HOMEWARD BOUND

Financial Statements
Together with Independent Auditor's Report
And OMB Uniform Guidance Supplementary
Information and Reports
June 30, 2018

Schmidt WESTERGARD
CERTIFIED PUBLIC ACCOUNTANTS

HOMEWARD BOUND

TABLE OF CONTENTS

77 West University Drive
Mesa, Arizona 85201
O 480 834 6030
F 480 644 9877
www.sw-cpa.com

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 June 30, 2018, 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 June 30, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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* 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 5, 2018, 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 solely 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 5, 2018

HOMEWARD BOUND

STATEMENT OF FINANCIAL POSITION

June 30, 2018 (with comparative totals as of June 30, 2017)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,500,294	$ 1,371,503
Receivables, net	100,677	116,825
Contributions receivable, net	51,270	28,420
Investments	986,788	922,749
Prepaid expenses	50,608	49,036
Total current assets	2,689,637	2,488,533
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions	95,577	46,075
PROPERTY AND EQUIPMENT, net	1,715,404	2,172,798
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS		
Cash and cash equivalents	90,031	-
Contributions receivable, net	208,250	-
INVESTMENTS RESTRICTED FOR ENDOWMENT	250,000	250,000
	$ 5,048,899	$ 4,957,406
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of notes payable	$ 342,772	$ 344,631
Accounts payable	44,458	37,898
Accrued liabilities	159,562	140,857
Total current liabilities	546,792	523,386
NOTES PAYABLE, less current maturities	1,617,951	1,966,946
Total liabilities	2,164,743	2,490,332
NET ASSETS		
Unrestricted	2,100,273	1,954,620
Temporarily restricted	533,883	262,454
Permanently restricted	250,000	250,000
Total net assets	2,884,156	2,467,074
	$ 5,048,899	$ 4,957,406

HOMEWARD BOUND
STATEMENT OF ACTIVITIES
For the year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
PUBLIC SUPPORT, REVENUE, AND SPECIAL EVENTS					
Public support					
Contributions	$ 756,747	$ 490,592	$ -	$ 1,247,339	$ 1,100,161
Donated materials and services	281,189	-	-	281,189	218,418
Grants from governmental agencies	764,724	-	-	764,724	583,315
Total public support	1,802,660	490,592	-	2,293,252	1,901,894
Revenue and other income					
Program service fees	796,166	-	-	796,166	1,089,696
Realized and unrealized gain on investments, net	38,700	-	-	38,700	79,974
Dividend income	34,027	-	-	34,027	30,276
Total revenue and other income	868,893	-	-	868,893	1,199,946
Total public support and revenue before special events	2,671,553	490,592	-	3,162,145	3,101,840
Special events					
Revenue from special events	384,654	-	-	384,654	357,067
Less costs of direct donor benefits	(90,449)	-	-	(90,449)	(65,277)
Gross profit on special events	294,205	-	-	294,205	291,790
Total public support, revenue, and special events	2,965,758	490,592	-	3,456,350	3,393,630
NET ASSETS RELEASED FROM RESTRICTIONS	219,163	(219,163)	-	-	-

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

HOMEWARD BOUND
STATEMENT OF ACTIVITIES (CONTINUED)
For the year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
EXPENSES					
Program services-Transitional housing	2,896,668	-	-	2,896,668	3,443,414
Supporting services					
Management and general	605,501	-	-	605,501	434,878
Fundraising	628,744	-	-	628,744	684,167
Total supporting services	1,234,245	-	-	1,234,245	1,119,045
Total expenses	4,130,913	-	-	4,130,913	4,562,459
GAINS AND (LOSSES)					
Gain on sale of property	1,091,645	-	-	1,091,645	1,602,771
Loss on contributions receivable	-	-	-	-	(4,000)
Total gains and (losses)	1,091,645	-	-	1,091,645	1,598,771
CHANGE IN NET ASSETS	145,653	271,429	-	417,082	429,942
NET ASSETS – Beginning of year	1,954,620	262,454	250,000	2,467,074	2,037,132
NET ASSETS – End of year	$ 2,100,273	$ 533,883	$ 250,000	$ 2,884,156	$ 2,467,074

