HOMEWARD BOUND

the key to ending homelessness

HOMEWARD BOUND
OF WESTERN NORTH CAROLINA, INC.
AND SUBSIDIARY

Asheville, North Carolina

Financial Statements and
Supplementary Information

Years Ended June 30, 2021 and 2020

CARTER
ACCOUNTING • TAX • ASSURANCE

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

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Angie Cullen	Vice-President
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HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Homeward Bound of Western North Carolina, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Homeward Bound of Western North Carolina, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Homeward Bound of Western North Carolina, Inc. and Subsidiary as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 June 7, 2022, on our consideration of Homeward Bound of Western North Carolina, Inc. and Subsidiary'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 the effectiveness of Homeward Bound of Western North Carolina, Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Homeward Bound of Western North Carolina, Inc. and Subsidiary's internal control over financial reporting and compliance.

Carter, P.C.

Asheville, North Carolina
June 7, 2022

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and equivalents:		
Unrestricted	$ 3,768,061	$ 2,568,626
Restricted	14,980	6,392
Grants receivable	1,096,825	875,626
Other receivables	7,784	5,965
Promises to give, current portion	215,676	67,523
Deposit	75,000	
Prepaid expenses		19,995
Total current assets	5,178,326	3,544,127
Investments	15,224	
Promises to give, net of current portion	2,529	31,320
Property and equipment, net	2,417,304	1,264,389
Total assets	$ 7,613,383	$ 4,839,836
Liabilities and net assets		
Current liabilities:		
Current portion of obligation under capital lease	$ 6,189	$ 5,932
Current maturities of long-term debt	15,061	230,990
Accounts payable	186,214	75,322
Accrued expenses	148,726	146,932
Deferred revenue	2,014,980	9,588
Total current liabilities	2,371,170	468,764
Obligation under capital lease, net of current portion	3,733	9,923
Long-term debt, net of current maturities	802,235	910,694
Total liabilities	3,177,138	1,389,381
Net assets:		
Without donor restrictions	3,544,497	3,064,386
With donor restrictions	891,748	386,069
Total net assets	4,436,245	3,450,455
Total liabilities and net assets	$ 7,613,383	$ 4,839,836

The accompanying notes are an integral part of the financial statements.

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and other revenues			
Grants	$ 203,213	$ 5,328,349	$ 5,531,562
Contributions	1,243,391	939,039	2,182,430
In-kind contributions	190,623		190,623
Rental income	15,547		15,547
Interest	3,788		3,788
Other	7,999		7,999
Net assets released from restrictions	5,761,709	(5,761,709)	
Total public support and other revenues	7,426,270	505,679	7,931,949
Expenses			
Program services	5,995,447		5,995,447
Supporting services	950,712		950,712
Total expenses	6,946,159		6,946,159
Increase in net assets	480,111	505,679	985,790
Net assets at beginning of year	3,064,386	386,069	3,450,455
Net assets at end of year	$ 3,544,497	$ 891,748	$ 4,436,245

The accompanying notes are an integral part of the financial statements.

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and other revenues			
Grants	$ 183,604	$ 4,132,647	$ 4,316,251
Contributions	1,286,553	1,213,917	2,500,470
In-kind contributions	263,247		263,247
Rental income	11,717		11,717
Interest	9,317		9,317
Other	7,257		7,257
Net assets released from restrictions	5,456,889	(5,456,889)	
Total public support and other revenues	7,218,584	(110,325)	7,108,259
Expenses			
Program services	4,925,833		4,925,833
Supporting services	743,289		743,289
Total expenses	5,669,122		5,669,122
Increase (decrease) in net assets	1,549,462	(110,325)	1,439,137
Net assets at beginning of year	1,514,924	496,394	2,011,318
Net assets at end of year	$ 3,064,386	$ 386,069	$ 3,450,455

The accompanying notes are an integral part of the financial statements.

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services			Supporting Services			
	Homeless Services	Supportive Housing	Total Program Services	Management & General	Fundraising	Total Supporting Services	Total
Salaries	$ 693,465	$ 1,538,212	$ 2,231,677	$ 440,694	$ 232,197	$ 672,891	$ 2,904,568
Payroll taxes	53,549	120,330	173,879	28,847	18,448	47,295	221,174
Benefits	56,221	167,980	224,201	1,972	22,271	24,243	248,444
Total salaries and related	803,235	1,826,522	2,629,757	471,513	272,916	744,429	3,374,186
Utilities	23,399	41,337	64,736	2,293	1,316	3,609	68,345
Automotive expenses	75	5,988	6,063	291		291	6,354
Maintenance and repairs	11,086	23,556	34,642	2,696		2,696	37,338
Client assistance	268,354	2,668,762	2,937,116	1,811		1,811	2,938,927
Professional fees	8,992	27,936	36,928	61,258		61,258	98,186
Administrative	26,252	36,699	62,951	25,897	5,748	31,645	94,596
Rent	4,335	78,529	82,864	43,055	1,053	44,108	126,972
Public relations				26	12,286	12,312	12,312
Insurance	6,764	23,576	30,340	17,729	1,627	19,356	49,696
Fund-raising supplies				100	1,214	1,314	1,314
Licenses and fees				843	4,839	5,682	5,682
Dues and subscriptions	187	152	339	2,018	1,333	3,351	3,690
Staff development	8,344	14,348	22,692	7,705	355	8,060	30,752
Printing	354	1,879	2,233	1,781	15,479	17,260	19,493
Bad debt recovery					(18,206)	(18,206)	(18,206)
Total expenses before depreciation and amortization and interest	1,161,377	4,749,284	5,910,661	639,016	299,960	938,976	6,849,637
Depreciation and amortization	24,204	29,914	54,118	6,052	2,778	8,830	62,948
Interest	11,622	19,046	30,668	2,906		2,906	33,574
Total expenses	$ 1,197,203	$ 4,798,244	$ 5,995,447	$ 647,974	$ 302,738	$ 950,712	$ 6,946,159

The accompanying notes are an integral part of the financial statements.

