



**AUDITED FINANCIAL STATEMENTS
AND COMPLIANCE REPORTS**

HOMEWARD BOUND OF MARIN, INC.

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
December 30, 2019

HOMeward BOUND OF MARIN, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 1,331,936	\$ 1,372,740
Investments	-	1,413
Grants receivable	721,601	412,453
Accounts receivable	29,612	75,309
Prepaid rents	126,237	114,967
Prepaid expenses and deposits	211,175	232,698
Property and equipment, net	<u>16,757,493</u>	<u>15,780,432</u>
TOTAL ASSETS	<u>\$ 19,178,054</u>	<u>\$ 17,990,012</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 181,319	\$ 82,357
Accrued expenses	343,358	364,153
Deferred revenue	2,818	9,773
Notes payable	<u>3,056,750</u>	<u>3,043,874</u>
TOTAL LIABILITIES	3,584,245	3,500,157
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Without donor restrictions	14,321,492	12,636,996
With donor restrictions	<u>1,272,317</u>	<u>1,852,859</u>
	<u>15,593,809</u>	<u>14,489,855</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,178,054</u>	<u>\$ 17,990,012</u>

See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Government grants	\$ 4,911,876	\$ 120,739	\$ 5,032,615
Foundation grants	703,000	340,000	1,043,000
Contributions	1,466,780	14,750	1,481,530
Client fees	1,144,253	-	1,144,253
Social enterprises	740,611	-	740,611
In-kind contributions	98,048	-	98,048
Other income	241,000	-	241,000
Investment income	6,927	-	6,927
<i>Net assets released from restrictions</i>	1,056,031	(1,056,031)	-
TOTAL SUPPORT AND REVENUE	10,368,526	(580,542)	9,787,984
EXPENSES			
Program services			
Adult services	3,963,831	-	3,963,831
Mental health services	1,413,674	-	1,413,674
Family services	1,456,780	-	1,456,780
Workforce training and social enterprises	857,687	-	857,687
Total program services	7,691,972	-	7,691,972
Supporting services			
General and administrative	657,324	-	657,324
Fundraising	334,734	-	334,734
Total supporting services	992,058	-	992,058
TOTAL EXPENSES	8,684,030	-	8,684,030
CHANGE IN NET ASSETS	1,684,496	(580,542)	1,103,954
NET ASSETS AT BEGINNING OF YEAR	12,636,996	1,852,859	14,489,855
NET ASSETS AT END OF YEAR	\$ 14,321,492	\$ 1,272,317	\$ 15,593,809

See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Government grants	\$ 3,614,793	\$ -	\$ 3,614,793
Foundation 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)	-
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
TOTAL EXPENSES	7,964,500	-	7,964,500
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
NET ASSETS AT END OF YEAR	\$ 12,636,996	\$ 1,852,859	\$ 14,489,855

See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Program Services					Supporting Services			
	Adult Services	Mental Health Services	Family Services	Workforce Training and Social Enterprises	Total	General and Administrative	Fundraising	Total	Total
Salaries	\$ 1,663,033	\$ 534,491	\$ 503,436	\$ 392,008	\$ 3,092,968	\$ 230,912	\$ 209,655	\$ 440,567	\$ 3,533,535
Payroll taxes	121,011	39,132	37,284	29,107	226,534	16,286	14,072	30,358	256,892
Employee benefits	200,714	77,596	66,272	61,747	406,329	75,522	19,180	94,702	501,031
Total salaries and related costs	1,984,758	651,219	606,992	482,862	3,725,831	322,720	242,907	565,627	4,291,458
HUD lease expenses	466,561	340,800	349,598	-	1,156,959	-	-	-	1,156,959
Food and household supplies	443,563	75,945	28,220	271,214	818,942	18,115	527	18,642	837,584
Occupancy	351,318	225,791	77,663	6,379	661,151	28,571	-	28,571	689,722
Depreciation	342,679	16,649	251,874	5,748	616,950	10,559	832	11,391	628,341
Office and operating expense	72,845	14,292	39,010	14,434	140,581	47,317	20,658	67,975	208,556
Program supplies and vouchers	113,713	24,658	33,948	55,335	227,654	-	609	609	228,263
Outside services	34,455	3,463	17,180	1,275	56,373	108,235	49,995	158,230	214,603
Interest expense	16,812	-	26,817	-	43,629	49,448	-	49,448	93,077
Staff related costs	21,720	5,684	5,884	6,709	39,997	43,065	3,735	46,800	86,797
Repairs and maintenance	115,407	55,173	19,594	12,692	202,866	19,934	257	20,191	223,057
Marketing and website	-	-	-	1,039	1,039	6,600	15,214	21,814	22,853
Miscellaneous expense	-	-	-	-	-	2,760	-	2,760	2,760
	<u>\$ 3,963,831</u>	<u>\$ 1,413,674</u>	<u>\$ 1,456,780</u>	<u>\$ 857,687</u>	<u>\$ 7,691,972</u>	<u>\$ 657,324</u>	<u>\$ 334,734</u>	<u>\$ 992,058</u>	<u>\$ 8,684,030</u>

