,683	\$ 3,293,310
Payroll taxes	100,504	37,833	37,103	51,286	226,726	11,325	10,396	248,447
Employee benefits	211,530	81,071	59,904	61,748	414,253	63,663	19,314	497,230
Total salaries and related costs	1,695,458	636,505	598,737	674,125	3,604,825	241,769	192,393	4,038,987
HUD lease expenses	422,838	287,320	329,640	-	1,039,798	-	-	1,039,798
Food and household supplies	424,239	69,152	8,058	127,000	628,449	18,113	354	646,916
Occupancy	301,454	215,138	72,951	8,240	597,783	19,575	-	617,358
Depreciation	354,141	15,652	205,705	4,729	580,227	10,948	592	591,767
Office and operating expense	106,151	25,806	37,929	52,938	222,824	104,331	36,694	363,849
Program expense	105,777	17,321	39,663	55,328	218,089	3,771	290	222,150
Outside services	3,732	3,691	14,523	1,587	23,533	91,707	48,352	163,592
Interest expense	18,124	-	30,378	-	48,502	90,969	-	139,471
Staff related costs	8,919	9,686	5,947	2,311	26,863	27,512	1,881	29,393
Repairs and maintenance	24,148	21,027	7,796	2,440	55,411	315	-	55,726
Marketing and website	-	-	1,700	10,791	12,491	84	16,055	28,630
	\$ 3,464,981	\$ 1,301,298	\$ 1,353,027	\$ 939,489	\$ 7,058,795	\$ 609,094	\$ 296,611	\$ 7,964,500

See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services				Supporting Services			
	Adult Services	Mental Health Services	Family Services	Workforce Training and Social Enterprises		General and Administrative	Fundraising	Total
				Total	Total			
Salaries	\$ 1,365,950	\$ 499,917	\$ 344,507	\$ 791,652	\$ 3,002,026	\$ 255,640	\$ 181,266	\$ 3,438,932
Payroll taxes	99,733	36,141	25,376	59,440	220,690	18,863	12,423	251,976
Employee benefits	320,957	102,709	52,467	133,263	609,396	63,978	23,587	696,961
Total salaries and related costs	1,786,640	638,767	422,350	984,355	3,832,112	338,481	217,276	4,387,869
HUD lease expenses	385,840	258,354	155,542	-	799,736	3,550	-	803,286
Food and household supplies	332,005	86,815	8,319	259,370	686,509	1,541	530	688,580
Occupancy	270,651	208,762	37,368	4,370	521,151	5,811	-	526,962
Depreciation	348,745	16,467	109,768	6,622	481,602	10,632	353	492,587
Office and operating expense	142,176	28,792	144,587	55,039	370,594	53,306	37,716	461,616
Program expense	85,595	12,376	32,003	22,709	152,683	-	540	153,223
Outside services	4,557	1,302	19,136	10,608	35,603	73,470	70,586	179,659
Interest expense	19,021	-	11,887	-	30,908	-	-	30,908
Staff related costs	8,329	11,481	5,974	1,604	27,388	14,402	545	42,335
Repairs and maintenance	29,075	33,895	16,001	10,350	89,321	2,909	-	92,230
Marketing and website	-	-	3,232	19,599	22,831	-	-	22,831
Miscellaneous	213	378	-	59	650	371	204	1,225
	\$ 3,412,847	\$ 1,297,389	\$ 966,167	\$ 1,374,685	\$ 7,051,088	\$ 504,473	\$ 327,750	\$ 7,883,311

See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 465,219	\$ 514,398
<i>Adjustments to reconcile the change in net assets to net cash provided by operating activities:</i>		
Depreciation	591,767	492,587
Unrealized and realized gains on investment	(1,324)	(37,300)
Accretion of discount on notes payable	90,969	-
<i>Changes in operating assets and liabilities:</i>		
Grants receivable	125,598	(301,438)
Accounts receivable	(28,083)	109,548
Prepaid rents	(114,967)	-
Prepaid expenses and deposits	(77,564)	(32,334)
Accounts payable	2,248	(30,341)
Accrued expenses	55,615	(12,272)
Deferred revenue	(192,148)	(86,888)
NET CASH PROVIDED BY OPERATING ACTIVITIES	917,330	615,960
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	220,190	419,727
Purchases of investments	-	(296,432)
Purchases of property and equipment	(204,511)	(2,184,775)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	15,679	(2,061,480)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(38,056)	(421,288)
Proceeds from notes payable	-	700,000
NET (USED IN) PROVIDED BY FINANCING ACTIVITIES	(38,056)	278,712
NET CHANGE IN CASH AND CASH EQUIVALENTS	894,953	(1,166,808)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	477,787	1,644,595
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,372,740	\$ 477,787
<u>SUPPLEMENTAL INFORMATION:</u>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 48,502	\$ 30,908
Non-cash transfer associated with Oma Village project from construction in progress to property and equipment	\$ -	\$ 3,656,752