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services			Supporting Services			
	Homeless Services	Supportive Housing	Total Program Services	Management & General	Fundraising	Total Supporting Services	Total
Salaries	$ 934,811	$ 1,331,749	$ 2,266,560	$ 247,306	$ 189,332	$ 436,638	$ 2,703,198
Payroll taxes	70,964	100,531	171,495	17,748	14,498	32,246	203,741
Benefits	59,933	128,525	188,458	31,312	7,674	38,986	227,444
Total salaries and related	1,065,708	1,560,805	2,626,513	296,366	211,504	507,870	3,134,383
Utilities	26,724	31,387	58,111	1,006	1,353	2,359	60,470
Automotive expenses	1,985	6,905	8,890				8,890
Maintenance and repairs	7,796	31,883	39,679	1,174	868	2,042	41,721
Client assistance	76,933	1,870,654	1,947,587	1,395		1,395	1,948,982
Professional fees	14,711	27,492	42,203	28,656	1,324	29,980	72,183
Administrative	6,623	18,979	25,602	18,731	11,850	30,581	56,183
Rent	1,757	47,627	49,384	50,265	1,391	51,656	101,040
Public relations		1,000	1,000		16,788	16,788	17,788
Insurance	9,240	26,392	35,632	9,854	1,600	11,454	47,086
Fund-raising supplies	4,522	134	4,656	112	2,935	3,047	7,703
Licenses and fees	26	2,563	2,589	224	5,436	5,660	8,249
Dues and subscriptions	4,696	4,245	8,941	2,086	4,147	6,233	15,174
Staff development	12,538	13,777	26,315	9,840	583	10,423	36,738
Printing	344	725	1,069	294	10,353	10,647	11,716
Bad debt					41,620	41,620	41,620
Total expenses before depreciation and amortization and interest	1,233,603	3,644,568	4,878,171	420,003	311,752	731,755	5,609,926
Depreciation and amortization	20,894	9,064	29,958	6,446	3,333	9,779	39,737
Interest	7,019	10,685	17,704	1,755		1,755	19,459
Total expenses	$ 1,261,516	$ 3,664,317	$ 4,925,833	$ 428,204	$ 315,085	$ 743,289	$ 5,669,122

The accompanying notes are an integral part of the financial statements.

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Increase in net assets	$ 985,790	$ 1,439,137
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	62,948	39,737
Provision for (recovery of) bad debt	(18,206)	41,620
Present value adjustment	(2,203)	(7,370)
Paycheck Protection Program loan forgiveness	(493,485)	
Unearned discount on notes payable	(17,983)	(463,852)
Amortization of discount on long-term debt	26,988	18,567
Non-cash interest expense	5,985	
Receipt of donated stock	(35,714)	(628,099)
Changes in working capital sources (uses):		
Grants receivable	(217,690)	(326,253)
Other receivables	(1,819)	(799)
Promises to give	(98,953)	155,884
Deposit	(75,000)	
Prepaid expenses	19,995	(16,580)
Accounts payable	110,892	68,624
Accrued expenses	1,794	65,801
Deferred revenue	2,005,392	9,588
Net cash provided by operating activities	2,258,731	396,005
Cash flows from investing activities		
Proceeds from sale of donated stock	20,490	628,099
Purchase of property and equipment	(1,215,863)	(340,724)
Net cash provided (used) by investing activities	(1,195,373)	287,375
Cash flows from financing activities		
Proceeds from issuance of long-term debt	175,188	767,500
Repayment of long-term debt	(24,590)	(16,140)
Repayment of capital lease obligation	(5,933)	(5,685)
Net cash provided by financing activities	144,665	745,675
Net increase in cash and equivalents and restricted cash	1,208,023	1,429,055
Cash and equivalents and restricted cash at beginning of year	2,575,018	1,145,963
Cash and equivalents and restricted cash at end of year	$ 3,783,041	$ 2,575,018
Non-cash investing and financing activities		
Acquisition of property with long-term debt	$	$ 530,000
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 601	$ 892

The accompanying notes are an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Organization

Homeward Bound of Western North Carolina, Inc. (Homeward Bound) is a nonprofit corporation organized under the laws of the State of North Carolina created to assist and transition people who are homeless. Homeward Bound's operations include a day and short-term emergency shelter, providing rental, utility, and other housing-related assistance, services for mental health issues, substance abuse, and street outreach. Homeward Bound works with residents, through counseling, to break the cycle of homelessness and encourage independence, responsibility, participation, and ultimately be placed in permanent housing.

296 Short Michigan Avenue LLC (Short Michigan) was organized in September 2019 to hold and operate the property of an apartment complex that provides safe and affordable housing for tenants. Homeward Bound is the sole member of Short Michigan.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Homeward Bound and its wholly-owned subsidiary Short Michigan (collectively the Organization). All material intercompany transactions and balances have been eliminated. Homeward Bound operates on the fiscal year ended June 30. Short Michigan operates on a calendar year end. However, these consolidated financial statements represent the financial position and activities as of and for the twelve months ended June 30, 2021 and 2020.

Income Tax-exempt Status

Homeward Bound is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization has also been classified as a publicly-supported charitable organization and is exempt from state taxes under North Carolina General Statute 105-130.11(a).

Short Michigan is a single member limited liability company which is a disregarded entity for U.S. federal and state income tax purposes. All income and expenses of Short Michigan are reported on Homeward Bound's Form 990. Accordingly, no provision for income taxes has been recognized these consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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

- *Net assets with donor restrictions*: Net assets subject to donor-imposed time or purpose restrictions. These restrictions limit the spending options when using these resources because the Organization has a fiduciary responsibility to follow the donors' instructions. Net assets with donor restrictions generally result from donor-restricted contributions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization, or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Support is recorded as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled and/or time period has elapsed) are reported as net assets released from restrictions.

Measure of Operations

The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing program services. Non-operating activities are considered to be more unusual or nonrecurring in nature.

Estimates

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

Fair Value of Financial Instruments

The carrying value of substantially all reported assets and liabilities, other than promises to give, investments, obligation under capital lease, and long-term debt, approximates fair value due to the relatively short-term nature of the financial instruments.

Note 1 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Amounts recognized for promises to give approximates fair value due to the allowance for uncollectible pledges and net present value adjustment applied to outstanding balances.

Fair value of investments is discussed in Note 5.

Amounts recognized for obligation under capital lease and long-term debt approximate fair value due to market interest rates charged to outstanding balances. Interest-free loans contain an implied interest rate comparable to market rates.

Cash and Equivalents

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

Restricted cash consists of cash funds related to tenant security deposits that are required to be maintained in a separate trust account in accordance with State laws.

Grants and Other Receivables

Grants receivable are funds due from federal, state, or local governmental agencies and nonprofit organizations at fiscal year-end.

Other receivables consist primarily of sales tax receivables.

All grants and other receivables are considered by management to be fully collectible and therefore no allowance for uncollectible accounts has been recorded. Receivables are considered impaired if full payment is not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines collection is unlikely.

