

HOMESTART, INC.

Financial Statements
With Independent Auditors' Report

September 30, 2019 and 2018

HOMESTART, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statement of Functional Expenses – 2019	6
Statement of Functional Expenses – 2018	7
Notes to Financial Statements	8

INDEPENDENT AUDITORS' REPORT

Board of Directors
HomeStart, Inc.
Boston, Massachusetts

We have audited the accompanying financial statements of HomeStart, Inc., which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Board of Directors
HomeStart, Inc.
Boston, Massachusetts

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HomeStart, Inc. as of September 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

HomeStart, Inc. has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. This had a material effect on the presentation of the September 30, 2019 and 2018, financial statements. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Middleton, Massachusetts
February 13, 2020

HOMESTART, INC.

Statements of Financial Position

	September 30,	
	2019	2018
ASSETS:		
Cash and cash equivalents	\$ 84,683	\$ 366,230
Accounts receivable, net	1,770,890	1,064,004
Prepaid expenses and other assets	32,818	85,591
Pledges receivable	409,362	269,500
Property and equipment, net	16,863	20,029
Total Assets	<u>\$ 2,314,616</u>	<u>\$ 1,805,354</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 628,721	\$ 631,496
Line of credit	94,000	-
Deferred rent liability	42,216	-
Total liabilities	<u>764,937</u>	<u>631,496</u>
Net assets:		
Without donor restrictions	791,880	621,925
With donor restrictions	757,799	551,933
Total net assets	<u>1,549,679</u>	<u>1,173,858</u>
Total Liabilities and Net Assets	<u>\$ 2,314,616</u>	<u>\$ 1,805,354</u>

See notes to financial statements

HOMESTART, INC.

Statements of Activities

	Year Ended September 30,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT:						
Program service fees	\$ 8,353,467	\$ -	\$ 8,353,467	\$ 7,878,420	\$ -	\$ 7,878,420
Contributions and grants	1,685,197	685,350	2,370,547	1,009,870	633,415	1,643,285
Other income	17,590	-	17,590	13,217	-	13,217
Net assets released from restrictions	479,484	(479,484)	-	734,362	(734,362)	-
Total Revenue and Support	10,535,738	205,866	10,741,604	9,635,869	(100,947)	9,534,922
EXPENSES:						
Program services:						
Housing stabilization	6,229,240	-	6,229,240	5,868,290	-	5,868,290
Housing search	1,884,540	-	1,884,540	1,726,502	-	1,726,502
Homeless prevention	1,135,777	-	1,135,777	850,969	-	850,969
	9,249,557	-	9,249,557	8,445,761	-	8,445,761
Supporting activities:						
General and administrative	617,613	-	617,613	481,682	-	481,682
Fundraising	498,613	-	498,613	339,574	-	339,574
	1,116,226	-	1,116,226	821,256	-	821,256
Total Expenses	10,365,783	-	10,365,783	9,267,017	-	9,267,017
Change in Net Assets	169,955	205,866	375,821	368,852	(100,947)	267,905
Net Assets, Beginning of Year	621,925	551,933	1,173,858	253,073	652,880	905,953
Net Assets, End of Year	\$ 791,880	\$ 757,799	\$ 1,549,679	\$ 621,925	\$ 551,933	\$ 1,173,858

See notes to financial statements

HOMESTART, INC.

Statements of Cash Flows

	September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 375,821	\$ 267,905
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	9,125	10,061
Changes in:		
Accounts receivable	(706,886)	227,923
Prepaid expenses and other assets	52,773	(10,528)
Pledges receivable	(139,862)	(8,248)
Accounts payable and accrued expenses	(2,775)	28,223
Deferred rent liability	42,216	-
Net Cash Provided (Used) by Operating Activities	(369,588)	515,336
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(5,959)	(23,900)
Net Cash Used by Investing Activities	(5,959)	(23,900)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	3,000,000	2,415,000
Payments on line of credit	(2,906,000)	(2,956,464)
Net Cash Provided (Used) by Financing Activities	94,000	(541,464)
Change in Cash and Cash Equivalents	(281,547)	(50,028)
Cash and Cash Equivalents, Beginning of Year	366,230	416,258
Cash and Cash Equivalents, End of Year	\$ 84,683	\$ 366,230
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 5,227	\$ 32,017

See notes to financial statements

HOMESTART, INC.