See accompanying notes to the financial statements.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION

Homeward Bound of Marin, Inc. (HBM) is a non-profit corporation organized in 1974 to provide housing, housing counseling and referral, crisis management and related social services to persons in need, and to promote and develop both temporary and long-term supportive housing resources for such persons. HBM is Marin County's chief provider of shelter and residential services for homeless families and individuals, serving approximately 1,400 people per year in 14 inter-related residential programs.

HBM's mission is to open doors to safety, dignity, hope, and independence coupled with a vision that "everyone deserves a place to call home."

Major sources of funding include grants from Federal, State, and local governments; foundation grants; and contributions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements are presented in conformity with professional standards applicable to not-for-profit entities. HBM reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2018 and 2017, HBM's net assets consisted only of unrestricted and temporarily restricted net assets.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash instruments with original maturities of three months or less at the time of purchase.

Accounts Receivable: Accounts receivable that represent unconditional promises to give are recognized as revenue when the promise is received. Receivables are stated at the amount management expects to collect from balances outstanding. Management closely monitors outstanding balances throughout the year and writes off to the change in net assets all balances that are considered uncollectible.

Property and Equipment: Property and equipment in excess of \$1,000 is stated at cost if purchased or at fair market value at the date of donation if donated. Depreciation is computed using the straight-line method over the estimated useful lives of 5-40 years for buildings, 5-25 years for leasehold improvements, 3-20 years for furniture and equipment, 20 years for artwork, and 7 years for vehicles. Expenditures for maintenance and repairs are charged to expense as incurred.

Revenue Recognition: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Grants and Contracts: Grants receivable represent expenditures for which reimbursement has been requested but not yet received. Grant revenue is recognized when services are performed and related reimbursable expenses are incurred, in accordance with the terms of applicable grant awards. HBM considers grants and contracts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. If amounts become uncollectible, they will be charged to operations when that determination is made.

Social Enterprises: HBM provides a job-training program for low-income students from the community as well as HBM residents to prepare individuals for jobs in the culinary industry. Revenues are earned from contracts with local agencies for services provided by students and sales of dog biscuits, chocolate truffles, and jams and salsas produced by students.

Client Fees: Client fees include monthly rental amounts from residents in supportive housing as well as fees for supportive services not paid for by grant funds.

In-kind Contributions: In-kind contributions are recognized as public support and as a corresponding asset or expense at the estimated fair value on the date donated. Such donations are not recognized if there is an uncertainty about the existence of value or stipulations about ownership of assets. Donated services are not recognized in the financial statements unless the services either create or enhance a nonfinancial asset or are specialized skills that would be purchased if they were not donated. HBM recorded the following in-kind contributions during the years ended June 30:

	<u>2018</u>	<u>2017</u>
Bus vouchers	\$ 101,500	\$ 90,000
Gift cards	-	100
	<u>\$ 101,500</u>	<u>\$ 90,100</u>

Income Taxes: HBM is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and California Revenue and Tax Code 23701d.

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

Functional Expenses: HBM allocates indirect expenses among programs and administrative services on a basis proportionate to the direct staff time or other method which best measures the relative degree of benefit.

HOMEWARD BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B - 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value: HBM follows guidance with respect to accounting and reporting for the fair value of its financial assets and liabilities. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same; to estimate the price at which an orderly transaction to sell the asset or to transfer the liabilities would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 uses unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 uses inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 uses unobservable information with little or no market data.

HBM utilizes the active market approach (Level 1) to measure fair value for its financial assets, which consist of cash in checking and savings accounts. The carrying value of HBM's nonfinancial assets and liabilities approximates fair value.

Reclassifications: Certain prior year amounts have been reclassified for comparative purposes.