Promises to Give

Conditional promises to give are not recognized in the consolidated financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is included in contribution revenue. Management provides for probable uncollectible amounts through a provision for uncollectible promises to give based on prior years' collection history and management's analysis of specific promises made.

Deposit

Deposit consists of an advanced payment for the purchase of property.

Note 1 - Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are reflected in the statements of activities.

Investment Income and Gains

Investment income and gains are reported as increases in net assets without donor restrictions unless the income or gains are restricted by donors or law.

Fair Value Measurements and Disclosures

The Organization applies U.S. GAAP authoritative guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities within the hierarchy are based on the lowest (or least observable) input that is significant to the measurement. The Organization's assessment of the significance of an input requires judgment, which may affect the valuation and classification within the fair value hierarchy.

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized as incurred. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed. The Organization has adopted an accounting policy to capitalize all property and equipment with a cost greater than $1,000 and estimated useful life extending beyond one year. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from three to forty years.

Note 1 - Summary of Significant Accounting Policies (continued)

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at the estimated fair value at the date of the gift. The Organization reports gifts of property and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are recorded as net assets with donor restrictions until such assets are acquired or placed in service.

Donated Assets

Donated marketable securities are recorded as contributions at their estimated fair value at the date of donation.

Donated materials and equipment are reflected as in-kind contributions at their estimated fair value at the date of donation. For the years ended June 30, 2021 and 2020, the Organization received in-kind materials and equipment in the amount of $187,861 and $257,294, respectively.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization received $2,762 and $5,953 in donated services during the years ended June 30, 2021 and 2020, respectively. Volunteers provided a variety of tasks that assist the Organization with specific objectives throughout the year that are not recognized as contributions since the recognition criteria were not met.

Revenue Recognition

Contributions are recognized when cash, securities, other assets, or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return of the asset or right of release of the obligation - are not recognized until the conditions on which they depend have been met. The Organization received conditional contributions of $2,000,000 that have not been recognized as of June 30, 2021. This amount will be included in deferred revenue until qualifying expenditures have been incurred or refunded to the grantor as unexpended grant funding.

A portion of the Organization’s revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidated statements of financial position.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

The Organization also recognizes revenue from acting as a lessor in operating leases. Revenue is recorded as rental income in the statements of activities and is accounted for on the straight-line basis over the lease term, generally 12 months.

Advertising

The Organization uses advertising to promote various programs. Advertising costs are not expected to extend beyond the current period and are expensed as incurred. Advertising expense for the years ended June 30, 2021 and 2020, was $19,493 and $12,199, respectively.

Functional Allocation of Expenses

The costs of providing program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Certain categories of expenses are attributable to programs and support. All expenses except for bad debt expense are allocated based on estimates of time and effort. Bad debt expense is directly related to fundraising which is a supporting service.

Reclassification

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements.

New Accounting Pronouncements

During the year ended June 30, 2021, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB). The implementation of each of these standards did not materially impact the Organization's consolidated financial statements.

- Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). This Update amended the previous accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additional disclosures have been added as a result of ASU 2014-09, which are included in Note 1, Revenue Recognition and Note 4, Contract Assets and Liabilities.

- Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.* (ASU 2018-13). ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures.

Note 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

- Accounting Standards Update No. 2020-03, *Codification Improvements to Financial Instruments.* (ASU 2020-03). ASU 2020-03 made additional clarifications to disclosure requirements of financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under the new standard, lessees will recognize a right-of-use asset and lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments. For statement of activity purposes, leases continue to be classified as either operating or finance. Operating leases will result in straight-line expense, while finance leases will result in an accelerated expense pattern, comparable to current capital leases. Classification will be based on criteria similar to those applied to current lease accounting. Additional disclosures will be required to provide details of revenue and expense recognized and expected to be recognized from existing agreements. The new standard will be effective beginning July 1, 2022. The Organization is currently evaluating the effect this ASU will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard will be effective beginning July 1, 2021.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 puts in place additional requirements regarding the presentation and disclosure of contributed nonfinancial assets for nonprofit entities for the purpose of enhancing transparency of such contributions received. The new standard will be effective beginning July 1, 2021.

Note 2 - Net Assets

Net assets are described as follows:

At June 30	2021	2020
Net assets without donor restrictions:		
Undesignated	$ 1,954,411	$ 2,470,036
Investment in property and equipment	1,590,086	594,350
Net assets without donor restrictions	3,544,497	3,064,386

Note 2 - Net Assets (continued)

At June 30	2021	2020
Net assets with donor restrictions:		
Subject to expenditure for specified purpose or period:		
Promises to give, net and grants receivable	$ 271,375	$ 98,843
Supportive housing	44,000	184,906
AHOPE	9,571	
Case management	16,078	101,295
Capital campaign	550,724	1,025
Net assets with donor restrictions	891,748	386,069
Total net assets	$ 4,436,245	$ 3,450,455

Note 3 - Liquidity and Availability of Financial Assets

The Organization receives significant grants, contributions, and promises to give restricted by donors and grantors and considers those program revenues, which are ongoing, major, and central to its operations, to be available to meet cash needs for general expenditures.

The Organization manages liquidity utilizing three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets to fund near-term operating needs, and
- Monitoring expenses closely.

The following reflects the liquidity and availability of the Organization's financial assets:

At June 30	2021	2020
Financial assets:		
Cash and equivalents	$ 3,783,041	$ 2,575,018
Grants receivable	1,096,825	875,626
Other receivables	7,784	5,965
Promises to give, net	218,205	98,843
Investments	15,224	
Total financial assets	5,121,079	3,555,452
Amounts not available for general expenditure:		
Net assets with donor restrictions	(891,748)	(386,069)
Add back: restricted grants receivable	60,670	233,232
Add back: promises to give, current portion	215,676	67,523
Total amounts not available for general expenditure	(615,402)	(85,314)
Net financial assets available to meet cash needs for general expenditures within one year	$ 4,505,677	$ 3,470,138

Note 4 - Contract Assets and Liabilities

Grants receivable and promises to give represent the Organization's contract assets with an unconditional right to receive consideration from customers. Grants receivable are recorded at invoiced amounts or amounts expected to be receivable based on contractual terms without conditions. Promises to give are recorded at net realizable value or present value of future cash flows. The following table provides information about contract assets:

At June 30	2021	2020	2019
Grants Receivable	$ 1,096,825	$ 875,626	$ 431,070
Promises to give:			
Due in less than one year	215,676	67,523	151,102
One to five years	10,100	59,300	179,750
Total unconditional promises to give	225,776	126,823	330,852
Less, allowance for uncollectible promises to give	(7,159)	(25,365)	(31,890)
Less, discount to net present value at 4.25%	(412)	(2,615)	(9,985)
Promises to give, net	218,205	98,843	288,977
Total contract assets	$ 1,315,030	$ 974,469	$ 720,047

Contract liabilities are recorded when a customer pays consideration, or the Organization has a right to an amount of consideration that is unconditional, before the transfer of a good or performance of a service to the customer. Thus, the Organization has an obligation to transfer the good or service to the customer at a future date.

