HOMEWARD BOUND

Financial Statements
Together with Independent Auditor's Report
And OMB Uniform Guidance Supplementary
Information and Reports
June 30, 2016

Schmidt WESTERGARD
CERTIFIED PUBLIC ACCOUNTANTS

HOMEWARD BOUND

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Schmidt WESTERGARD

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Homeward Bound

Report on the Financial Statements

We have audited the accompanying financial statements of Homeward Bound (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of , and the related statements of activities, functional expenses, and cash flows for the year 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 audit. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 presentation of the financial statements.

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 the Organization as of , and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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 3, 2016, on our consideration of the Organization'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 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 the Organization's internal control over financial reporting and compliance.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
November 3, 2016

HOMEWARD BOUND
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	1,074,172
Receivables, net		73,603
Contributions receivable		40,050
Investments		841,929
Prepaid expenses		52,416
Total current assets		2,082,170
CONTRIBUTIONS RECEIVABLE, net, less current portion		33,950
PROPERTY AND EQUIPMENT, net		2,609,905
INVESTMENTS RESTRICTED FOR ENDOWMENT		250,000
	$	4,976,025
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of notes payable	$	356,823
Accounts payable		83,816
Accrued liabilities		132,210
Total current liabilities		572,849
NOTES PAYABLE, less current maturities		2,366,044
Total liabilities		2,938,893
NET ASSETS		
Unrestricted		1,525,812
Temporarily restricted		261,320
Permanently restricted		250,000
Total net assets		2,037,132
	$	4,976,025

The accompanying notes are an integral part of this financial statement.

HOMEWARD BOUND
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUE, AND SPECIAL EVENTS				
Public support				
Contributions	$ 826,640	$ 263,820	$ -	$ 1,090,460
Donated materials and services	181,894	-	-	181,894
Grants from governmental agencies	1,541,506	-	-	1,541,506
Total public support	2,550,040	263,820	-	2,813,860
Revenue and other income				
Program service fees	868,628	-	-	868,628
Realized/unrealized loss on investments, net	(30,414)	-	-	(30,414)
Dividend income	30,158	-	-	30,158
Total revenue and other income	868,372	-	-	868,372
Total public support and revenue before special events	3,418,412	263,820	-	3,682,232
Special events				
Revenue from special events	231,499	-	-	231,499
Less costs of direct donor benefits	(32,949)	-	-	(32,949)
Gross profit on special events	198,550	-	-	198,550
Total public support, revenue, and special events	3,616,962	263,820	-	3,880,782
NET ASSETS RELEASED FROM RESTRICTIONS	698,518	(698,518)	-	-
EXPENSES				
Program services-Transitional housing	3,466,533	-	-	3,466,533
Supporting services				
Management and general	610,169	-	-	610,169
Fundraising	499,803	-	-	499,803
Total supporting services	1,109,972	-	-	1,109,972
Total expenses	4,576,505	-	-	4,576,505
GAINS / (LOSSES)				
Gain on sale of property	2,344,458	-	-	2,344,458
CHANGE IN NET ASSETS	2,083,433	(434,698)	-	1,648,735
NET ASSETS (DEFICIT) – Beginning of year	(557,621)	696,018	250,000	388,397
NET ASSETS – End of year	$ 1,525,812	$ 261,320	$ 250,000	$ 2,037,132