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	Total	General and Administrative	Fundraising	Total	Total
Salaries	\$ 1,383,424	\$ 517,601	\$ 501,730	\$ 561,091	\$ 2,963,846	\$ 166,781	\$ 162,683	\$ 329,464	\$ 3,293,310
Payroll taxes	100,504	37,833	37,103	51,286	226,726	11,325	10,396	21,721	248,447
Employee benefits	211,530	81,071	59,904	61,748	414,253	63,663	19,314	82,977	497,230
Total salaries and related costs	1,695,458	636,505	598,737	674,125	3,604,825	241,769	192,393	434,162	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	18,467	646,916
Occupancy	301,454	215,138	72,951	8,240	597,783	19,575	-	19,575	617,358
Depreciation	354,141	15,652	205,705	4,729	580,227	10,948	592	11,540	591,767
Office and operating expense	106,151	25,806	37,929	52,938	222,824	104,331	36,694	141,025	363,849
Program supplies and vouchers	105,777	17,321	39,663	55,328	218,089	3,771	290	4,061	222,150
Outside services	3,732	3,691	14,523	1,587	23,533	91,707	48,352	140,059	163,592
Interest expense	18,124	-	30,378	-	48,502	90,969	-	90,969	139,471
Staff related costs	8,919	9,686	5,947	2,311	26,863	27,512	1,881	29,393	56,256
Repairs and maintenance	24,148	21,027	7,796	2,440	55,411	315	-	315	55,726
Marketing and website	-	-	1,700	10,791	12,491	84	16,055	16,139	28,630
	\$ 3,464,981	\$ 1,301,298	\$ 1,353,027	\$ 939,489	\$ 7,058,795	\$ 609,094	\$ 296,611	\$ 905,705	\$ 7,964,500

See accompanying notes to the financial statements.

HOMEWARD BOUND OF MARIN, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,103,954	\$ 465,219
<i>Adjustments to reconcile the change in net assets to net cash provided by operating activities:</i>		
Depreciation	628,341	591,767
Unrealized and realized gains on investment	(6,220)	(1,324)
Accretion of discount on notes payable	49,448	90,969
<i>Changes in operating assets and liabilities:</i>		
Grants receivable	(309,148)	125,598
Accounts receivable	45,697	(28,083)
Prepaid rents	(11,270)	(114,967)
Prepaid expenses and deposits	21,523	(77,564)
Accounts payable	98,962	2,248
Accrued expenses	(20,795)	55,615
Deferred revenue	(6,955)	(192,148)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,593,537	917,330
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	107,245	220,190
Purchases of investments	(99,612)	-
Purchases of property and equipment	(147,049)	(204,511)
Cash paid for construction in progress	(1,458,353)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,597,769)	15,679
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(36,572)	(38,056)
NET CASH USED IN FINANCING ACTIVITIES	(36,572)	(38,056)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(40,804)	894,953
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,372,740	477,787
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,331,936	\$ 1,372,740
<u>SUPPLEMENTAL INFORMATION:</u>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 43,629	\$ 48,502

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 of HBM have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require HBM. to report information regarding its financial position and activities according to the following net asset classifications:

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

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations: The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to HBM's ongoing services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature. There were no nonoperating activities during the years ended June 30, 2019 and 2018.

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.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 with or without donor restrictions, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in donor 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), donor restricted net assets are reclassified to without donor net assets and reported in the statement of activities as net assets released from restrictions.

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 received \$98,048 and \$101,500 of transit vouchers during the years ended June 30, 2019 and 2018, respectively.

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.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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: The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Payroll taxes and benefits	Time and effort
Food and household supplies	Estimated average cost of a prepared meal

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.

