2013
AUDIT
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# HOMESTART, INC.

Financial Statements

Year ended September 30, 2013

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7/25/2014

2013

## HOMESTART, INC.

Financial Statements
Year ended September 30, 2013

### CONTENTS

Leonard, Mulherin & Greene, P.C.
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
HomeStart, Inc.
Boston, Massachusetts

**Report on the Financial Statements**
We have audited the accompanying financial statements of HomeStart, Inc. (a Massachusetts nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of September 30, 2013, 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. 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 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 Organization'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 Organization'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.

AGO 7/25/2014

## INDEPENDENT AUDITOR'S REPORT
## (continued)

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2013, 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 2012 financial statements, and our report dated January 28, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leonard, Mulherin & Greene, P.C.
LEONARD, MULHERIN & GREENE, P.C.
Braintree, Massachusetts

January 27, 2014

AGO 7/25/2014

## HOMESTART, INC.

Statement of Financial Position
September 30, 2013
*(with comparative totals for 2012)*

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 339,977 | $ 462,216 |
| Accounts receivable | 1,070,077 | 601,082 |
| Prepaid expenses | 61,132 | 52,484 |
| Pledges receivable | 36,750 | 53,830 |
| **Total current assets** | 1,507,936 | 1,169,612 |
| **PROPERTY AND EQUIPMENT,** | | |
| net of accumulated depreciation | 52,029 | 26,166 |
| **OTHER ASSETS** | | |
| Deposits | 5,042 | 1,920 |
| **Total assets** | $ 1,565,007 | $ 1,197,698 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 489,539 | $ 419,036 |
| Deferred revenue | 63,432 | 64,203 |
| **Total liabilities** | 552,971 | 483,239 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **NET ASSETS** | | |
| Unrestricted | 730,802 | 463,694 |
| Temporarily restricted | 281,234 | 250,765 |
| **Total net assets** | 1,012,036 | 714,459 |
| **Total liabilities and net assets** | $ 1,565,007 | $ 1,197,698 |

*The accompanying notes are an integral part of these financial statements.*

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## HOMESTART, INC.

Statement of Activities
Year ended September 30, 2013
*(with comparative totals for 2012)*

| | 2013 | | | 2012 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Total |
| **SUPPORT AND REVENUE** | | | | |
| Program service fees | $ 6,353,952 | $ - | $ 6,353,952 | $ 6,199,460 |
| Contributions | 924,293 | - | 924,293 | 938,699 |
| In-kind contribution | 199,938 | - | 199,938 | 84,854 |
| Grants | 321,424 | 284,099 | 605,523 | 503,008 |
| Other income | 86,694 | - | 86,694 | 101,214 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | 253,630 | (253,630) | - | - |
| **Total support and revenue** | 8,139,931 | 30,469 | 8,170,400 | 7,827,235 |
| **EXPENSES** | | | | |
| **Program Services** | | | | |
| Housing stabilization | 1,013,566 | - | 1,013,566 | 1,029,439 |
| Housing resources | 4,421,600 | - | 4,421,600 | 4,178,476 |
| Housing search | 1,011,195 | - | 1,011,195 | 773,787 |
| Homeless prevention | 856,831 | - | 856,831 | 747,065 |
| **Total program services** | 7,303,192 | - | 7,303,192 | 6,728,767 |
| **Supporting Services** | | | | |
| General and administrative | 206,308 | - | 206,308 | 259,742 |
| Fundraising | 363,323 | - | 363,323 | 332,905 |
| **Total supporting services** | 569,631 | - | 569,631 | 592,647 |
| **Total expenses** | 7,872,823 | - | 7,872,823 | 7,321,414 |
| **CHANGE IN NET ASSETS** | 267,108 | 30,469 | 297,577 | 505,821 |
| **NET ASSETS,** beginning of year | 463,694 | 250,765 | 714,459 | 208,638 |
| **NET ASSETS,** end of year | $ 730,802 | $ 281,234 | $ 1,012,036 | $ 714,459 |

*The accompanying notes are an integral part of these financial statements.*

## HOMESTART, INC.

Statement of Functional Expenses
Year ended September 30, 2013
*(with comparative totals for 2012)*

