

**UPWARD BOUND HOUSE**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

UPWARD BOUND HOUSE  
TABLE OF CONTENTS  
DECEMBER 31, 2016

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14
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 <i>Government Auditing Standards</i>	15-16



August 29, 2017

## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Upward Bound House  
Santa Monica, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Upward Bound House (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Upward Bound House'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 Upward Bound House'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.

## INDEPENDENT AUDITORS' REPORT (CONT.)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Upward Bound House as of December 31, 2016, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited Upward Bound House's 2015 financial statements, and our report dated May 24, 2016, 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 December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2017, on our consideration of Upward Bound House's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Upward Bound House's internal control over financial reporting and compliance.

*NSBN LLP*

NSBN LLP  
Los Angeles, California

UPWARD BOUND HOUSE  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2016  
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,655,917	\$ 1,550,989
Certificates of deposit	151,646	151,190
Grants receivable	408,635	388,139
Due from affiliate	151,105	18,756
Investments	54,081	45,151
Prepaid expenses	<u>30,847</u>	<u>7,052</u>
<b>TOTAL CURRENT ASSETS</b>	<b>2,452,231</b>	<b>2,161,277</b>
Other Assets		
Lease acquisition costs, net	152,718	154,582
Operating and replacement reserves	278,684	258,207
Client savings accounts	6,188	835
Deposits and other assets	<u>6,532</u>	<u>12,075</u>
<b>TOTAL OTHER ASSETS</b>	<b>444,122</b>	<b>425,699</b>
Property and equipment, net	<u>5,456,212</u>	<u>5,473,857</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>8,352,565</u></b>	<b>\$ <u>8,060,833</u></b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 30,275	\$ 97,380
Accrued salaries	25,978	21,822
Accrued vacation	30,386	32,021
Accrued liabilities	2,388	1,039
Client savings accounts	5,649	836
Tenant security deposits	6,132	5,420
Deferred revenues	<u>47,465</u>	<u>47,084</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>148,273</b>	<b>205,602</b>
Long-term Liabilities		
Notes payable	2,990,000	2,990,000
Accrued interest payable	<u>394,638</u>	<u>394,638</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>3,384,638</b>	<b>3,384,638</b>
<b>TOTAL LIABILITIES</b>	<b><u>3,532,911</u></b>	<b><u>3,590,240</u></b>
<b>NET ASSETS</b>		
Unrestricted - undesignated	2,064,713	1,771,582
Unrestricted - used by property and equipment	2,466,212	2,483,857
Temporarily restricted	212,403	138,828
Permanently restricted	<u>76,326</u>	<u>76,326</u>
<b>TOTAL NET ASSETS</b>	<b><u>4,819,654</u></b>	<b><u>4,470,593</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>8,352,565</u></b>	<b>\$ <u>8,060,833</u></b>

See accompanying auditors' report.  
The notes are an integral part of these financial statements.

UPWARD BOUND HOUSE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016</u>	<u>2015</u>
REVENUE AND PUBLIC SUPPORT					
Government contracts and grants	\$ 1,600,197	\$ -	\$ -	\$ 1,600,197	\$ 1,522,109
Contributions	796,999	226,010	-	1,023,009	913,036
Special events	90,753	-	-	90,753	180,528
Management fee revenue	57,909	-	-	57,909	57,235
Interest and other income	21,460	1,286	-	22,746	7,016
Unrealized gain on investments	4,731	-	-	4,731	2,135
In-kind revenue	-	-	-	-	28,296
Net assets released from restrictions:					
Capital expenditures	770	(770)	-	-	-
Satisfaction of program restrictions	152,951	(152,951)	-	-	-
<b>TOTAL REVENUE AND PUBLIC SUPPORT</b>	<u>2,725,770</u>	<u>73,575</u>	<u>-</u>	<u>2,799,345</u>	<u>2,710,355</u>
EXPENSES					
Program services	1,872,590	-	-	1,872,590	2,131,063
General and administrative	247,842	-	-	247,842	255,347
Fundraising	329,852	-	-	329,852	440,863
<b>TOTAL EXPENSES</b>	<u>2,450,284</u>	<u>-</u>	<u>-</u>	<u>2,450,284</u>	<u>2,827,273</u>
CHANGE IN NET ASSETS	275,486	73,575	-	349,061	(116,918)
NET ASSETS AT BEGINNING OF YEAR	<u>4,255,439</u>	<u>138,828</u>	<u>76,326</u>	<u>4,470,593</u>	<u>4,587,511</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,530,925</u>	<u>\$ 212,403</u>	<u>\$ 76,326</u>	<u>\$ 4,819,654</u>	<u>\$ 4,470,593</u>

See accompanying auditors' report.  
The notes are an integral part of these financial statements.