HOMEWARD BOUND
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Program Services - Transitional Housing	Supporting Services		Total	
		Management and General	Fundraising	2018	2017
Personnel expenses					
Salaries and wages	$ 1,313,964	$ 375,953	$ 398,284	$ 2,088,201	$ 2,271,250
Employee benefits and payroll taxes	237,836	49,397	61,222	348,455	387,111
Staff mileage, development, and other associated costs	20,861	23,858	5,052	49,771	45,373
Total personnel expenses	1,572,661	449,208	464,558	2,486,427	2,703,734
Depreciation	473,244	12,926	17,406	503,576	554,220
Utilities	202,319	11,822	11,587	225,728	238,237
Repairs and maintenance	232,953	10,007	14,806	257,766	228,896
Direct costs	192,274	-	-	192,274	228,663
Contracted services	49,498	25,720	6,718	81,936	180,291
Professional fees	66,432	46,404	-	112,836	114,545
Homeowners' associations	27,517	-	-	27,517	46,392
Liability insurance	53,884	1,317	1,932	57,133	61,053
Indirect special event expenses	-	-	146,413	146,413	107,649
Taxes, licenses and dues	11,699	2,157	2,624	16,480	22,950
IT management and maintenance	4,406	20,255	18,398	43,059	41,430
Printing and postage	3,678	1,699	15,661	21,038	36,844
Merchant fees and bank charges	222	15,459	9,692	25,373	24,322
Supplies	2,075	4,812	1,098	7,985	14,743
Marketing and donor development costs	-	2,972	6,300	9,272	18,441
Interest expense	3,806	743	-	4,549	5,326
Bad debt	-	-	2,000	2,000	-
Total expenses	2,896,668	605,501	719,193	4,221,362	4,627,736
Less - Special event expense netted against revenue in the Statement of Activities					
Indirect special event expenses	-	-	(90,449)	(90,449)	(65,277)
Functional expense totals in the expense section of the Statement of Activities	$ 2,896,668	$ 605,501	$ 628,744	$ 4,130,913	$ 4,562,459

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

HOMEWARD BOUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 417,082	$ 429,942
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized gain on investments, net	(38,700)	(79,974)
Gain on sale of property and equipment	(1,091,645)	(1,602,771)
Depreciation	503,576	554,220
Decrease in allowance for doubtful accounts	-	(1,869)
Increase in discount on long-term contributions receivable	19,603	-
Increase in valuation allowance for contributions receivable	8,000	2,000
Contributions restricted for investment in long-lived assets and improvements	(220,000)	-
Non-cash contributions - Forgiveness of notes payable	(338,087)	(338,087)
Changes in operating assets and liabilities		
(Increase) decrease in		
Receivables	16,148	(41,353)
Contributions receivable	(88,205)	(2,495)
Prepaid expenses	(1,572)	3,380
Increase (decrease) in		
Accounts payable	6,560	(45,918)
Accrued liabilities	18,705	8,647
Net cash used in operating activities	(788,535)	(1,114,278)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in cash restricted for investment in long-lived assets and improvements	(90,031)	-
Purchases of investments	(25,339)	(846)
Proceeds from sale of property and equipment	1,114,363	1,617,902
Purchases of property and equipment	(68,900)	(132,244)
Net cash provided by investing activities	930,093	1,484,812
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(12,767)	(73,203)
Net increase in cash and cash equivalents	128,791	297,331
CASH AND CASH EQUIVALENTS - Beginning of year	1,371,503	1,074,172
CASH AND CASH EQUIVALENTS - End of year	$ 1,500,294	$ 1,371,503
SUPPLEMENTAL DISCLOSURES:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 4,549	$ 5,326

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 97 housing units, of which 23 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 the Organization's 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, 2018, the Organization provided housing and assistance to 133 families – approximately 454 individuals of whom 307 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. Management considers all receivables to be fully collectible at June 30, 2018 and 2017, and, accordingly, an allowance for doubtful accounts has not been provided. 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, 2018 and 2017.

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.

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 $12,000 and $11,000 for the years ended June 30, 2018 and 2017, respectively, are included in management and general expenses in the accompanying statement of activities.

Property and Equipment

Purchased property and equipment is stated at cost. Property and equipment 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 $1,000 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, 2018 and 2017.

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, 2018 and 2017.

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.

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 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.

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.

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.

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.

Agency Funds

The Organization receives, in an agency capacity, donations from contributors who have specified that the donations are to be passed on to another nonprofit organization. The Organization has no discretion in determining when, in what amounts, or to whom these contributions are to be distributed.

Contributions received in an agency capacity have no effect on the Organization's net assets and are recorded in an agency funds liability. At June 30, 2018, the agency funds liability was approximately $27,000 and are included in accrued liabilities in the accompanying statement of financial position.