Contract liabilities are reported as deferred revenue in the accompanying consolidated statements of financial position and are comprised of conditional grants and tenant security deposits. Conditional grants represent advance payments received from grantors prior to incurring expenditures in compliance with specific contract or grant provisions. Tenant security deposits represent deposits received from tenants that are held in trust by the Organization to secure the terms and conditions of lease agreements. Significant changes in contract liabilities from contracts with customers are as follows:

At June 30	2021	2020
Deferred revenue, beginning of year	$	$
Increase in deferred revenue due to cash received	2,000,000	
Deferred revenue, end of year	2,000,000	
Tenant security deposits, beginning of year	9,588	
Refunds to tenants or reimbursements recognized for damages	(2,098)	
Increase in tenant security deposits due to cash received	7,490	9,588
Tenant security deposits, end of year	14,980	9,588
Total contract liabilities	$ 2,014,980	$ 9,588

Note 5 - Fair Value Measurements

Investments are reported in the accompanying consolidated financial statements at estimated fair value in accordance with the fair value hierarchy. Equity investments consist of common stock. These investments are valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1, with no valuation adjustments applied.

The following table sets forth the estimated fair values for financial instruments:

At June 30, 2021	Level 1	Level 2	Level 3	Total
Investments:				
Equity investments	$ 15,224	$	$	$ 15,224
Total fair value measurements	$ 15,224	$	$	$ 15,224

Note 6 - Property and Equipment

Property and equipment consists of the following:

At June 30	2021	2020
Land	$ 130,000	$ 130,000
Buildings and improvements	1,462,495	1,128,113
Vehicles	52,522	34,771
Equipment and furniture	112,541	54,019
Multimedia	45,625	45,625
Construction in progress	1,092,985	287,777
	2,896,168	1,680,305
Less, accumulated depreciation	(478,864)	(415,916)
Property and equipment	$ 2,417,304	$ 1,264,389

Depreciation expense for the years ended June 30, 2021 and 2020, was $62,948 and $39,737, respectively.

Note 7 - Accrued Expenses

Accrued expenses are described as follows:

At June 30	2021	2020
Accrued payroll	$ 91,274	$ 74,514
Accrued compensated absences	57,452	72,418
Accrued expenses	$ 148,726	$ 146,932

Note 8 - Obligation Under Capital Lease

The Organization leases equipment under a capital lease. The economic substance of the lease is that the Organization is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the Organization's assets and liabilities.

Capital lease liability is described as follows:

At June 30	2021	2020
Capital lease obligation on leased equipment in 48 monthly payments of $541 at 4.25% interest with a cost of $23,839, less accumulated depreciation of $14,403.	$ 9,922	$ 15,855
Less, current portion of capital lease obligation	(6,189)	(5,932)
Obligation under capital lease , net of current portion	$ 3,733	$ 9,923

Amortization of the asset held under the capital lease was $5,960 for each of the years ended June 30, 2021 and 2020, and is included in depreciation and amortization expense.

Future minimum payments for the Organization under the capital lease are as follows:

Years Ending June 30	
2022	$ 6,491
2023	3,786
2024	
2025	
2026	
Total minimum lease payments	10,277
Less, amounts representing interest	(355)
Present value of minimum lease payments	$ 9,922

Note 9 - Line of Credit

In May 2020, the Organization opened an unsecured line of credit with a local bank with maximum borrowings of up to $250,000. Interest is payable monthly on any outstanding principal balances at the prime rate as published in The Wall Street Journal plus 1%, with a minimum rate of 4.25%. The interest rate as of June 30, 2021, was 4.25%. At June 30, 2021 and 2020, there was no outstanding balance on the line of credit. The line of credit agreement matures in July 2022.

Note 10 - Long-term Debt

Long-term debt consists of the following:

At June 30	2021	2020
Noninterest bearing note payable due in monthly installments of $500 from September 2018 to August 2021, increasing to $1,000 from September 2021 to August 2025, and a balloon payment of remaining balance due September 2025, implied interest rate of 4.25%, secured by property with a carrying value of $359,078 at June 30, 2021	$ 223,700	$ 229,700
Noninterest bearing note payable due in 120 monthly installments of $1,690 and balloon payment of remaining balance due October 2029, implied interest rate of 4.25%, secured by property with a carrying value of $856,956 at June 30, 2021	251,270	269,860
Noninterest bearing note payable due with a balloon payment in September 2049, implied interest rate of 4.25%, secured by property with a carrying value of $856,956 at June 30, 2021	530,000	530,000
Noninterest bearing note payable due with a balloon payment in December 2023, implied interest rate of 4.25%, secured by property with a carrying value of $856,956 at June 30, 2021	297,000	118,303
Paycheck Protection Program (PPP) note payable due April 2022, see below for forgiveness		487,500
	1,301,970	1,635,363
Less, unearned discount on notes payable	(484,674)	(493,679)
Total long-term debt	817,296	1,141,684
Less, current maturities	(15,061)	(230,990)
Long-term debt, net of current maturities	$ 802,235	$ 910,694

If PPP funds are used for certain expenses, predominantly salaries and related costs, all or a portion of the balance could be forgiven. Management has filed for loan forgiveness for the PPP loan. Management believes that the Organization has substantially met the conditional requirements for loan forgiveness and has accordingly recorded the anticipated forgiven amount of principal and interest of $493,485 as grant revenue during the year ended June 30, 2021.