HOMEWARD BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

New Accounting Pronouncement: On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE C - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at June 30:

	2019	2018
Buildings	\$ 19,547,808	\$ 18,974,078
Land	1,152,939	1,152,939
Leasehold improvements	1,534,950	535,248
Furniture and equipment	444,520	452,599
Artwork	122,025	122,025
Vehicles	64,265	64,265
	22,866,507	21,301,154
Less: accumulated depreciation	6,109,014	5,520,722
	\$ 16,757,493	\$ 15,780,432

For the years ended June 30, 2019 and 2018, depreciation expense totaled \$628,341 and \$591,767, respectively.

NOTE D – NOTES PAYABLE

Notes payable consist of the following at June 30:

	2019	2018
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 D – NOTES PAYABLE - Continued

	<u>2019</u>	<u>2018</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.	\$ 666,451	\$ 682,305
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.	417,104	437,822
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.	1,000,000	1,000,000
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.	400,000	400,000
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.	405,000	405,000
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 D – NOTES PAYABLE - Continued

	2019	2018
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.		
Total principal balance	15,300	15,300
Less: unamortized debt discount	3,928,855	3,965,427
	(872,105)	(921,553)
	\$ 3,056,750	\$ 3,043,874

Future annual principal maturities are as follows:

	Year ending June 30	
2020	\$ 1,041,987	
2021	51,264	
2022	41,412	
2023	43,100	
2024	1,044,939	
Thereafter	1,706,153	
	\$ 3,928,855	

NOTE E – NET ASSETS

Net assets with donor restrictions were as follows for the years ended June 30:

	2019	2018
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Contingently forgivable non-interest bearing notes	\$ 872,105	\$ 921,553
King street project	111,690	624,041
Mill street project	138,207	-
HUD parcel triangle project	114,113	-
Miscellaneous program restricted grants	36,202	232,265
Pledges receivable – time restricted	-	75,000
Total Subject to the Passage of Time or Expenditure for Specified Purpose	1,272,317	1,852,859
Total net assets with donor restrictions	\$ 1,272,317	\$ 1,852,859

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE E – NET ASSETS - Continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors:

	<u>June 30, 2019</u>
Purpose Restrictions Accomplished:	
Contingently forgivable non-interest bearing notes	\$ 49,448
King street project	512,351
Mill street project	99,032
HUD parcel triangle project	85,887
Miscellaneous program restricted grants	234,313
	<u>981,031</u>
Time Restrictions Expired:	
Passage of specified time	75,000
	<u>75,000</u>
Total restrictions released	<u>\$ 1,056,031</u>

As noted in Note D 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 donor 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.

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. The discount on the loan is 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, 2019 and 2018, 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. The discount on the loan is 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, 2019 and 2018, management believes it has complied with the terms and conditions of the Affordable Housing agreement.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE E – NET ASSETS - Continued

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. The discount on the loan is 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, 2019 and 2018, management believes it has complied with the terms and conditions of the note agreement.

NOTE F - 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>	
2020	\$ 343,224
2021	347,165
2022	351,427
2023	357,359
2024	363,647
Thereafter	<u>784,937</u>
	\$ <u>2,547,759</u>

Rent expense for the years ended June 30, 2019 and 2018 amounted to \$1,156,959 and \$1,039,798, respectively.

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, 2019 and 2018 totaled \$ 63,638 and \$63,638, 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.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE F - COMMITMENTS AND CONTINGENCIES – Continued

At June 30, 2019 and 2018, 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

NOTE G - CONCENTRATION OF CREDIT AND MARKET RISK

Concentration of Grants: Approximately 44% and 44%, respectively, of the funding for HBM's programs for the years ended June 30, 2019 and 2018 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, 2019 and 2018, totaled \$840,209 and \$694,709, 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 H – 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, 2019 and 2018 amounted to \$ 19,394 and \$19,611, respectively.

HOMeward BOUND OF MARIN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I – AVAILABILITY AND LIQUIDITY

The following represents HBM's financial assets at June 30, 2019 and 2018:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,331,936	\$ 1,372,740
Grants receivable	721,601	412,453
Accounts receivable	29,612	75,309
Total financial assets	<u>2,083,149</u>	<u>1,860,502</u>
Less amounts not available to be used within one year:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	1,272,317	1,852,859
Deferred revenue	2,818	9,773
	<u>1,275,135</u>	<u>1,862,632</u>
Financial assets available to meet general expenditures within one year	\$ <u>808,014</u>	\$ <u>(2,130)</u>

HBM's goal is generally to maintain financial assets to meet one and a half months of operating expenses.

NOTE J – SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 30, 2019 the date on which the financial statements were available to be issued.