NOTE C – INVESTMENTS

Investments are stated at fair value based on quoted prices in active markets (Level 1) and are summarized as follows at June 30:

	2018			2017		
	Cost	Fair Value	Unrealized Gain/ (Loss)	Cost	Fair Value	Unrealized Gain/ (Loss)
Mutual funds	\$ -	\$ -	\$ -	\$ 164,546	\$ 193,853	\$ 29,307
Stocks	135	1,413	1,278	26,426	26,426	-
	\$ 135	\$ 1,413	\$ 1,278	\$ 190,972	\$ 220,279	\$ 29,307

HOMEWARD BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE C – INVESTMENTS - Continued

Net investment return is comprised of the following for the years ended June 30:

		<u>2018</u>		<u>2017</u>
Interest and dividends	\$	2,135	\$	52
Net realized gain		-		10,795
Net unrealized gain		<u>1,324</u>		<u>26,505</u>
	\$	<u>3,459</u>	\$	<u>37,352</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

		<u>2018</u>		<u>2017</u>
Buildings	\$	18,974,078	\$	18,908,056
Land		1,152,939		1,152,939
Leasehold improvements		535,248		418,049
Furniture and equipment		452,599		431,310
Artwork		122,025		122,025
Vehicles		<u>64,265</u>		<u>64,265</u>
		21,301,154		21,096,644
Less: accumulated depreciation		<u>5,520,722</u>		<u>4,928,956</u>
	\$	<u>15,780,432</u>	\$	<u>16,167,688</u>

NOTE E – NOTES PAYABLE

Notes payable consist of the following at June 30:

		<u>2018</u>		<u>2017</u>
Note payable, Emergency Housing & Assistance Program (EHAP), secured by a deed of trust for property at N. Hamilton Parkway, Novato, California. Bears interest at 3% per annum. No payments are due unless the property ceases to be operated as an emergency shelter or transitional housing. Forgiveness of principal and deferred interest will be in 2020.				
	\$	1,000,000	\$	1,000,000

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE E – NOTES PAYABLE - Continued

	<u>2018</u>	<u>2017</u>
Note payable to First Republic Bank, for Oma Village, 84 monthly payments of \$3,698 including interest at 3.95% per annum through April 2024. 35 monthly payments of \$3,580 including interest at 3.55%, one final principal and interest payment of \$500,811 on April 12, 2027. Collateralized by buildings.	\$ 682,305	\$ 700,000
Note payable to First Republic Bank, for Next Key Center, monthly payment of \$3,040 including interest at 4% per annum. Collateralized by buildings, final maturity is November, 2034.	437,822	458,183
Note payable, Umpqua Bank, guaranteed by Federal Home Loan Bank (FHLB) Affordable Housing Program, secured by a deed of trust for Next Key Center. Forgiveness of loan amount on March 1, 2024, contingent upon compliance with certain laws and regulations.	747,258	665,057
Note payable, City of Novato, secured by a deed of trust for property at Nave Drive, Novato, California. For construction of affordable housing for extremely low income households which include a student under the age of 18. Zero interest, due March 9, 2071.	83,500	78,707
Note payable, Marin Workforce Housing Trust, secured by a deed of trust for property at Nave Drive, Novato, California. For construction of affordable housing for very low and low income households. Zero interest, due August 11, 2069.	52,689	48,714
Note payable, Marin Housing Authority, secured by a deed of trust for property at Mission Avenue, San Rafael, California. For property improvement through the Marin County Residential Rehabilitation Loan Program. Bears interest at 3% per annum. The note is payable upon sale or transfer of the property.	25,000	25,000

HOMEWARD BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE E – NOTES PAYABLE - Continued

	2018	2017
Note payable, City of Novato, part of a deferred fee agreement. Annual payments of \$3,825 commenced January, 2001 and will end July, 2020. The note is non-interest bearing.	15,300	15,300
Total long-term-debt	\$ 3,043,874	\$ 2,990,961

Future annual principal maturities are as follows:

Year ending June 30		
2019	\$	44,386
2020		41,987
2021		43,614
2022		41,412
2023		43,099
Thereafter		2,829,376
	\$	3,043,874

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent unexpended grants and contributions restricted for the following purposes or for the passage of time at June 30:

	2018		2017
Contingently forgivable non-interest bearing notes	\$ 921,553	\$	1,012,522
King Street	624,041		-
Program restricted grants	232,265		48,204
Pledges receivable – time restricted	75,000		4,000
Oma Village	-		100,000
	\$ 1,852,859	\$	1,164,726

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE F – TEMPORARILY RESTRICTED NET ASSETS - Continued

As noted in Note E to the financial statements, the Organization is obligated under the terms of three non-interest bearing notes, one with Umpqua Bank, guaranteed by Federal Home Loan Bank, one with City of Novato, and one with Marin Workforce Housing Trust. The difference between the present value of these notes and their face value was recorded by the Organization as temporarily restricted contributions in the year the notes were executed. The contributions are released from restrictions over the life of the notes with the accretion of the discounts as the notes mature. Net assets released from restrictions during the year ended June 30, 2018 amounted to \$90,969. At June 30, 2018 and 2017, the unamortized discount on the notes amounted to \$921,553 and \$1,012,522, respectively.