Note 10 - Long-term Debt (continued)

Amortization of the discount on notes payable is reported in the consolidated statements of functional expenses as interest expense. Scheduled principal payments on long-term debt for the next five years are as follows:

Years Ending June 30	Principal Payments
2022	$ 31,280
2023	329,280
2024	32,280
2025	32,280
2026	196,980
Thereafter	679,870
Less, unearned discount on notes payable	(484,674)
Principal payments on long-term debt	$ 817,296

Note 11 - In-kind Contributions

In-kind contributions are summarized as follows:

Years Ended June 30	2021	2020
Furniture and household goods	$ 187,861	$ 253,492
Advertising	2,762	2,000
Free use of facilities		3,563
Food		3,502
Other		690
In-kind contributions	$ 190,623	$ 263,247

Note 12 - Rental Income

Short Michigan leases building units under noncancelable lease agreements expiring through May 2022. Rental income under these lease agreements was $15,547 and $11,717 for the years ended June 30, 2021 and 2020, respectively. The future minimum rental income under all operating leases are $24,157 for the year ended June 30, 2022. The following is an analysis of the carrying amount of the leased building, improvements, and land:

At June 30	2021	2020
Cost	$ 882,689	$ 548,307
Less, accumulated depreciation	(25,733)	(6,908)
Leased property, net	$ 856,956	$ 541,399

Note 13 - Concentration of Credit Risk

The Organization maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation up to $250,000. The uninsured cash balance at June 30, 2021 and 2020, was $3,256,650 and $1,934,888, respectively.

Note 14 - Retirement Plan

The Organization participates in a defined contribution 401(k) Profit Sharing Plan (the Plan). Employees are eligible for participation in the Plan after attaining age twenty-one and completing six months of service. The Organization will make matching contributions equal to 100% of the employees' elective deferral after one year of continuous service with no maximum limit. Annual employer discretionary contributions are also permitted. Employer contributions become vested after two years of continuous service using a graded scale. The Organization contributed $18,317 and $19,083 to the Plan during the years ended June 30, 2021 and 2020, respectively.

Note 15 - Commitments and Contingencies

Operating Lease Commitments

The Organization leases office space, equipment, and apartments under non-cancelable operating leases. The leases require various monthly payments and expire through February 2022. Rent expense for the years ended June 30, 2021 and 2020, was $265,068 and $234,542, respectively. The future minimum lease payments under all operating leases are $80,958 for the year ending June 30, 2022.

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and volunteers; and natural disasters. The Organization carries commercial insurance coverage for risks of loss. Claims have not exceeded coverage in any period since inception.

Federal and State Assisted Programs

The Organization has received proceeds from several federal and state grants. Periodic audits of these grants and third-party reimbursements are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in a refund or reimbursement to the grantor or third-party agencies. Management believes that refunds or reimbursements, should any be determined, would be immaterial. No provisions have been made in the accompanying consolidated financial statements for the repayment of any grant monies or third-party reimbursements.

Note 16 - Related Party Transactions

Contributions from board members totaled $17,628 and $38,719, during the years ended June 30, 2021 and 2020, respectively. Promises to give and grants receivable outstanding from board members totaled $12,500 and $10,000 at June 30, 2021 and 2020, respectively.

Note 17 - Income Taxes

Uncertain Tax Positions

Homeward Bound is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. Management believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions material to the consolidated financial statements.

Open Tax Years

Homeward Bound's Return of Organization Exempt From Income Tax (Form 990) for the years ended June 30, 2020, 2019, and 2018, are subject to examination by the IRS, generally for three years after they were filed.

Note 18 - Coronavirus Pandemic Impact

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused unprecedented business and economic disruption through mandated closings of certain businesses and industries.

The Organization was deemed an essential business and COVID-19 did not have a significant impact on the Organization's ability to operate. The Organization received increased community support and governmental revenues to respond to and adapt the operations of the Organization to meet various regulations. Government grants received as a result of COVID-19 consist of $190,460 in federal funding to respond to increased demands, $261,199 in federal hotel based non-congregate shelter assistance, $112,468 in Coronavirus Relief Fund grants, and $493,485 in U.S. Small Business Administrative Paycheck Protection Program loan forgiveness during the year ended June 30, 2021.

Government grants received as a result of COVID-19 consist of $47,382 in federal hotel based non-congregate shelter assistance during the year ended June 30, 2020.

The extent of the impact of COVID-19 will depend on certain developments, including the duration and spread of the outbreak. At this point, it is unclear the extent COVID-19 will have on the Organization's financial condition or results of operations.

Note 19 - Prior Period Adjustment

During the year ended June 30, 2021, it was discovered that certain amounts were not properly recognized in the consolidated financial statements during the year ended June 30, 2020. As a result, adjustments were made to increase long-term debt by $101,978 and decrease net assets without donor restrictions and grants revenue by $101,978 from the amounts previously reported.

Note 20 - Subsequent Events

Management has evaluated subsequent events through June 7, 2022, which is the date the consolidated financial statements were available to be issued.

In July 2021, the Organization received formal forgiveness of the PPP loan for $493,485 principal and interest.

In July 2021, the Organization renewed their existing line of credit agreement as described in Note 9 under the same terms and maturing in July 2022.

In July 2021, the Organization received a $500,000 unrestricted contribution from a private foundation.

During August 2021, the Organization became the sole member and manager of 201 Tunnel Road, LLC (Tunnel Road) which was formed to own and operate property to be used to provide affordable housing.

In August 2021, Tunnel Road purchased property for $6,400,000. $2,000,000 of the purchase price was paid for using grant funding from a local non-profit organization that was included in deferred revenue as of June 30, 2021. $4,000,000 of the purchase price was paid for through two grant awards that contain certain time and purpose restrictions on the use of the property. If those time and purpose restrictions are not met, the grantors can demand the refund of all or a portion of the $4,000,000 in grant funding. For this reason, the $4,000,000 in funding has been classified as long-term liabilities.

In September 2021, the Organization received a contribution for approximately $1,200,000 from a donor restricted for Tunnel Road capital project.

In September 2021, Short Michigan incurred approximately $55,000 in construction related expenditures for property renovations.

In December 2021, the Organization received a contribution for approximately $250,000 from a donor restricted for Tunnel Road capital project.

From July 2021 through the audit report date, the Organization incurred approximately $427,000 in construction related expenditures for Tunnel Road.

In March 2022, the Organization entered into a construction contract to have renovations performed on property owned by Tunnel Road for $5,674,559. To fund the renovations, the Organization was awarded an additional $1,000,000 reimbursement based grant from a local government agency. The grant also restricts how the property can be used for a certain period of time. For this reason, as grant funds are drawn, they will be classified as long-term liabilities.

In May 2022, a local government agency notified the Organization that they were awarded a reimbursement-based grant through the American Rescue Plan Act of approximately $1,000,000. The funding is contingent upon allowable expenditures being incurred and finalization of the grant agreement.