Statement of Functional Expenses

Year Ended September 30, 2019

	Program Services				Supporting Activities			
	Housing Stabilization	Housing Search	Homeless Prevention	Total Program Services	General and Administrative	Fundraising	Total Supporting Activities	Total
Salary and benefits	\$ 1,759,515	\$ 1,391,861	\$ 629,620	\$ 3,780,996	\$ 265,070	\$ 260,507	\$ 525,577	\$ 4,306,573
Client rent and assistance	4,014,758	338,072	429,296	4,782,126	2,018	-	2,018	4,784,144
Occupancy	248,665	88,249	11,595	348,509	46,883	10,261	57,144	405,653
Professional fees	83,939	6,643	54,346	144,928	105,917	1,185	107,102	252,030
Office and supplies	98,252	40,515	7,306	146,073	19,165	3,319	22,484	168,557
Other	24,111	19,200	3,614	46,925	169,435	223,341	392,776	439,701
Depreciation	-	-	-	-	9,125	-	9,125	9,125
Total Expenses	<u>\$ 6,229,240</u>	<u>\$ 1,884,540</u>	<u>\$ 1,135,777</u>	<u>\$ 9,249,557</u>	<u>\$ 617,613</u>	<u>\$ 498,613</u>	<u>\$ 1,116,226</u>	<u>\$ 10,365,783</u>

See notes to financial statements

HOMESTART, INC.

Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services				Supporting Activities			
	Housing Stabilization	Housing Search	Homeless Prevention	Total Program Services	General and Administrative	Fundraising	Total Supporting Activities	Total
Salary and benefits	\$ 1,536,022	\$ 1,297,921	\$ 518,176	\$ 3,352,119	\$ 270,691	\$ 120,252	\$ 390,943	\$ 3,743,062
Client rent and assistance	3,910,116	278,557	309,061	4,497,734	-	-	-	4,497,734
Occupancy	204,555	74,058	13,767	292,380	3,671	8,028	11,699	304,079
Professional fees	81,767	18,552	1,346	101,665	114,774	20,265	135,039	236,704
Office and supplies	106,354	42,401	8,059	156,814	12,804	11,281	24,085	180,899
Other	29,476	15,013	560	45,049	69,681	179,748	249,429	294,478
Depreciation	-	-	-	-	10,061	-	10,061	10,061
Total Expenses	<u>\$ 5,868,290</u>	<u>\$ 1,726,502</u>	<u>\$ 850,969</u>	<u>\$ 8,445,761</u>	<u>\$ 481,682</u>	<u>\$ 339,574</u>	<u>\$ 821,256</u>	<u>\$ 9,267,017</u>

See notes to financial statements

HOMESTART, INC.

Notes to Financial Statements

September 30, 2019 and 2018

1. NATURE OF ORGANIZATION:

HomeStart, Inc. (the "Organization") is a Massachusetts nonprofit organization that was incorporated in April 1996. The purpose of the Organization is to provide housing search services, supportive services and financial resources to homeless and other indigent people in order to help such persons secure and maintain housing and achieve successful, independent living in the general community. Primary sources of support and revenue are from government contracts and contributions from foundations and the general public.

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state laws. However, the Organization is subject to federal income tax on any unrelated business taxable income. In addition, the Organization has not been classified as a private foundation within the meaning of Section 509(a) of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH, CASH EQUIVALENTS, AND CREDIT RISK

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. From time to time, these accounts exceed federally insured limits; however, the Organization has not experienced any losses on these accounts and does not believe it is exposed to any significant risk. The Organization's cash balances exceeded federally insured limits for the years ended September 30, 2019 and 2018, by approximately \$18,000 and \$116,000, respectively.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Organization has recorded an allowance for doubtful accounts of \$192,507 and \$88,541, at September 30, 2019 and 2018, respectively.

HOMESTART, INC.

Notes to Financial Statements

September 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY, EQUIPMENT, AND DEPRECIATION

Items capitalized as property and equipment are reported at cost or, if donated, at fair market value on the date of donation. The Organization reports donations of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Organization capitalizes purchases greater than \$2,500. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which range from 3-5 years.

NET ASSETS

The financial statements report amounts separately by class of net assets:

Net assets without donor restrictions represent the portion of the net assets of the Organization that are available for operations without any donor-imposed stipulations.