HOMEWARD BOUND
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Program Services - Transitional Housing	Supporting Services		
		Management and General	Fundraising	Total
Personnel expenses				
Salaries and wages	$ 1,529,112	$ 283,813	$ 304,615	$ 2,117,540
Employee benefits and payroll taxes	382,334	29,939	57,035	469,308
Staff mileage, development, and other associated costs	24,661	9,291	5,543	39,495
Total personnel expenses	1,936,107	323,043	367,193	2,626,343
Depreciation	534,530	8,733	18,070	561,333
Utilities	242,741	5,207	7,887	255,835
Repairs and maintenance	234,071	4,140	4,040	242,251
Direct costs	211,646	-	-	211,646
Contracted services	59,166	113,729	1,905	174,800
Professional fees	28,276	114,592	5,000	147,868
Homeowners' associations	80,740	-	-	80,740
Liability insurance	61,408	5,321	3,048	69,777
Indirect special event expenses	-	-	59,620	59,620
Taxes, licenses and dues	20,358	3,860	4,207	28,425
IT management and maintenance	21,935	2,815	3,285	28,035
Printing and postage	12,985	2,892	8,331	24,208
Merchant fees and bank charges	-	22,524	1,106	23,630
Supplies	13,698	3,181	2,169	19,048
Marketing and donor development costs	-	132	13,942	14,074
Interest expense	6,913	-	-	6,913
Bad debt	1,959	-	-	1,959
Total expenses	3,466,533	610,169	499,803	4,576,505
Less - In-kind expenses included in amounts above	(103,310)	(73,481)	-	(176,791)
Total expenses, not including in-kind expenses	$ 3,363,223	$ 536,688	$ 499,803	$ 4,399,714

The accompanying notes are an integral part of this financial statement.

HOMEWARD BOUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 1,648,735
Adjustments to reconcile change in net assets to net cash used in operating activities	
Realized/unrealized loss on investments, net	30,414
Gain on sale of property and equipment	(2,344,458)
Depreciation	561,333
Decrease in allowance for doubtful accounts	(2,263)
Increase in discount on long-term contributions receivable	2,000
Non-cash contribution - Forgiveness of notes payable	(1,338,087)
Changes in operating assets and liabilities	
(Increase) decrease in	
Receivables	(15,375)
Contributions receivable	(76,000)
Prepaid expenses	3,165
Decrease in	
Accounts payable	(52,436)
Accrued liabilities	(12,260)
Net cash used in operating activities	(1,595,232)
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in cash restricted for investment in long-lived assets and improvements	230,000
Proceeds from sale of investments	1,025,277
Purchases of investments	(1,005,114)
Proceeds from sale of property and equipment	2,371,551
Purchases of property and equipment	(241,843)
Net cash provided by investing activities	2,379,871
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on notes payable	(55,093)
Net increase in cash and cash equivalents	729,546
CASH AND CASH EQUIVALENTS - Beginning of year	344,626
CASH AND CASH EQUIVALENTS - End of year	$ 1,074,172

SUPPLEMENTAL DISCLOSURES:	
Cash paid for income taxes	$ -
Cash paid for interest	$ 6,913

1. Operations and Summary of Significant Accounting Policies

Nature of Operations

Founded in 1990, Homeward Bound (the “Organization”) is recognized as Arizona’s premier provider of transitional housing for families who are homeless, working poor and/or have experienced domestic violence. The Organization’s mission is to assist families to achieve economic independence; secure long-term, safe, decent, and affordable housing; and break multi-generational cycles of homelessness and domestic violence. The Organization assists families with a “hand up, not a handout.”

Each family participating in the program must contribute thirty percent of their adjusted gross income for housing and support services. As part of the support services, the participants engage in case management, committing and being held accountable to a program that helps them obtain and/or improve employment and life skills that will give them the needed “hand up.” Their progress is continuously monitored and assessed as they make their successful transition from homelessness to self-sufficiency.

The Organization owns and operates 119 housing units, of which 45 are one to four bedroom single family units scattered throughout the Valley, including Scottsdale, Glendale, Phoenix, Mesa, Chandler and Tempe. In 2000, the Organization opened the Thunderbirds Family Village (“TFV”), a five-acre secured campus that contains 66 two bedroom housing units, 8 four bedroom units, a learning center, an education and employment center, library, laundry facilities, and administrative offices.

At the TFV campus, Strong Foundations Center for Early Learning and Resiliency, a nationally accredited and state licensed child care center, provides care services for children of program participants, staff and families in the surrounding community who are ages six weeks to 5 years old. The Children's Services Department, also operating out of the TFV campus, serves Homeward Bound children ages birth to 17. This department assists program participants in identifying and addressing any needs of their children that may create barriers to the participants' employment or successful transition.