SUPPLEMENTARY INFORMATION

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC., AND SUBSIDIARY

Consolidating Statement of Financial Position
June 30, 2021

	Homeward Bound	Short Michigan	Eliminations	Total
Assets				
Current assets:				
Cash and equivalents	$ 3,707,987	$ 75,054	$	$ 3,783,041
Grants receivable	978,798	121,811	(3,784)	1,096,825
Other receivables	7,784			7,784
Promises to give, current portion	215,676			215,676
Deposit	75,000			75,000
Total current assets	4,985,245	196,865	(3,784)	5,178,326
Investments	15,224			15,224
Promises to give, net of current portion	2,529			2,529
Property and equipment, net	1,378,089	1,039,215		2,417,304
Investment in Short Michigan	546,447		(546,447)	
Total assets	$ 6,927,534	$ 1,236,080	$ (550,231)	$ 7,613,383
Liabilities, net assets, and member's interest				
Current liabilities:				
Current portion of obligation under capital lease	$ 6,189	$	$	$ 6,189
Current maturities of long-term debt	3,038	12,023		15,061
Accounts payable	141,511	48,487	(3,784)	186,214
Accrued expenses	148,726			148,726
Deferred revenue	2,000,000	14,980		2,014,980
Total current liabilities	2,299,464	75,490	(3,784)	2,371,170
Obligation under capital lease, net of current portion	3,733			3,733
Long-term debt, net of current maturities	188,092	614,143		802,235
Total liabilities	2,491,289	689,633	(3,784)	3,177,138
Net assets and member's interest:				
Without donor restrictions	3,544,497			3,544,497
With donor restrictions	891,748			891,748
Member's interest		546,447	(546,447)	
Total net assets and member's interest	4,436,245	546,447	(546,447)	4,436,245
Total liabilities, net assets, and member's interest	$ 6,927,534	$ 1,236,080	$ (550,231)	$ 7,613,383

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC., AND SUBSIDIARY

Consolidating Statement of Activities
Year Ended June 30, 2021

	Homeward Bound	Short Michigan	Eliminations	Total
Public support and other revenues				
Grants	$ 5,513,579	$ 17,983	$	$ 5,531,562
Contributions	2,182,430			2,182,430
In-kind contributions	190,623			190,623
Rental income		77,785	(62,238)	15,547
Interest	3,760	28		3,788
Other	7,999			7,999
Total public support and other revenues	7,898,391	95,796	(62,238)	7,931,949
Expenses				
Program services	5,971,201	86,484	(62,238)	5,995,447
Supporting services	950,712			950,712
Total expenses	6,921,913	86,484	(62,238)	6,946,159
Increase in net assets and member's interest before other gain	976,478	9,312		985,790
Other gain				
Gain on investment, subsidiary	9,312		(9,312)	
Increase (decrease) in net assets and member's interest	985,790	9,312	(9,312)	985,790
Net assets and member's interest at beginning of year	3,450,455	537,135	(537,135)	3,450,455
Net assets and member's interest at end of year	$ 4,436,245	$ 546,447	$ (546,447)	$ 4,436,245

COMPLIANCE SECTION

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INDEPENDENT AUDITORS' 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
Homeward Bound of Western North Carolina, Inc. and Subsidiary

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 consolidated financial statements of Homeward Bound of Western North Carolina, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated June 7, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Homeward Bound of Western North Carolina, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Homeward Bound of Western North Carolina, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Homeward Bound of Western North Carolina, Inc. and Subsidiary's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2021-001 and 2021-005 to be material weaknesses.

To the Board of Directors
Homeward Bound of Western North Carolina, Inc. and Subsidiary

Internal Control over Financial Reporting (continued)

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2021-002, 2021-003, and 2021-004 to be significant deficiencies. In addition, we noted other matters involving internal control and its operation that we have reported to management of Homeward Bound of Western North Carolina, Inc. and Subsidiary's in a separate letter dated June 7, 2022.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Homeward Bound of Western North Carolina, Inc. and Subsidiary's consolidated 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 consolidated financial statements. 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2021-005.

Homeward Bound of Western North Carolina, Inc. and Subsidiary's Response to Findings

Homeward Bound of Western North Carolina, Inc. and Subsidiary's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Homeward Bound of Western North Carolina, Inc. and Subsidiary's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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.

Carter, P.C.

Asheville, North Carolina
June 7, 2022

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Homeward Bound of Western North Carolina, Inc. and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited Homeward Bound of Western North Carolina, Inc. and Subsidiary's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Homeward Bound of Western North Carolina, Inc. and Subsidiary's major federal programs for the year ended June 30, 2021. Homeward Bound of Western North Carolina, Inc. and Subsidiary's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Homeward Bound of Western North Carolina, Inc. and Subsidiary'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 G*overnment 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 Homeward Bound of Western North Carolina, Inc. and Subsidiary'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 Homeward Bound of Western North Carolina, Inc. and Subsidiary's compliance.

To the Board of Directors
Homeward Bound of Western North Carolina, Inc. and Subsidiary

Opinion on Each Major Federal Program

In our opinion, Homeward Bound of Western North Carolina, Inc. and Subsidiary 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, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2021-005. Our opinion on each major federal program is not modified with respect to this matter.

Homeward Bound of Western North Carolina, Inc. and Subsidiary's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Homeward Bound of Western North Carolina, Inc. and Subsidiary's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Homeward Bound of Western North Carolina, Inc. and Subsidiary 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 Homeward Bound of Western North Carolina, Inc. and Subsidiary'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 with 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 Homeward Bound of Western North Carolina, Inc. and Subsidiary's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

To the Board of Directors
Homeward Bound of Western North Carolina, Inc. and Subsidiary

Report on Internal Control over Compliance (continued)

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2021-001 and 2021-005, to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2021-002 to be a significant deficiency.

Homeward Bound of Western North Carolina, Inc. and Subsidiary's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Homeward Bound of Western North Carolina, Inc. and Subsidiary's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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.

Carter, P.C.