Umpqua Bank Non-Interest Bearing Note: The non-interest bearing note payable to Umpqua Bank, guaranteed by Federal Home Loan Bank (FHLB) Affordable Housing Program, has a face value of \$1,000,000 and is presented in the accompanying financial statements at June 30, 2018 and 2017 at \$747,258 and \$665,057, respectively, which is net of the unamortized discount of \$252,742 and \$334,943, respectively. The discount reflects an imputed interest rate of 6%. Principal payments have been deferred for 16 years and will be forgiven on March 1, 2024, provided the Organization complies with the Affordable Housing Program (AHP) agreement. At the time this debt is forgiven, the Organization will recognize the carrying value of the debt as a contribution. During the years ended June 30, 2018 and 2017, management believes it has complied with the terms and conditions of the AHP agreement.

City of Novato Non-Interest Bearing Note: The non-interest bearing note payable to City of Novato has a face value of \$400,000 and is presented in the accompanying financial statements at June 30, 2018 and 2017 at \$83,500 and \$78,707, respectively, which is net of the unamortized discount of \$316,500 and \$321,293, respectively. The discount reflects an imputed interest rate of 3%. Principal payments have been deferred for 55 years, provided the Organization complies with the Affordable Housing agreement and restrict the rental on the units to extremely low income households which include a student under the age of 18. The note is payable in full upon maturity of the loan on March 9, 2071. During the years ended June 30, 2018 and 2017, management believes it has complied with the terms and conditions of the Affordable Housing agreement.

Marin Workforce Housing Trust Non-Interest Bearing Note: The non-interest bearing note payable to Marin Workforce Housing Trust has a face value of \$405,000 and is presented in the accompanying financial statements at June 30, 2018 and 2017 at \$52,689 and \$48,714, respectively, which is net of the unamortized discount of \$352,311 and \$356,286, respectively. The discount reflects an imputed interest rate of 4%. Principal payments have been deferred for 55 years, provided the Organization complies with note agreement and restrict the rental on the units to very low and low income households. The note is payable in full upon maturity of the loan on August 11, 2069. During the years ended June 30, 2018 and 2017, management believes it has complied with the terms and conditions of the note agreement.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE G - COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments: HBM leases space under the terms of operating leases to operate its programs. Certain leases are on a month-to-month basis while others are for longer periods. Future minimum lease payments under leases with initial terms of more than one year are as follows:

<u>Year ending June 30</u>	
2019	\$ 270,711
2020	276,332
2021	282,408
2022	286,170
2023	292,464
Thereafter	<u>916,548</u>
	\$ <u>2,324,633</u>

Rent expense under these leases for the year ended 2018 amounted to \$1,307,059, of which \$1,039,798 was covered by HUD funds. Rent expense under these leases for the year ended 2017 amounted to \$1,064,563, of which \$803,286 was covered by HUD funds.

Unemployment Reserve: In accordance with provisions of the California Unemployment Insurance Code concerning non-profit organizations, HBM has elected to reimburse the cost of unemployment benefits paid by the State in lieu of making contributions normally required of tax rate employers. HBM participates in the Joint Agencies Trust to self-insure for unemployment insurance. The trust manages and administers the account; however, all funds kept on account belong to HBM. The balances in the account at June 30, 2018 and 2017 totaled \$ 87,291 and \$76,300, respectively.

Contingencies: HBM has received numerous Community Development Block Grants (CDBG) for the acquisition and improvement of land and buildings. Together with CDBG, the County of Marin may record a lien on properties which have been purchased or improved with the CDBG funds. The amount of each lien is the original percentage that corresponds to the percentage of value that CDBG contributed at the time the CDBG grant is entered into. In the event HBM should sell the property or change the use of the premises for non-eligible purposes, the County could enforce the liens and would be entitled to its percentage of the proceeds from any sale, conveyance, encumbrance, grant, or lease, less closing costs of the property at that time. At June 30, 2018 and 2017, the following liens existed:

- 64 percent of the value of 430 Mission Avenue
- 3.3 percent of the value of 430 Mission Avenue
- 17.1 percent of the value of 190 Mill Street
- 31 percent of the value of 190 Mill Street
- 8.2 percent of the value of 1385 North Hamilton Parkway -The Next Key
- 4.5 percent of the value of 430 Mission Avenue
- 27.4 percent of 1399 North Hamilton Parkway – New Beginnings Center (consolidated)
- 2.0 percent of 5394 Nave Drive

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE H - CONCENTRATION OF CREDIT AND MARKET RISK

Concentration of Grants: Approximately 44% and 38%, respectively, of the funding for HBM's programs for the years ended June 30, 2018 and 2017 was provided from grants through the U.S. Department of Housing and Urban Development and the County of Marin.