During the year ended June 30, 2016, the Organization provided housing and assistance to 150 families – approximately 516 individuals of whom 336 were children. Working poor families are the majority of the population. When entering the program, many of the families have few skills, limited education, large debt, and lack the basic life skills to achieve self-sufficiency without the Organization’s assistance.

Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Organization is required to report 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.

Management’s Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash consists of cash deposits in banks. The Organization considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash equivalents.

Receivables

Receivables consist primarily of grants and contracts receivable and monthly rent payments due from residents of the Organization's transitional housing. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. The allowance for doubtful accounts was approximately $1,900 at June 30, 2016. Management determines past due status of accounts receivable based upon the invoice date. The Organization generally does not charge interest on past due amounts and does not require collateral on outstanding balances. There were no accounts receivable balances that were 90 days or more past due at June 30, 2016.

Investments and Investment Income

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying financial statements.

Income earned from investments, including realized and unrealized gains and losses, is recorded in the same net asset class as the underlying assets with the exception of permanently restricted net assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as temporarily restricted or unrestricted based upon conditions specified by the donor or law.

Investment advisory fees of approximately $19,000 for the year ended June 30, 2016 are included in management and general expenses in the accompanying statement of activities.

Property and Equipment

Purchased property is stated at cost. Property acquired by gift is stated at estimated fair value at the date of contribution. Depreciation is provided using the straight-line method over the following estimated useful lives:

Transitional housing	20 years
Furniture and equipment	5 to 7 years
Vehicles	5 years

All acquisitions of property and equipment and all costs for repairs and maintenance that materially prolong the useful life of assets in excess of $5,000 are capitalized. In the absence of donor restrictions on how gifts of long-lived assets must be used, the Organization does not imply time restrictions on such contributions.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no long-lived assets have any impairment of value.

Endowments

The Organization's endowments consist of funds established under donor restriction for certain purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Arizona has adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA" and the "Act"). The Audit Committee of the Organization's Board of Directors has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Act. Accumulated earnings on the endowment are released from temporarily restricted net assets when the related restriction has been met. There were no amounts related to the endowment that were included in temporarily restricted net assets as of June 30, 2016.

In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Promises to Give

Promises to give are recognized as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Promises to give that are received with conditions are not recognized until those conditions are substantially met, unless the likelihood that the Organization will not fulfill the conditions is remote, in which case the contribution is recognized when the promise is made.

Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The present value is calculated using risk-adjusted discount rates which are based on the risk-free interest rates applicable to the year in which the promises are received and the length of the promise to give, adjusted for market risk. Amortization of the discounts is included in contributions in the accompanying statement of activities.

The Organization's contributions receivable consist primarily of promises to give from employees and members of the Board of Directors. Credit risk is limited due to the Organization's relationship with these employees and members of the Board of Directors.

Contributions

Contributions of cash or other assets are recognized as revenue when received at the estimated fair value on the date of contribution. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire 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 or permanently restricted net assets are reclassified to unrestricted net assets.

Grants from Governmental Agencies

The Organization receives annual grants from various state and federal agencies. The Organization recognizes revenue for these grants as services are provided. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grant or contract.

Program Service Fees

Program service fees consist primarily of amounts charged to program participants for housing and support services. All program participants are charged thirty percent of their adjusted gross income for the program services. Program service fee revenue is billed and recognized as revenue in the month in which the services are provided.

Special Events

The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of the meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recognized as costs of direct donor benefits in the accompanying statement of activities.

Donated Materials and Services

The Organization recognizes donations of services received if such services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would otherwise need to be purchased if not donated. Donated materials and professional services are recognized as contributions in the accompanying financial statements at their estimated fair value at the date of receipt.