Asheville, North Carolina
June 7, 2022

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2021

Grantor/Pass-Through Grantor/Program Title	Federal AL Number	State/Pass-through Grantor Number	Expenditures
Federal Awards			
U.S. Department of Housing and Urban Development			
Office of Community Planning and Development:			
Passed through NC Department of Health and Human Services - Division of Aging and Adult Services:			
Emergency Solutions Grants Program	14.231	00041775	$ 20,901
Emergency Solutions Grants Program - COVID-19	14.231	00041412	115,256
Passed through City of Asheville, North Carolina:			
Emergency Solutions Grants Program	14.231	92000364	25,228
Total Emergency Solutions Grants Program			161,385
Passed through City of Asheville, North Carolina:			
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants:			
Housing Services	14.218	92100364	81,000
AHOPE: Coordinated Entry	14.218	92100359	47,000
CDBG - Coronavirus	14.218	92100183	75,204
Total CDBG - Entitlement Grants Cluster			203,204
Passed through City of Asheville, North Carolina:			
HOME Investment Partnerships Program:			
296 Short Michigan Avenue	14.239	92000312	297,000
Tenant Based Rental Assistance, City of Asheville	14.239	91800223 & 92000109	25,459
Tenant Based Rental Assistance, Buncombe County	14.239	91800222	13,769
Tenant Based Rental Assistance, HOME Diversion	14.239	92000285	1,806
Total HOME Investment Partnerships Program			338,034
Continuum of Care Program	14.267		1,190,118
Total U.S. Department of Housing and Urban Development			1,892,741

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Schedule of Expenditures of Federal and State Awards (continued)
Year Ended June 30, 2021

Grantor/Pass-Through Grantor/Program Title	Federal AL Number	State/Pass-through Grantor Number	Expenditures
Federal Awards (continued)			
U.S. Department of Veterans Affairs			
VA Health Administration Center:			
VA Supportive Services for Veteran Families Program	64.033		$ 1,865,857
U.S. Department of Homeland Security			
Federal Emergency Management Agency:			
Emergency Food and Shelter National Board Program	97.024		2,250
Passed through City of Asheville, North Carolina:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	92000455	261,199
Total U.S. Department of Homeland Security			263,449
U.S. Department of the Treasury			
Passed through NC Department of Health and Human Services - Division of Aging and Adult Services:			
Coronavirus Relief Fund	21.019	00041655 & 00042665	112,468
Total expenditures of federal awards			$ 4,134,515
State Awards			
North Carolina Department of Health and Human Services			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Passed through VAYA Health:			
Single Stream Funding		536998	$ 190,969

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Schedule of Expenditures of Federal and State Awards (continued)
Year Ended June 30, 2021

Notes to the Schedule of Expenditures of Federal and State Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (SEFSA) includes the federal and state award activity of Homeward Bound of Western North Carolina, Inc. and Subsidiary under programs of the federal government and the State of North Carolina for the year ended June 30, 2021. The information in this SEFSA is presented in accordance with the 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). Because the SEFSA presents only a selected portion of the operations of Homeward Bound of Western North Carolina, Inc. and Subsidiary, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of Homeward Bound of Western North Carolina, Inc. and Subsidiary.

Note B - Summary of Significant Accounting Policies

Expenditures reported on the SEFSA are presented 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.

Note C - Indirect Cost Rate

Homeward Bound of Western North Carolina, Inc. and Subsidiary has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note D - Loans Outstanding

Homeward Bound of Western North Carolina, Inc. and Subsidiary had the following loan balance outstanding at June 30, 2021, for a loan that the grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of the loan outstanding at June 30, 2021, consists of:

Program Title	Federal AL Number	Amount Outstanding
HOME Investment Partnerships Program	14.239	$ 297,000

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I - Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting				
Material weakness(es) identified?	X	yes		no
Significant deficiency(ies) identified?	X	yes		none reported
Noncompliance material to consolidated financial statements noted?		yes	X	no

Federal Awards

Internal control over compliance				
Material weakness(es) identified?	X	yes		no
Significant deficiency(ies) identified?	X	yes		none reported
Type of auditors' report issued on compliance for major federal program	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	X	yes		no

Identification of major federal program:
AL# 64.033 - VA Supportive Services for Veteran Families Program

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

Homeward Bound of Western North Carolina, Inc. and Subsidiary was determined to be a low-risk auditee.

Section II - Financial Statement Findings

Finding 2021-001 - Account Reconciliations

MATERIAL WEAKNESS

Criteria: Account balances should be reconciled on a regular basis to verify the recording of transactions are accurate, proper, and complete.

Condition: Grants receivable, pledges receivable, and various other accounts required material adjustments. Additionally, the Organization uses the accounting software to track grant revenues and expenditures. A large number of errors and misstatements were noted during audit procedures related to the proper tracking of these revenues and expenditures.

Effect: The accounting records required material adjustments to be in conformity with U.S. GAAP and Uniform Guidance requirements.

Cause: Internal control procedures related to performing account reconciliations did not occur as intended due to strains caused by the COVID-19 Pandemic and personnel transitions.

Recommendation: Internal controls related to separation of duties over recording disbursements, reconciling bank accounts, preparing disbursements, and signing disbursements should be updated to separate these duties as much as possible or alternate controls used to compensate for lack of separation.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the Corrective Action Plan.

Finding 2021-002 - Policies and Procedures

SIGNIFICANT DEFICIENCY

Criteria: Policies and procedures should be written in a way to reflect current accounting procedures and internal controls to be documented and communicated to all employees. Updates should be adopted when necessary.

Condition: The current accounting policies and procedures manual has not been updated in several years and no longer accurately reflects internal control processes being followed.

Effect: Current internal control procedures are not formally documented and communicated to employees.

Cause: Strains on the Organization caused by the COVID-19 Pandemic, personnel transitions, and significant growth in operations.

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2021

Section II - Financial Statement Findings (continued)

Finding 2021-002 - Policies and Procedures (continued)

Recommendation: As a result of the COVID-19 Pandemic, personnel transitions, and rapid growth in operations, policies and procedures should be reviewed to determine that internal control procedures are appropriately designed and operating as intended. Written policies and procedures should be reviewed and updated to reflect current policies and procedures in place.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the Corrective Action Plan.

Finding 2021-003 - General Journal Entries

SIGNIFICANT DEFICIENCY

Criteria: Procedures should be in place to have all general journal entries reviewed and approved by an appropriate member of management on a regular basis to prevent errors and unauthorized transactions from occurring within the accounting software. The supporting documentation and approvals for all general journal entries should be retained within the accounting records in accordance with the Organization's document retention policy.

Condition: Procedures for the review, approval, and retention of supporting documentation related to general journal entries are not being followed.

Effect: Transactions could be mishandled due to errors or fraud that could result in loss of assets or the reporting of misleading financial information.

Cause: Internal control procedures related to preparing, reviewing, approving, and retaining support related to general journal entries did not occur as intended due to strains caused by the COVID-19 Pandemic and personnel transitions.