| | 2013 | | | | | | 2012 |
|---|---|---|---|---|---|---|---|
| | Employee Compensation and Related | Occupancy | Other Program/ Operating | Administrative | Depreciation | Total | Total |
| **Program Services** | | | | | | | |
| Housing stabilization | $ 503,863 | $ 51,353 | $ 421,782 | $ 36,568 | $ - | $ 1,013,566 | $ 1,029,439 |
| Housing resources | 774,264 | 142,816 | 3,306,918 | 197,602 | - | 4,421,600 | 4,178,476 |
| Housing search | 928,853 | 41,914 | 18,272 | 22,156 | - | 1,011,195 | 773,787 |
| Homeless prevention | 500,694 | 10,750 | 328,582 | 16,805 | - | 856,831 | 747,065 |
| **Total program services** | 2,707,674 | 246,833 | 4,075,554 | 273,131 | - | 7,303,192 | 6,728,767 |
| **Supporting Services** | | | | | | | |
| General and administrative | 116,168 | 4,461 | 6,111 | 61,109 | 18,459 | 206,308 | 259,742 |
| Fundraising | 157,821 | 219 | 2,950 | 202,333 | - | 363,323 | 332,905 |
| **Total supporting services** | 273,989 | 4,680 | 9,061 | 263,442 | 18,459 | 569,631 | 592,647 |
| **Total expenses - 2013** | $ 2,981,663 | $ 251,513 | $ 4,084,615 | $ 536,573 | $ 18,459 | $ 7,872,823 | |
| Total expenses - 2012 | $ 2,578,516 | $ 246,496 | $ 4,081,635 | $ 399,752 | $ 15,015 | | $ 7,321,414 |

*The accompanying notes are an integral part of these financial statements.*

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## HOMESTART, INC.

Statement of Cash Flows
Year ended September 30, 2013
*(with comparative totals for 2012)*

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 297,577 | $ 505,821 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Depreciation | 18,459 | 15,015 |
| (Increase) decrease in asset accounts | | |
| Accounts receivable | (468,995) | 42,471 |
| Prepaid expenses | (8,648) | 12,733 |
| Pledges receivable | 17,080 | (38,830) |
| Deposits | (3,122) | - |
| Increase (decrease) in liability accounts | | |
| Accounts payable and accrued expenses | 70,503 | (149,421) |
| Deferred revenue | (771) | 127 |
| **Net cash (used in) provided by operating activities** | (77,917) | 387,916 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (44,322) | (13,179) |
| **Net cash used in investing activities** | (44,322) | (13,179) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from note payable | 18,888 | - |
| Principal payments on note payable | (18,888) | - |
| Advances from line of credit | 645,000 | 344,800 |
| Payments on line of credit | (645,000) | (444,800) |
| **Net cash used in financing activities** | - | (100,000) |
| Net (decrease) increase in cash and cash equivalents | (122,239) | 274,737 |
| **Cash and cash equivalents, beginning of year** | 462,216 | 187,479 |
| **Cash and cash equivalents, end of year** | $ 339,977 | $ 462,216 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid during the year for interest | $ 1,690 | $ 5,667 |

*The accompanying notes are an integral part of these financial statements.*

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***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.

***Basis of Accounting***

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

***Financial Statement Presentation***

Pursuant to accounting principles generally accepted in the United States of America, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

*Unrestricted net assets* represent the portion of the net assets of the Organization that is neither permanently nor temporarily restricted by donor-imposed stipulations. Included in the unrestricted net assets is the activity of the Cambridge Housing Assistance Fund, which provides financial assistance to homeless and near homeless individuals and families.

*Temporarily restricted net assets* represent those assets whose use has been limited by donors to a specific time period or purpose. At September 30, 2013, temporarily restricted net assets totaled $281,234 and are available for the homeless prevention program.

*Permanently restricted net assets* consist of endowment funds that have been restricted by donors to be maintained in perpetuity. Income earned on such funds is unrestricted or temporarily restricted based on donor stipulations. The Organization had no permanently restricted net assets at September 30, 2013 and 2012.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Cash and Cash Equivalents***

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

***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.

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Accounts Receivable (continued)***
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 considers all accounts receivable at September 30, 2013 and 2012 to be fully collectible. Accordingly, no allowances for doubtful accounts have been recorded.

***Property and Equipment***
Property and equipment are recorded at cost on the date of acquisition or at fair market value on the date of donation, if donated. The Organization capitalizes significant additions to property and equipment, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, which range from 3-5 years.

***Fair Value Measurements***
The Organization applies the provisions of accounting principles generally accepted in the United States of America for fair value measurements of financial assets and financial liabilities and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. These provisions define fair value as the price that would be received in selling an asset or paid in transferring a liability in an orderly transaction between market participants at the measurement date. These provisions also establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Application of these provisions had no effect on the carrying value of any of the Organization's financial assets or liabilities.

***Revenue Recognition***
The majority of the Organization's clients are supported by federal funds passed through the City of Boston and City of Cambridge. 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.

***Contributions***
Contribution revenues are recognized at the earlier of when received or when a donor declares an unconditional intent to contribute cash or other assets to the Organization. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction has been satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Donor-restricted contributions are reported as increases in unrestricted net assets if the restrictions are satisfied or expire in the same fiscal year in which the contributions are recognized.

***Comparative Financial 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2012 from which the summarized information was derived.