Volunteers donate a significant amount of time to the Organization's program services and its fundraising activities. No amounts have been reflected in the financial statements for these services since they did not meet the requirements for recognition.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited, determined by specific identification and estimates of time spent and benefits derived.

Fundraising Costs

All fundraising costs are expensed in the period incurred.

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, therefore, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income ("UBTI") would be taxable.

The Organization follows the guidance issued by the Financial Accounting Standards Board ("FASB") related to accounting for income tax uncertainties. Under this guidance, the Organization accounts for the effect of any uncertain tax positions based on whether it is "more-likely-than-not" that the position will be sustained by the taxing authority upon examination. The Organization routinely evaluates potential uncertain tax positions. The Organization has identified its status as an exempt organization as a tax position; however, the Organization has determined that such tax position does not result in an uncertainty that requires recognition.

The Organization files informational and income tax returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of June 30, 2016, U.S. federal informational and income tax returns for years ended prior to June 30, 2013 and state returns for years ended prior to June 30, 2012 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

2. Contributions receivable

Contributions receivable include unconditional promises to give and consisted of the following at June 30, 2016:

Contributions receivable due in less than one year	$	40,050
Contributions receivable due in one to five years		35,950
Total contributions receivable		76,000
Less: Unamortized discount		(2,000)
Contributions receivable, net	$	74,000

The estimated cash flows for contributions receivable were discounted over the collection period using a management determined, risk-adjusted discount rate of 1.25%

3. Property and equipment

Property and equipment consisted of the following as of June 30, 2016:

Cost or donated value:		
Transitional housing	$	10,691,635
Land		295,629
Furniture and equipment		823,067
Vehicles		110,668
Total cost or donated value		11,920,999
Less - Accumulated depreciation		(9,311,094)
Property and equipment, net	$	2,609,905

4. Line of Credit

The Organization obtained a line of credit with a financial institution whereby the Organization can borrow up to 50% of the value of its investment securities held with the financial institution. At June 30, 2016, the Organization had approximately $300,000 available to borrow under the line of credit. The borrowings bear interest from 6% to 8.5% depending upon the amount borrowed. There have been no borrowings under this line of credit during the year ended June 30, 2016.

5. Notes Payable

Notes payable consisted of the following at June 30, 2016:

Three interest free notes payable to the City of Phoenix for the acquisition and construction of affordable housing; collateralized by residential real property in the Phoenix metropolitan area; principal of the notes to be forgiven at 10% per year beginning in April 2010 for one note and December 2012 for two notes, provided the properties are used exclusively for transitional supportive housing for low-income families with children; one note maturing in April 2019 and two notes maturing in December 2021.	$ 1,794,259
Interest free note payable to the Arizona Department of Commerce. The funds received are required to be repaid only if the Organization sells the TFV property within the period of affordability remaining on the TFV property or fails to comply with the covenants, conditions, and restrictions defined in the agreement. The period of affordability is satisfied in June 2029.	800,000
Notes payable to the City of Phoenix, collateralized by residential real property in the Phoenix metropolitan area, payable in monthly installments totaling approximately $2,000, including interest at 2%, with maturities in January 2021 and September 2021.	77,613
Notes payable to a mortgage company, collateralized by residential real property in the Phoenix metropolitan area, payable in monthly installments of approximately $700, including interest at 8.875%, maturing in October 2025.	50,995
Total notes payable	2,722,867
Less current maturities	(356,823)
Total notes payable, less current maturities	$ 2,366,044

Annual maturities of notes payable are scheduled as follows:

Year Ending June 30	Principal Payments	Forgiveness	Total Maturities
2017	$ 18,736	338,087	$ 356,823
2018	19,416	338,087	357,503
2019	20,138	338,085	358,223
2020	20,903	260,000	280,903
2021	20,415	260,000	280,415
Thereafter	29,000	1,060,000	1,089,000
Total notes payable	$ 128,608	$ 2,594,259	$ 2,722,867

The Organization recognized revenue from government grants totaling approximately $1,338,000 for the year ended June 30, 2016 related to forgiveness of notes payable according to the agreements described above.

6. Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts restricted for the following purposes at June 30, 2016:

Children's services	$	155,000
Time restrictions		74,000
Diaper bank		29,320
Client services		3,000
Total temporarily restricted net assets	$	261,320

Permanently Restricted Net Assets

Permanently restricted net assets consisted of a $250,000 endowment fund restricted by the donor in perpetuity to provide earnings to support the Organization's programs and services.

7. Retirement Plan

The Organization sponsors a 403(b) retirement plan (the "Plan") covering all full-time employees. Under the terms of the Plan, participating employees may contribute up to 100% of their gross annual income, subject to Internal Revenue Service limitations. The Organization does not make contributions to the Plan.

8. Fair Value Measurements

The Organization follows the authoritative guidance for accounting for certain assets and liabilities that are required to be measured at fair value under U.S. GAAP. This guidance establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and enhances disclosure requirements for fair value measurements.

Fair value measurements are determined based on the assumptions (referred to as "inputs") that market participants would use in pricing the asset. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy includes three levels that are based on the extent to which inputs used in measuring fair value are observable in the market:

Level 1 Inputs for the fair value measurement are quoted prices in an active market for identical assets or liabilities. Quoted prices in an active market for identical assets or liabilities provide the most reliable evidence of fair value.

Level 2 Inputs for the fair value measurement are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.

Level 3 Inputs for the fair value measurement are unobservable and are used to measure fair value only when observable inputs are not available.

The fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is determined based upon the lowest level input that is significant to the fair value measurement in its entirety.

The Organization's mutual fund investment values are based on quoted market prices for identical assets. The Organization's stock value is based on the estimated fair value of the private company for which the stock is held.

The following table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity funds - U.S.	$ 402,252	$ -	$ -	$ 402,252
Equity funds - International	238,452	-	-	238,452
Bond funds	434,225	-	-	434,225
Private company stocks	-	17,000	-	17,000
Total investments	$ 1,074,929	$ 17,000	-	$ 1,091,929
Less: Investments restricted for endowments	(250,000)	-	-	(250,000)
Total investments	$ 824,929	$ 17,000	$ -	$ 841,929

The valuation methods used by the Organization may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

9. Donated Materials and Services

Donated materials and services consisted of the following for the year ended June 30, 2016:

	Program Services- Transitional Housing	Supporting Services		Total
		Management and General	Fundraising	
Personal and household items for clients	$ 75,034	$ -	$ -	$ 75,034
Professional services	28,276	73,481	-	101,757
Total in-kind expense	$ 103,310	$ 73,481	$ -	$ 176,791
Donated gift cards				5,103
Total in-kind contributions				$ 181,894

10. Contingencies

In the normal course of its activities, from time to time the Organization is subject to certain claims and litigation, including unasserted claims. The Organization and its counsel are of the opinion that, based on information presently available, such legal matters will not have a material adverse effect on the financial position of the Organization.

11. Concentrations

Uninsured Cash

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 and does not expect to experience any such losses. At June 30, 2016, the Organization had an uninsured cash balance of approximately $825,000.

12. Subsequent Events

The Organization has evaluated subsequent events through November 3, 2016, the date on which the financial statements were available to be issued.

During July to October 2016, the Organization sold three properties for approximately $273,000. The properties had a cost basis of approximately $121,000 and accumulated depreciation of approximately $113,000 at the time of the sale.