Net assets with donor restrictions are those assets restricted by donors for specific operating purposes, subject to a time restriction or not currently available for use until commitments regarding their use have been fulfilled. Included in the net assets with donor restrictions is the activity of the Cambridge Housing Assistance Fund, which provides financial assistance to homeless and near homeless individuals and families.

REVENUE, SUPPORT, RECLASSIFICATIONS AND EXPENSES

The majority of the Organization's clients are supported by federal funds passed through the City of Boston and City of Cambridge. Approximately 66% and 69% of the Organization's total revenue for the years ended September 30, 2019 and 2018, respectively, were derived from contracts with these cities. Revenue is recorded as determined by the contracts with these government entities. Revenues are recognized as earned over the period services are performed. Revenue received in advance is recorded as deferred revenue until earned.

Program service fees are as follows:

	September 30,	
	2019	2018
Federal funds passed through state and local agencies	\$ 7,148,470	\$ 6,711,062
Housing program participant fees	450,200	438,579
Private organization funds	450,505	391,878
State and local agency funds	304,292	336,901
	<u>\$ 8,353,467</u>	<u>\$ 7,878,420</u>

HOMESTART, INC.

Notes to Financial Statements

September 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE, SUPPORT, RECLASSIFICATIONS AND EXPENSES, continued

The Organization recognizes support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Organization. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions are reported as increases in net assets without donor restrictions if the restrictions are satisfied or expire in the same fiscal year in which the contributions are recognized.

Contributed services are recorded at fair market value on the date the services are provided if the services create or enhance non-financial assets or the services are provided by persons possessing certain skills that would typically need to be purchased if not provided by donation. The Organization received no donated services that met the requirements for recognition in the statements of activities for the years ended September 30, 2019 and 2018.

Directly identifiable expenses are charged to program services and supporting activities which include general and administrative and fundraising. Expenses related to more than one function are charged to program services and supporting activities on the basis of periodic time and expense studies. Supporting activities expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. They types of expenses allocated include salary and benefits, occupancy, professional fees, office and supplies and other expenses. Any advertising costs are expensed when incurred and are reported in the statements of activities. The Organization incurred no advertising or joint costs for the years ended September 30, 2019 and 2018.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted the provisions of this new standard during the year ended September 30, 2019. Significant changes include:

- Temporarily restricted net asset classes are now referred to as net assets with donor restrictions.
- Unrestricted net asset class is now referred to as net assets without donor restrictions.
- Statements of functional expenses by functional and natural classification were added.
- Disclosures related to functional allocation of expenses were expanded.
- The financial statements include a new disclosure regarding liquidity and the availability of resources.

HOMESTART, INC.

Notes to Financial Statements

September 30, 2019 and 2018

3. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following table reflects the Organization's financial assets as of September 30, 2019, reduced by amounts not available for general use within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The following table represents liquidity at September 30, 2019:

Financial Assets:

Cash and cash equivalents	\$ 84,683
Accounts receivable, net	1,770,890
Pledges receivable	409,362
	<u>2,264,935</u>
Less those unavailable for general expenditure within one year, due to:	
Restrictions by purpose or time	<u>(448,437)</u>
Financial assets available for general expenditures within one year	<u>\$ 1,816,498</u>

In addition to program service fees, the Organization is substantially supported by contributions, which at times are received with restrictions. Those contributions with donor restrictions require resources to be used in a particular manner or in a future period. The Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, at times financial assets may not be available for general expenditure within one year. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization has a \$750,000 revolving line of credit with an available balance of \$656,000 as of September 30, 2019, which can be utilized if cash needs exist.

4. PLEDGES RECEIVABLE:

Pledges receivable are included in the financial statements as an asset and revenue in the appropriate net asset category. All of the Organization's pledges receivable at September 30, 2019 and 2018, are considered to be fully collectible. Accordingly, no allowance for uncollectible pledges was recorded at September 30, 2019 and 2018. Pledges receivable amounted to \$409,362 and \$269,500 as of September 30, 2019 and 2018, respectively, and are expected to be collected within one year.

5. PROPERTY AND EQUIPMENT:

Property and equipment consist of:

	September 30,	
	2019	2018
Furniture and equipment	\$ 175,025	\$ 169,065
Less accumulated depreciation	<u>(158,162)</u>	<u>(149,036)</u>
	<u>\$ 16,863</u>	<u>\$ 20,029</u>

HOMESTART, INC.