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, 2018, U.S. federal informational and income tax returns for years ended prior to June 30, 2015 and state returns for years ended prior to June 30, 2014 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2014-09 is effective for nonpublic entities for fiscal years beginning after December 15, 2018. Management is currently assessing the potential impact of the pronouncement on the Organization's financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases in their statement of financial position as liabilities, with corresponding "right of use" assets. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. Management is currently assessing the potential impact of the pronouncement on the Organization's financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 will improve the information provided in financial statements and accompanying notes for not-for-profit entities. The amendments in ASU 2016-14 revise the net asset classifications from three net asset classes (unrestricted, temporarily restricted and permanently restricted) to two net asset classes (net assets with donor restrictions and net assets without donor restrictions). ASU 2016-14 also requires enhanced disclosures related to investments, financial liquidity, financial performance, cash flows, and allocation of expenses. The standard is effective for not-for-profit entities for fiscal years beginning after December 15, 2017. Management is currently assessing the potential impact of the pronouncement on the Organization's financial statements.

2. Contributions receivable

Contributions receivable consisted of the following at June 30:

	2018	2017
Promises to give - Unrestricted	$ 126,700	$ 38,495
Promises to give - Restricted:		
Employment services	40,000	40,000
Building maintenance and remodel	220,000	-
Total contributions receivable	386,700	78,495
Less: Unamortized discount	(21,603)	(2,000)
Less: Valuation Allowance	(10,000)	(2,000)
Contributions receivable, net	$ 355,097	$ 74,495

The estimated cash flows for contributions receivable were discounted over the collection period using management determined, risk-adjusted discount rate of 2.5%. Contributions receivable (before the unamortized discount and any valuation allowance are due as follows at June 30:

	2018	2017
Contributions receivable due in less than one year	$ 106,270	$ 28,420
Contributions receivable due in one to five years	280,430	50,075
Total contributions receivable	$ 386,700	$ 78,495

Contributions receivable from employees and members of the Board of Directors (before the unamortized discount) were as follows at June 30:

	2018	2017
Contributions receivable due in less than one year	$ 28,070	$ 26,220
Contributions receivable due in one to five years	40,430	45,875
Total contributions receivable	$ 68,500	$ 72,095

3. Property and equipment

Property and equipment consisted of the following at June 30:

	2018	2017
Cost or donated value:		
Transitional housing	$ 9,491,452	$ 9,932,577
Furniture and equipment	1,065,022	1,000,807
Land	295,629	295,629
Vehicles	110,668	110,668
Total cost or donated value	10,962,771	11,339,681
Less - Accumulated depreciation	(9,247,367)	(9,166,883)
Property and equipment, net	$ 1,715,404	$ 2,172,798

4. Notes Payable

Notes payable consisted of the following at June 30:

	2018	2017
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.	$ 1,118,085	$ 1,456,172
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	800,000
Notes payable to the City of Phoenix, collateralized by residential real property in the Phoenix metropolitan area, payable in monthly installments ranging from approximately $200 to $2,000, including interest at 2%, paid in full in March 2018.	-	8,588

	2018	2017
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 8.9%, maturing in October 2025.	42,638	46,817
Total notes payable	1,960,723	2,311,577
Less current maturities	(342,772)	(344,631)
Total notes payable, less current maturities	$ 1,617,951	$ 1,966,946

Annual maturities of notes payable are scheduled as follows:

Year Ending June 30	Principal Payments	Forgiveness	Total Maturities
2019	$ 4,687	338,085	$ 342,772
2020	5,446	260,000	265,446
2021	5,950	260,000	265,950
2022	6,500	260,000	266,500
2023	7,399	-	7,399
Thereafter	12,656	800,000	812,656
Total notes payable	$ 42,638	$ 1,918,085	$ 1,960,723

The Organization recognized revenue from government grants totaling approximately $338,000 for each of the years ended June 30, 2018 and 2017, related to forgiveness of notes payable according to the agreements described above.

5. Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets activity for the year ended June 30 as follows:

	Balance 06/30/17	Contributions	Releases	Balance 06/30/18
Time and purposed restrictions	$ 74,495	$ 315,750	$ (35,148)	$ 355,097
Purpose restrictions				
Youth Services	150,000	5,000	(150,000)	5,000
Diaper bank	23,784	29,811	(19,840)	33,755
Client services	14,175	-	(14,175)	-
Building maintenance and remodel	-	90,031		90,031
Trauma informed care	-	50,000	-	50,000
Total	$ 262,454	$ 490,592	$ (219,163)	$ 533,883

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.

6. 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.