OMB UNIFORM GUIDANCE SUPPLEMENTARY INFORMATION AND REPORTS

HOMEWARD BOUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

Federal Grantor / Program Title / Pass-through Grantor	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218		
City of Peoria		ACON 39715	$ 9,145
City of Scottsdale		2015-143-COS	14,089
Total Community Development Block Grants/Entitlement Grants			23,234
Supportive Housing Program	14.235		
City of Phoenix		77649	37,897
City of Phoenix		82396	280,000
City of Phoenix		86536	560,000
Total Supportive Housing Program			877,897
Home Investment Partnerships Program	14.239		
Arizona Department of Housing		076-99	800,000
City of Phoenix		71202	53,126
City of Phoenix		75838	75,760
City of Phoenix		77649	274,449
City of Phoenix		82396	280,000
City of Phoenix		86536	700,000
Total Home Investment Partnerships Program			2,183,335
Total U.S. Department of Housing and Urban Development			3,084,466
U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558		
Arizona Department of Education		07-35-41-000	42,630
U.S. Department of Health and Human Services			
Child Care and Development Block Grant	93.575		
Arizona Department of Economic Security		DE111083	168,000
TOTAL FEDERAL AWARDS EXPENDED			$ 3,295,096

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Homeward Bound (the "Organization") under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Of the federal expenditures presented in the Schedule, none were provided to subrecipients. The Organization did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

3. Loans Outstanding

The Organization had certain federally funded loan balances outstanding at June 30, 2016, which are included in the Schedule due to the continuing compliance requirements stipulated by the funding agencies. Loan balances for the year ended June 30, 2016 are as follows:

Federal Grantor / Program Title / Pass-through Grantor	Federal CFDA Number	Pass-through Entity Identifying Number	Outstanding Balance
U.S. Department of Housing and Urban Development			
Supportive Housing Program	14.235		
City of Phoenix		77649	$ 28,422
City of Phoenix		82396	240,000
City of Phoenix		86536	480,000
Home Investment Partnerships Program	14.239		
Arizona Department of Commerce		076-99	800,000
City of Phoenix		71202	13,365
City of Phoenix		75838	64,248
City of Phoenix		77649	205,837
City of Phoenix		82396	240,000
City of Phoenix		86536	600,000
Total loans outstanding			$ 2,671,872

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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 of
Homeward Bound

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Homeward Bound (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 3, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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 the Organization'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.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
November 3, 2016

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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

Report on Compliance for Each Major Federal Program

We have audited Homeward Bound's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization'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 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 the Organization'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.

Mesa, Arizona
November 3, 2016

HOMEWARD BOUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2016

1. Summary of Independent Auditor's Results

Financial Statements

Type of Report Issued on the Financial Statements

The Independent Auditor's Report on the financial statements of Homeward Bound (the "Organization") as of and for the year ended June 30, 2016 was an unmodified opinion.

Internal Control over Financial Reporting

The audit of the financial statements of Homeward Bound as of and for the year ended June 30, 2016 identified no matters involving internal control over financial reporting that were considered material weaknesses and no significant deficiencies were reported.

Noncompliance Material to the Financial Statements

The audit disclosed no instances of noncompliance material to the financial statements of the Organization as of and for the year ended June 30, 2016.

Federal Awards

Type of Report Issued on Compliance for Major Programs

The Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance expressed an unmodified opinion on all major federal programs.

Internal Control over Major Programs

The audit of compliance of the Organization for the year ended June 30, 2016 identified no material weaknesses and no significant deficiencies were reported.

Findings Related to Major Programs

Our audit disclosed no findings required to be reported related to Federal programs under 2CFR section 200.516(a).

Major Programs

The programs tested as major programs are as follows:

CFDA Number	Name of Federal Program	Amount Expended
14.235	Supportive Housing Program	$ 877,897
14.239	Home Investment Partnerships Program	2,183,335
		$ 3,061,232

Threshold for Distinguishing Between Type A and Type B Programs:

The threshold for distinguishing between Type A and Type B programs was $750,000.

Qualifications of Auditee as a Low-Risk Auditee:

The Organization did not qualify as a low-risk auditee under provisions 2 CFR section 200.520 for the year ended June 30, 2016.

2. Summary Schedule of Prior Audit Findings

2015-1 *Condition:* The Organization made an error in recording a temporarily restricted contribution as a direct addition to net assets when is should have flowed through public support - contributions.

Status: This condition was corrected during the year ended June 30, 2016.