## 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *In-kind Contributions*
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. In-kind contributions recorded for donated legal services totaled $199,938 and $84,854 during the years ended September 30, 2013 and 2012, respectively.

### *Functional Allocation of Expenses*
The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or support service are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by various methods.

### *Tax Status*
The Organization qualifies under Section 501(c)(3) of the Internal Revenue Code (the "Code") as exempt from federal and state income taxes. The Organization is not a private foundation within the meaning of Section 509(a) of the Code.

### *Uncertain Tax Positions*
Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by taxing authorities. The Organization has analyzed the tax positions taken and concluded that, as of September 30, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2010.

### *Subsequent Events*
The Organization evaluated events that occurred after September 30, 2013, the date of the Statement of Financial Position, but before the date the financial statements were available to be issued, January 27, 2014, for potential recognition or disclosure in the financial statements. The Organization did not identify any subsequent events that had a material effect on the accompanying financial statements.

## 2 – PLEDGES RECEIVABLE

All of the Organization's pledges receivable at September 30, 2013 are due in less than one year and are considered fully collectible by the Organization. Accordingly, no allowance for uncollectible pledges was recorded at September 30, 2013.

## 2 – PLEDGES RECEIVABLE (continued)

Pledges receivable are expected to be collected as follows for the years ending September 30:

| | |
|---|---|
| 2014 | **$36,750** |
| Total pledges receivable | **$36,750** |

## 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

| | 2013 | 2012 |
|---|---|---|
| Furniture and equipment | **$ 132,864** | $ 113,058 |
| Leasehold improvements | **43,549** | 19,033 |
| | **176,413** | 132,091 |
| Less accumulated depreciation | **124,384** | 105,925 |
| | **$ 52,029** | $ 26,166 |

Depreciation expense totaled $18,459 and $15,015 for the years ended September 30, 2013 and 2012, respectively.

## 4 – LINE OF CREDIT

The Organization maintains a line of credit agreement with a borrowing limit of $400,000 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 (3.25% at September 30, 2013 and 2012), but not less than 3.99%. Interest expense totaled $1,143 and $5,667 for the years ended September 30, 2013 and 2012, respectively. In addition, the agreement requires that the Organization have no amounts outstanding on the line of credit for 30 consecutive days during each year. The Organization was in compliance with this covenant for the year ended September 30, 2013. The line is secured by all assets of the Organization. There was no balance outstanding on the line of credit at September 30, 2013 and 2012.

## 5 – LEASE COMMITMENTS

The Organization leases equipment and office space in Boston and Cambridge, Massachusetts under operating leases expiring through April 2018.

Minimum future rental payments under the Organization's operating leases are as follows for the years ending September 30:

| | |
|---|---|
| 2014 | **$ 221,111** |
| 2015 | **228,047** |
| 2016 | **228,047** |
| 2017 | **214,084** |
| 2018 | **35,292** |
| | **$ 926,581** |

Rent expense totaled $224,830 and $224,458 for the years ended September 30, 2013 and 2012, respectively.

**5 – LEASE COMMITMENTS (continued)**

In addition, the Organization leases space 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. Rent expense under these leases totaled $137,811 and $11,232 for the years ended September 30, 2013 and 2012, respectively.

**6 – NOTE PAYABLE**

During 2013, the Organization entered into a new lease agreement for office space in Cambridge, Massachusetts (see Note 5). In connection with this lease agreement, the Organization entered into a note payable agreement with the landlord to finance the cost of improvements to the leased space. Proceeds received under this note payable agreement totaled $18,888 during the year ended September 30, 2013. The note was fully paid-off as of September 30, 2013 and related interest expense of $547 was incurred during the year then ended.

**7 – 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 incurred administrative expenses of $1,356 and $946 related to the retirement plan for the years ended September 30, 2013 and 2012, respectively.

**8 – CONCENTRATION OF CREDIT RISK**

***Concentration of Risk***

A significant portion of the Organization's revenue and receivables are derived from contracts with the City of Boston and the City of Cambridge. Approximately 66% of the Organization's total revenue for the year ended September 30, 2013 was derived from contracts with these cities and approximately 91% of the accounts receivable balance at September 30, 2013 is due from these cities.

The Organization maintains cash balances at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per depositor. Amounts held at this financial institution in excess of the amount insured by the FDIC totaled $137,869 at September 30, 2013.

**9 – RELATED PARTY TRANSACTIONS**

A member of the Organization's board of directors was employed by a law firm from which the Organization received donated services valued at $191,218 and $84,854 during the years ended September 30, 2013 and 2012, respectively. This individual remains on the board of directors as of September 30, 2013, however, they were not employed by this law firm as of September 30, 2013.

Another member of the Organization's board of directors is employed by another law firm from which the Organization received donated services valued at $8,720 during the year ended September 30, 2013. These services have been recorded as an in-kind contribution in the accompanying Statement of Activities.