7. 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:

	2018			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity funds - U.S.	$ 496,291	$ -	$ -	$ 496,291
Equity funds - International	307,969	-	-	307,969
Bond funds	416,528	-	-	416,528
Private company stocks	-	16,000	-	16,000
Total investments	1,220,788	16,000	-	1,236,788
Less: Investments restricted for endowments	(250,000)	-	-	(250,000)
Total investments	$ 970,788	$ 16,000	$ -	$ 986,788

	2017			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity funds - U.S.	$ 446,370	$ -	$ -	$ 446,370
Equity funds - International	287,564	-	-	287,564
Bond funds	421,815	-	-	421,815
Private company stocks	-	17,000	-	17,000
Total investments	1,155,749	17,000	-	1,172,749
Less: Investments restricted for endowments	(250,000)	-	-	(250,000)
Total investments	$ 905,749	$ 17,000	$ -	$ 922,749

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.

8. Donated Materials and Services

Donated materials and services consisted of the following for the year ended June 30, 2018:

	Program Services- Transitional Housing	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Personal and household items for clients	$ 111,715	$ -	$ -	$ 111,715
Repairs and maintenance	81,535	-	-	81,535
Professional services	37,200	8,433	-	45,633
IT management and maintenance	-	-	18,000	18,000
Printing and postage	-	-	4,000	4,000
Marketing and donor development costs	-	-	2,574	2,574
Total in-kind expense	$ 230,450	$ 8,433	$ 24,574	263,457
Donated commissions (gain on sale of property)				17,732
Total in-kind contributions				$ 281,189

Donated materials and services consisted of the following for the year ended June 30, 2017:

	Program Services- Transitional Housing	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Personal and household items for clients	$ 113,811	$ -	$ -	$ 113,811
Professional services	69,430	10,250	-	79,680
Total in-kind expense	$ 183,241	$ 10,250	$ -	193,491
Donated commissions (gain on sale of property)				24,927
Total in-kind contributions				$ 218,418

9. 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.

10. 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, 2018, the Organization had an uninsured cash balance of approximately $1,293,000.

Significant Donors

During the year ended June 30, 2018, the Organization received two promises to give which represented approximately 57% and 23% of the contributions receivable in the accompanying statement of financial position.

11. Subsequent Events

The Organization has evaluated subsequent events through November 5, 2018, the date on which the financial statements were available to be issued.

The Organization sold 12 properties for approximately $2,062,000 during the period from July to October 2018. The properties had both a cost basis and accumulated depreciation of approximately $616,000 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, 2018

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 49717	$ 9,110
City of Glendale		C18-0011	14,453
City of Scottsdale		2017-094-COS	16,688
Total Community Development Block Grants/Entitlement Grants			40,251
Supportive Housing Program	14.235		
City of Phoenix		77649	18,948
City of Phoenix		82396	200,000
City of Phoenix		86536	400,000
Total Supportive Housing Program			618,948
Home Investment Partnerships Program	14.239		
Arizona Department of Housing		076-99	800,000
City of Phoenix		75838	8,588
City of Phoenix		77649	137,224
City of Phoenix		82396	200,000
City of Phoenix		86536	500,000
Total Home Investment Partnerships Program			1,645,812
Total U.S. Department of Housing and Urban Development			2,305,011
U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558		
Arizona Department of Education		07-35-41-000	40,713
U.S. Department of Health and Human Services			
Child Care and Development Block Grant	93.575		
Arizona Department of Economic Security		DE111083	168,000
Arizona Department of Economic Security		SX121309	24,141
Total Child Care and Development Block Grants			192,141

HOMEWARD BOUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
For the year ended June 30, 2018

Federal Grantor / Program Title / Pass-through Grantor	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		
Arizona Department of Economic Security		SX121309	53,802
Social Service Block Grant	93.667		
Arizona Department of Economic Security		SX121309	116
Total U.S. Department of Health and Human Services			246,059
Total Federal Awards Expended			$ 2,591,783

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, 2018. 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, 2018, 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, 2018 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	$ 9,475
City of Phoenix		82396	160,000
City of Phoenix		86536	320,000
Home Investment Partnerships Program	14.239		
Arizona Department of Commerce		076-99	800,000
City of Phoenix		75838	-
City of Phoenix		77649	68,610
City of Phoenix		82396	160,000
City of Phoenix		86536	400,000
Total loans outstanding			$ 1,918,085

77 West University Drive
Mesa, Arizona 85201
O 480 834 6030
F 480 644 9877
www.sw-cpa.com

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, 2018, 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 5, 2018.

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 5, 2018

Schmidt WESTERGARD
77 West University Drive
Mesa, Arizona 85201
O 480 834 6030
F 480 644 9877
www.sw-cpa.com

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, 2018. 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 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 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 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 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, 2018.

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.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
November 5, 2018

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, 2018 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, 2018 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, 2018.

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, 2018 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	$ 618,948
14.239	Home Investment Partnerships Program	1,645,812
		$ 2,264,760

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 qualify as a low-risk auditee under provisions 2 CFR section 200.520 for the year ended June 30, 2018.