Notes to Financial Statements

September 30, 2019 and 2018

6. LINE OF CREDIT:

The Organization maintains a line of credit agreement with a borrowing limit of \$750,000 with a commercial bank to fund short-term working capital needs. Payments of interest only are due monthly with outstanding principal payable on demand. Interest on outstanding principal accrues at the prime rate (5.00% and 5.25% at September 30, 2019 and 2018, respectively). Interest expense totaled \$5,227 and \$32,017 for the years ended September 30, 2019 and 2018, respectively. The Organization was in compliance with all covenants for the years ended September 30, 2019 and 2018. The line is secured by all assets of the Organization. The Organization had a balance on the line of credit of \$94,000 and \$-0- at September 30, 2019 and 2018, respectively.

7. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of:

	October 1, 2018	Support and Revenue	Releases	September 30, 2019
Homeless prevention	\$ 196,183	\$ 171,439	\$ 108,199	\$ 259,423
Housing resources	86,250	104,549	101,785	89,014
Pledges receivable - time restriction	269,500	409,362	269,500	409,362
	<u>\$ 551,933</u>	<u>\$ 685,350</u>	<u>\$ 479,484</u>	<u>\$ 757,799</u>
	October 1, 2017	Support and Revenue	Releases	September 30, 2018
Homeless prevention	\$ 231,174	\$ 338,010	\$ 373,001	\$ 196,183
Housing resources	160,454	75,905	150,109	86,250
Pledges receivable - time restriction	261,252	219,500	211,252	269,500
	<u>\$ 652,880</u>	<u>\$ 633,415</u>	<u>\$ 734,362</u>	<u>\$ 551,933</u>

HOMESTART, INC.

Notes to Financial Statements

September 30, 2019 and 2018

8. LEASE COMMITMENTS:

The Organization leases office space in Boston, Massachusetts under an operating lease expiring in August 2029. The rent payments have been recorded on a basis to achieve straight-line rent expense over the life of the lease. Accordingly, the difference between the straight-line rent expense and the cash payments made is recorded in the statements of financial position as deferred rent liability. Minimum future rental payments under the Organization's office lease are as follows:

<u>Year Ending September 30,</u>	
2020	\$ 327,914
2021	340,443
2022	346,949
2023	353,516
2024	360,052
2025 and thereafter	<u>1,865,082</u>
	<u><u>\$ 3,593,956</u></u>

Rent expense totaled approximately \$353,000 and \$257,000 for the years ended September 30, 2019 and 2018, respectively.

In addition, the Organization leases apartments at various locations throughout Boston, Cambridge and metro Boston in connection with the housing component of its program operations. These leases have terms of twelve months or less. At any given time the Organization has approximately 250 active leases. Rent expense under these leases totaled approximately \$3,669,000 and \$3,579,000 for the years ended September 30, 2019 and 2018, respectively.

The Organization leases office equipment under operating leases expiring in December 2019 through April 2023. Lease payments totaled approximately \$14,000 and \$13,000 for the years ended September 30, 2019 and 2018, respectively. Minimum future rental payments under the Organization's office equipment leases are as follows:

<u>Year Ending September 30,</u>	
2020	\$ 9,460
2021	5,045
2022	4,823
2023	<u>2,684</u>
	<u><u>\$ 22,012</u></u>

HOMESTART, INC.

Notes to Financial Statements

September 30, 2019 and 2018

9. RETIREMENT PLAN:

The Organization maintains a defined contribution retirement plan covering all eligible employees, which are those employees who are 21 years of age with one year of service and who work at least 1,000 hours annually.

The Organization's contributions are discretionary and are allocated to individual employee accounts. The Organization did not make any contributions to the retirement plan for the years ended September 30, 2019 and 2018.

10. CONTINGENCIES:

The Organization has certain legal proceedings in the ordinary course of business. The Organization's management, after consulting with legal counsel, believes the ultimate resolution of the proceedings will not have a material adverse effect on the Organization's financial position or results of operations.

11. RELATED PARTY TRANSACTIONS:

Members of the board of directors contributed approximately \$76,000 and \$113,000 to the Organization during the years ended September 30, 2019 and 2018, respectively.

12. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through February 13, 2020, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.