UPWARD BOUND HOUSE  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2015

	Program Services						Supporting Services		2016	2015
	Family Place	Family Shelter	Rapid Rehousing	Farm Program	Food Pantry	Total	General and Administrative	Fundraising		
Salaries	\$ 248,677	\$ 209,546	\$ 217,086	\$ -	\$ 36,511	\$ 711,820	\$ 80,314	\$ 178,634	\$ 970,768	\$ 1,145,548
Payroll taxes and benefits	62,038	41,698	50,203	-	12,799	166,738	12,014	33,798	212,550	248,037
Total salary related expense	310,715	251,244	267,289	-	49,310	878,558	92,328	212,432	1,183,318	1,393,585
Client expenses	19,661	22,104	428,124	1,144	3,135	474,168	1,320	1,104	476,592	614,255
Consultants	71,172	16,874	26,446	919	-	115,411	97,289	21,725	234,425	213,827
Occupancy	34,802	36,522	6,996	-	-	78,320	4,683	1,884	84,887	98,817
Repairs and maintenance	21,816	32,980	250	3,350	1,321	59,717	4,013	-	63,730	74,934
Special events expense	-	-	-	206	-	206	-	58,529	58,735	73,864
Information technology	12,957	15,269	7,147	1,266	-	36,639	10,854	7,108	54,601	-
Travel, meals and transportation	7,794	3,260	8,995	512	1,299	21,860	7,182	1,324	30,366	32,359
Insurance	9,153	9,858	4,698	122	-	23,831	2,651	2,716	29,198	16,601
Marketing	-	-	-	-	-	-	644	17,429	18,073	47,211
Training and human resources	450	484	-	-	-	934	15,995	330	17,259	8,194
Taxes and licenses	5,305	2,345	-	-	-	7,650	5,792	-	13,442	7,239
Office expenses and supplies	1,807	2,207	1,252	-	-	5,266	2,599	5,270	13,135	33,555
In-kind expense	-	-	-	-	-	-	-	-	-	28,296
Miscellaneous expense	-	-	-	-	-	-	-	-	-	9,687
Expenses before depreciation and amortization	495,632	393,147	751,197	7,519	55,065	1,702,560	245,349	329,852	2,277,761	2,652,424
Depreciation and amortization	83,206	86,824	-	-	-	170,030	2,493	-	172,523	174,849
Total expenses	\$ 578,838	\$ 479,971	\$ 751,197	\$ 7,519	\$ 55,065	\$ 1,872,590	\$ 247,842	\$ 329,852	\$ 2,450,284	\$ 2,827,273

See accompanying auditors' report.  
The notes are an integral part of these financial statements.

UPWARD BOUND HOUSE  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 349,061	\$ (116,918)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	172,523	174,849
Investment (gain) loss	(4,731)	(2,135)
(Increase) decrease in assets:		
Grants receivable	(20,496)	(120,938)
Due from affiliate	(132,349)	(11,301)
Prepaid expenses	(23,795)	19,470
Client savings accounts	(5,353)	10,080
Deposits and other assets	5,543	(2,663)
Increase (decrease) in liabilities:		
Accounts payable	(67,105)	91,254
Accrued salaries	4,156	(38,441)
Accrued vacation	(1,635)	(292)
Accrued liabilities	1,349	(1,161)
Client savings accounts	4,813	(10,079)
Tenant security deposits	712	(460)
Deferred revenues	381	37,216
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>283,074</u>	<u>28,481</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(153,014)	(26,522)
Deposits to (withdrawals from) reserves, net	(20,477)	(8,341)
Purchases of certificates of deposit	(456)	(673)
Purchases of investments	(4,199)	2,136
NET CASH USED IN INVESTING ACTIVITIES	(178,146)	(33,400)
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	104,928	(4,919)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,550,989</u>	<u>1,555,908</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,655,917</u>	<u>\$ 1,550,989</u>

See accompanying auditors' report.  
The notes are an integral part of these financial statements.



UPWARD BOUND HOUSE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

Note 1 ORGANIZATION

Incorporated in 1990, Upward Bound House's (Organization) mission is to eliminate homelessness among families with children in Los Angeles by providing housing, supportive services, and advocacy. The Organization offers homeless families short-term and medium-term crisis housing as well as rapid re-housing services that help them move into permanent housing as quickly as possible. Short-term crisis housing is provided at Family Shelter, an 18-unit emergency shelter in Culver City; medium-term crisis housing is provided at Family Place, a 21-unit transitional housing facility in Santa Monica. Families receive wraparound services including, case management, housing search and placement, tutoring, individual and family counseling, children's services, and food services. Over 50 volunteers complement 30 full and part-time staff.