Recommendation: Internal control procedures should be put in place to have all general journal entries reviewed and approved by someone of equal or higher rank within the Organization. The individual assigned with approval responsibility should possess appropriate accounting knowledge to properly determine the accuracy and necessity of the adjustment. Supporting documentation related to the preparation, recording, and approval of general journal entries should be prepared and retained for all general journal entries in accordance with the Organization's document retention policy.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the Corrective Action Plan.

Section II - Financial Statement Findings (continued)

Finding 2021-004 - Backdating Checks

SIGNIFICANT DEFICIENCY

Criteria: Checks should be dated the same date that the checks are processed and signed.

Condition: We noted five checks totaling $16,878 that were written after the bank reconciliation had been prepared and backdated to a date to be included in the current fiscal year.

Effect: Transactions could be mishandled due to errors or fraud that could lead to loss of assets or the reporting of misleading financial information.

Cause: Internal control procedures related to preparing, reviewing, and signing checks did not operate as intended due to management override of controls.

Recommendation: Internal controls related to the preparation, review, and signing checks should be followed.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the Corrective Action Plan.

Section III - Federal Award Findings and Questioned Costs

Finding 2021-005 - Record Retention

Federal Program:
VA Supportive Services for Veteran Families Program (AL# 64.033)
U.S. Department of Veteran Affairs

MATERIAL WEAKNESS
MATERIAL NONCOMPLIANCE
Allowable Costs/Cost Principles

Criteria: The Organization should maintain complete records to support all expenditures.

Condition: Supporting documentation related to grant reimbursement requests was not assembled and retained within the accounting records in a timely manner. Case files for eligible grant recipients were not compiled to include sufficient appropriate supporting documentation in accordance with grant requirements. Supporting documentation was not obtained and retained to support all credit card expenditures.

Context: Two out of a total of twelve monthly grant draws were examined.

Questioned Costs: None noted.

Effect: The Organization is in violation of grant provisions and Uniform Guidance requirements. Improper record retention could result in costs being questioned as inappropriate under the grant agreements and disallowed. Such questioned costs could result in the refund of grant funding.

Cause: The Organization's internal control procedures are not operating as intended to assemble and maintain complete accounting records including for grant reimbursement requests, case files for eligible grant recipients, and credit card expenditures due to strains caused by the COVID-19 Pandemic, personnel transitions, and rapid growth in operations.

Recommendation: Management should review policies and procedures related to obtaining, reviewing, approving, and retaining supporting documentation for all expenditures. A review process should be implemented to ensure that case files are accurate and complete. Additionally, supporting documentation for all credit card transactions should be obtained and retained within the accounting records.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding and will adhere to the Corrective Action Plan.

Corrective Action Plan
For the Year Ended June 30, 2021

Section II - Financial Statement Findings

Finding 2021-001 - Account Reconciliations

MATERIAL WEAKNESS

Name of Contact Person: Heather Nelson - Finance & Operations Director

Corrective Action: Homeward Bound hired two new finance staff members in June 2021 and a new Finance & Operations Director in October 2021 to better maintain the volume of transactions processed and improve separation of duties during a time of high turnover of staff, including key financial personnel. The Finance & Operations Director was also hired in October 2021 and is actively working in conjunction with the Finance Committee to update all company policies and procedures surrounding financial management and internal controls and to better ensure compliance with features of those controls, including separation of duties and periodic reconciliation duties. An internal control letter will be formalized as part of the audit work for the year ended June 30, 2022, that will address this material weakness.

Completion Date: Some policy development and improved practices have been approved and implemented during the year ended June 30, 2022, with work to continue through the first quarter of fiscal year ended June 30, 2023, in advance of the financial audit of that period.

Finding 2021-002 - Policies and Procedures

SIGNIFICANT DEFICIENCY

Name of Contact Person: Heather Nelson - Finance & Operations Director

Corrective Action: The Finance & Operations Director, hired in October 2021, is working in conjunction with the Finance Committee to update relevant documentation regarding financial management policies and procedures.

Completion Date: Some policy development and improved practices have been approved and implemented during the year ended June 30, 2022, with work to continue through the first quarter of fiscal year ended June 30, 2023, in advance of the financial audit of that period.

Corrective Action Plan (continued)
For the Year Ended June 30, 2021

Section II - Financial Statement Findings (continued)

Finding 2021-003 - General Journal Entries

SIGNIFICANT DEFICIENCY

Name of Contact Person: Heather Nelson - Finance & Operations Director

Corrective Action: The Finance & Operations Director, hired in October 2021, is working to minimize the number of journal entries generated and will rely on transactional entry by default. Any journal entries produced will be properly documented as governed by developing policies and procedures surrounding financial management to ensure proper review, approval, and retention.

Completion Date: Practices are corrected, and the Finance team does not anticipate any undocumented journal entries for the fiscal year ended June 30, 2022.

Finding 2021-004 - Backdating Checks

SIGNIFICANT DEFICIENCY

Name of Contact Person: Heather Nelson - Finance & Operations Director

Corrective Action: Default date settings in the accounting software were updated and Finance staff have been trained on processes and procedures for processing disbursements in alignment with processes and procedures updates under development as outlined above. Authorized signatories will also follow these internal control procedures.

Completion Date: Completed as of the fiscal year ended June 30, 2022.

Corrective Action Plan (continued)
For the Year Ended June 30, 2021

Section III - Federal Award Findings and Questioned Costs

Finding 2021-005 - Record Retention

Federal Program:
VA Supportive Services for Veteran Families Program (AL# 64.033)
U.S. Department of Veteran Affairs

MATERIAL WEAKNESS
MATERIAL NONCOMPLIANCE
Allowable Costs/Cost Principles

Name of Contact Person: Heather Nelson - Finance & Operations Director

Corrective Action: In November 2021, the Supportive Services for Veteran Families program hired an administrative assistant to ensure program documentation compliance in client files - both in retrospect and moving forward. During the course of the fiscal year and as the effects of the pandemic response shrink, the occurrence of pre-paying for emergency shelter for veterans in hotels has ended, eliminating the occurrence of lack of supporting documentation related to prepayments.

Completion Date: No lack of program compliance anticipated for the fiscal year ended June 30, 2022.

HOMEWARD BOUND OF WESTERN NORTH CAROLINA, INC. AND SUBSIDIARY

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

No findings were reported for the year ended June 30, 2020.

No findings were reported for the year ended June 30, 2019.