HBM receives a significant portion of its revenue from various government agencies for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management believes that any required reimbursements will not be material. However, if a significant reduction in funding from these government agencies occurred, HBM's ability to maintain and operate its programs would be impaired.

Concentration of Credit Risk: HBM maintains its cash in bank accounts which, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. Accounts at each financial institution are insured by the FDIC up to \$250,000. Uninsured deposits as of June 30, 2018 and 2017, totaled \$694,709 and \$11,145, respectively. HBM has not experienced losses in any of these accounts and management believes it is not exposed to any significant credit risk related to these accounts.

NOTE I – RETIREMENT PLAN

On May 1, 2015 HBM adopted a 403(b) retirement plan whereby participating employees can make tax-deferred contributions up to the maximum annual amounts allowed under the Internal Revenue Code. Matching contributions to the plan are made at the discretion of HBM's Board of Directors and are based on a percentage of salary subject to a maximum limit allowable per year under the Internal Revenue Code. HBM may also make a discretionary contribution to eligible employees. Employees become fully vested in any employer contributions after three years. Total contributions made by HBM for the years ended June 30, 2018 and 2017 amounted to \$ 19,611 and \$19,066, respectively.

NOTE J – SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 27, 2018 the date on which the financial statements were available to be issued.

COMPLIANCE REPORTS

HOMeward BOUND OF MARIN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Total Federal Expenditures
Loan Guarantee - Federal Home Loan Bank		
The Next Key Transitional Housing	99.000	\$ 1,000,000
U.S. Department of Housing and Urban Development		
Supportive Housing Program	14.235	1,369,036
Federal Emergency Solutions Grant	14.231	138,000
U.S. Department of Veterans Affairs		
Grant and per diem program	64.024	<u>179,609</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u><u>2,686,645</u></u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

HOMEWARD BOUND OF MARIN, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Homeward Bound of Marin, Inc. under programs of the federal government for the year ended June 30, 2018. 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 Homeward Bound of Marin, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Homeward Bound of Marin, Inc.

NOTE B – 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.

NOTE C – INDIRECT COST RATE

Homeward Bound of Marin, Inc. has elected not to use the 10% de minimis indirect cost rate 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
Homeward Bound of Marin, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Homeward Bound of Marin, Inc. (HBM) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HBM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HBM's internal control. Accordingly, we do not express an opinion on the effectiveness of HBM's internal control.

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

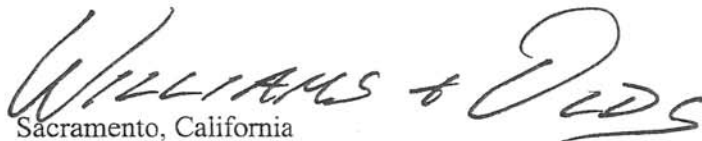
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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


Sacramento, California
November 27, 2018



**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
Homeward Bound of Marin, Inc.**

Report on Compliance for Each Major Federal Program

We have audited Homeward Bound of Marin Inc.’s (HBM) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HBM’s major federal programs for the year ended June 30, 2018. HBM’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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HBM’s compliance.

Opinion on Each Major Federal Program

In our opinion, HBM 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, 2018.


Report on Internal Control Over Compliance

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

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

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

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


Sacramento, California
November 27, 2018

HOMeward BOUND OF MARIN, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report: Unmodified

Internal control over financial reporting:
 Material weakness identified? ___ yes X no

Significant deficiency(ies) identified
 not considered to be material weakness? ___ yes X none reported

Noncompliance material to financial statements
 noted? ___ yes X no

Federal Award

Internal control over major programs:
 Material weakness identified? ___ yes X no

Significant deficiency(ies) identified
 not considered to be material weakness? ___ yes X none reported

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

Any audit findings disclosed that are required
 to be reported in accordance with
 2 CFR section 200.516(a) ___ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
99.000 14.235	FHLB Loan Guarantee: The Next Key Transitional Housing Supportive Housing Program

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

Auditee qualified as low-risk auditee? X yes ___ no

HOMeward BOUND OF MARIN, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

For the Year Ended June 30, 2018

CURRENT YEAR FINDINGS

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

No prior year audit findings.