Since its inception, the organization has helped more than 900 families – including nearly 1,700 children – transition from homelessness into permanent housing, with over 95% of these families still in their homes more than a year after placement.

In addition, the Organization manages and operates Upward Bound Senior Villa, Inc. (Senior Villa), a 70-unit facility for low-income seniors. Senior Villa is a separate nonprofit California corporation and is not included in the Organization's financial statements.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting-

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation-

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

Unrestricted -

The unrestricted class is the portion of the net assets of the Organization that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Organization and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements.

Temporarily Restricted-

The temporarily restricted class is the portion of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. The majority of contributions with restrictions are stipulated to be used as funding for specific production projects.

UPWARD BOUND HOUSE  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Permanently Restricted-

The permanently restricted class is the portion used to record resources received that are permanently restricted as to use by the donor or grantor.

Cash and Cash Equivalents-

For the purposes of the financial statement, the Organization considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Grants Receivable-

Accounts receivable are expected to be collected in full by the Organization's management. Therefore, no allowance for doubtful accounts have been provided.

Contributions-

As required by accounting principles generally accepted in the United States of America, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services and Materials-

Consistent with accounting principles generally accepted in the United States of America, the Organization recognizes as support only those donated services which create or enhance non-financial assets or which require specialized skills which the Organization would otherwise have paid for. Donated materials are recognized as contributions at their fair values at the date of donation. No amounts have been reflected in the financial statements for donated services or materials as of December 31, 2016.

Property and Equipment-

Property and equipment are recorded at historical cost and are being depreciated using the straight-line method over the estimated useful life of the assets. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. The following lives have been assigned:

Classification	Life
Buildings and improvements	30 Years
Furniture and equipment	3-15 Years
Leasehold interest in land	99 Years

Lease Acquisition Costs-

Lease acquisition costs are being amortized over 99 years at \$1,864 per year.

Advertising-

Advertising costs are charged to operations when incurred and are included in functional expenses.

UPWARD BOUND HOUSE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Tax Status-

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is exempt from California franchise taxes under Section 23701(d) of the State Revenue and Taxation Code.

The Organization files IRS Form 990 and State Forms 199 and RRF-1. Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management of the Organization does not believe the financial statements include any uncertain tax positions. With few exceptions, the Organization is no longer subject to U.S. federal and state examinations by tax authorities for the years before 2013 and 2012, respectively.

Use of 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 the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses-

The costs of providing the program and the supporting services have been summarized on a functional basis in the statement of activities, and in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and the supporting services in reasonable ratios determined by management.

Summarized 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 December 31, 2015, from which the summarized information was derived.

Reclassifications-

Certain 2015 financial information has been reclassified to conform to the 2016 presentation. The reclassifications have no impact on the previously reported changes in net assets.

Occupancy Expense-

Occupancy expense is incurred in programs as rent and utilities are paid. The administrative and development offices are operated in a separate building (Senior Villa) and does not pay rent and other occupancy related costs

UPWARD BOUND HOUSE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Subsequent Events-

Management has evaluated subsequent events through August 29, 2017, the date the financial statements were available to be issued.

Note 3 OPERATING AND REPLACEMENT RESERVES

The Organization has entered into a Regulatory Agreement with the City of Santa Monica (City) that requires the Organization to establish separate operating reserve and replacement reserve accounts related to Family Place. The City requires the Organization to fund the operating reserve to the extent of \$2,700 per year, and the replacement reserve to the extent of \$7,700 per year. Activity in the reserve accounts for the year ended December 31, 2016 is as follows:

	Operating Reserve	Replacement Reserve
Balance - beginning of year	\$ 75,883	\$ 182,334
Additions	5,000	15,000
Interest	126	340
Withdrawals and transfers	-	-
	\$ 81,009	\$ 197,674
Balance - end of year	\$ 81,009	\$ 197,674

Note 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land	\$ 2,504,109
Building and improvements	5,091,651
Furniture and equipment	172,218
	7,767,978
Less: Accumulated depreciation	(2,311,766)
Total property and equipment, net	\$ 5,456,212

Note 5 INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments at December 31, 2016 consist of the following:

Equity mutual funds	\$ 54,081
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UPWARD BOUND HOUSE  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

Note 5 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONT.)

Accounting principles generally accepted in the United States of America defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction, prioritizes the use of market based information over entity specific information and establishes a three level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any market activity for the asset.

The fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Equity mutual funds	\$ <u>54,081</u>	\$ <u>-</u>	\$ <u>-</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Note 6 NOTES PAYABLE

Note payable to State of California Department of Housing and Community Development, secured by land and building, bearing interest at 3% with all principal and interest to be forgiven at maturity on the ten-year anniversary date of commencement of operations, which was April 19, 2010, provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan

\$ 1,000,000

Note payable to City of Santa Monica, secured by building, land leasehold trust deed, and assignment of rents, bearing interest at 8.27% through maturity, with annual principal and interest payments from Residual Receipts, as defined, to begin in August 2026 through maturity; initial maturity occurs in August 2046 with a one-time extension available to the borrower for an additional 25 years or other mutually agreed upon extended maturity date; at the end of the extension period, any remaining principal and interest is to be forgiven provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan

990,000

UPWARD BOUND HOUSE  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

Note 6 NOTES PAYABLE (CONT.)

Note payable to City of Santa Monica, secured by land and building, bearing no interest with principal payments due from Residual Receipts, as defined, through maturity; initial maturity occurs 55 years from commencement of operations which was April 19, 2010, with a one-time extension available to the borrower for an additional 25 years; at the end of the extension period, any remaining principal and interest is to be forgiven provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan	400,000
Note payable to City of Los Angeles Community Development Department, secured by land and building, bearing no interest with principal forgiven on the ten-year anniversary date of commencement of operations, which was April 19, 2010	400,000
Note payable to City of Beverly Hills, secured by land and building, bearing no interest with principal to be forgiven at maturity on the ten-year anniversary date of commencement of operations, which was April 19, 2010, provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan	<u>200,000</u>
	<u>\$ 2,990,000</u>

Total maturities of notes payable due after December 31, 2017 are \$2,990,000.

The Organization has a contingent interest liability of \$2,180,343 relating to its outstanding notes payable, of which \$394,638 has been accrued at December 31, 2016. Management believes that this accrual is sufficient to cover any interest liability. In accordance with the loan agreements, all interest related to this loan will be forgiven provided the Organization remains in compliance with its regulatory agreement. It is the intent of the Organization to fully comply with all agreements and therefore believes it will never be liable for the interest.

Note 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Program administration	\$ 68,654
Family shelter program	60,000
Capital improvements	44,069
Farm project	11,510
Rapid rehousing program	9,123
Senior Villa programs	9,000
Family place program	5,330
Client purchases	<u>4,719</u>
Total	<u>\$ 212,404</u>

UPWARD BOUND HOUSE  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

Note 8 NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors.

Purpose Restrictions Accomplished:

Program administration	\$	68,846
Rapid rehousing program		45,747
Family shelter program		20,000
Family place program		15,071
Senior Villa programs		2,000
Release of endowment income		1,286
Capital improvements		<u>770</u>
Total	\$	<u><u>153,721</u></u>

Note 9 LEASEHOLD INTEREST IN LAND

On July 1, 1996, the Board of Trustees of the Church transferred a 99 year leasehold interest in the land and air rights for property located at 1020 12th Street, Santa Monica, California (known as Family Place) to the Organization. This leasehold interest has been independently valued at \$700,000. The deed restrictions recognize that the property must be used as transitional family housing for not less than 10 years and must remain as affordable housing for up to 55 years.

Note 10 CASH IN BANK - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at financial institutions. The aggregate balances maintained at the financial institutions may, at times, exceed the federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 11 CONTINGENCY

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The potential exists for disallowance of previously funded program costs or approval of income due to funding shifts. Liabilities, if any, which may result from governmental audits cannot be reasonably estimated and, accordingly, the Organization has no provisions for the possible disallowance of program costs on its financial statements.

Note 12 RELATED PARTY TRANSACTIONS

The Organization provides management services for Senior Villa at a rate of 12.2% of rental revenue collected. In connection with this agreement, the Organization earned property management fees of \$57,909 for the year ended December 31, 2016.

UPWARD BOUND HOUSE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

Note 13 ENDOWMENT FUND

The Organization's endowment consists of one donor-restricted endowment gift known as the Davis Garden Endowment Fund (Fund). The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of California as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

The Fund is invested approximately 50% in an equity market index fund and 50% in cash equivalents; earnings from the Fund are restricted to fund projects at Upward Bound House selected by the Davis Endowment Committee. Earnings are defined as dividends and interest earned on the Fund. Activity in the endowment related accounts during the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 76,326
Contributions	-	1,286	-
Investment income	-	-	1,286
Net appreciation	-	-	-
Amounts appropriated for expenditure	<u>-</u>	<u>(1,286)</u>	<u>(1,286)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,326</u>





August 29, 2017

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

The Board of Directors  
Upward Bound House  
Santa Monica, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Upward Bound House (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated August 29, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Upward Bound House's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upward Bound House's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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* (CONT.)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Upward Bound House's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

This 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.

*NSBN LLP*

NSBN LLP  
Los Angeles, California