



Board of Directors

John Brady, Chair
Javier Angulo
Sean Arian
Father Gregory Boyle, S.J.
James A. Burk
Rosa Campos
Alex Chaves, Sr.
Rick Creed
Oscar Gonzales
J. Michael Hennigan
Darrell Huntley
Sandra Islas
Bruce Karatz
Christine Lynch
Mercedes Martinez
J. Mario Molina, M.D.
Perry Parks
Mark Potter
Viktor Rzeteljski
Rob Smith
Alan Smolinisky
Elizabeth Stephenson
Carlos Vasquez
Jeff Weiss
Chris Weitz
Joseph J. Ybarra

Homeboy Industries 2015 Financial Commentary

Homeboy Industries had strong financial results in 2015. We started the year with \$2.9m in cash, which allowed us to purchase the building adjacent to our headquarters for expansion and to reduce overcrowding in our headquarters. We funded this purchase with \$255k of cash, a \$550k grant from the City of Los Angeles, and a \$717k mortgage. This mortgage is our only real debt service obligation (cash payments required) since all our other loans are forgiven each year (Jesuit Note Payable) or are retired by either creating jobs or providing community services, both of which are part of our mission. We ended the year with \$2.3m of cash on hand.

In addition to cash, another important measure of our financial health is our Operating Income (schedule attached) which came in at \$268k. Revenues for the year were up 7% over 2014, largely due to a 24% increase in our business revenue as we were able to significantly increase revenues in our Bakery and Catering businesses, which allows us to utilize more trainees. Operating Expenses though grew 12% as we were able to grant staff pay increases for the first time in several years and were able to add staff in some much needed areas. We also significantly increased our Transition Support spending. These funds are used to pay for Sober Living and Drug Rehab services as well as general support for many in dire financial circumstances.

We also completed our 2015 financial audit with a clean opinion again and we recently renewed our \$1m Line of Credit for another 2.5 years. We utilize our Line of Credit to get through brief periods when our fund raising activities are low and it adds a significant measure of financial security to our operations.

Thank you all for your continuing support to our organization and for supporting our mission to provide hope, training, and support to previously incarcerated and formerly gang involved men and women, allowing them to redirect their lives and become contributing members of our community.

Hope has an address

130 West Bruno Street, Los Angeles, California 90012 • 323.526.1254 • HOMEBOYINDUSTRIES.ORG

Homeboy Industries, Inc.

Operating Income Statement

| | 2015 | | 2014 |
|---------------------------------|--------------|----|------------|
| | Actual | | Actual |
| Ordinary Income/Expense | | | |
| <u>Income</u> | | | |
| Business Revenue | \$ 6,045,935 | \$ | 4,856,671 |
| Contributed Revenue | 9,025,324 | | 9,289,333 |
| Government Revenue | 633,673 | | 574,407 |
| Other revenue | 507,067 | | 434,431 |
| Total Income | 16,211,999 | | 15,154,842 |
| Total COGS | 1,985,541 | | 1,477,997 |
| Gross Profit | 14,226,458 | | 13,676,845 |
| <u>Expense</u> | | | |
| Sr. Staff Payroll Expense | 4,519,936 | | 3,847,079 |
| Training Staff Payroll Expense | 4,573,098 | | 4,320,283 |
| Employee benefits | 748,078 | | 623,357 |
| Wages & Benefits | 9,841,112 | | 8,790,719 |
| Professional fees | 889,132 | | 788,335 |
| Program Activities | 782,767 | | 698,295 |
| Occupancy expenses | 626,325 | | 598,395 |
| Transition Support | 435,784 | | 313,869 |
| Travel | 174,419 | | 147,448 |
| Supplies | 225,335 | | 190,073 |
| Bank charges & fees | 132,917 | | 152,081 |
| Insurance - general | 166,162 | | 143,468 |
| All Others | 684,278 | | 631,578 |
| Total Expense | 13,958,230 | | 12,454,260 |
| Operating Income ⁽¹⁾ | 268,228 | | 1,222,585 |
| Depreciation expense | 517,548 | | 429,917 |
| Interest | 48,899 | | 29,061 |
| Net Income ⁽²⁾ | \$ (298,219) | \$ | 763,608 |

(1) Operating Income is equal to Total Revenue less Total Expenditures, excluding Depreciation and Interest. It represents earnings from the organizations core activities.

(2) Net Income is equal to Operating Income less Depreciation, a non-cash expense, and Interest. Net Income is also equal to Change in Net Assets in our Audited Financial Statements,

HOMEBOY INDUSTRIES

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

HOMEBOY INDUSTRIES

CONTENTS

| | <u>Page No.</u> |
|---|-----------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| FINANCIAL STATEMENTS: | |
| EXHIBIT "A" - Statements of Financial Position as of December 31, 2015 and 2014 | 3 |
| EXHIBIT "B" - Statements of Activities - January 1, 2015 to December 31, 2015 and January 1, 2014 to December 31, 2014 | 4 |
| EXHIBIT "C" - Statement of Functional Expenses - January 1, 2015 to December 31, 2015 with Comparative Totals for 2014 | 5 |
| EXHIBIT "D" - Statements of Cash Flows - January 1, 2015 to December 31, 2015 and January 1, 2014 to December 31, 2014 | 6 |
| NOTES TO FINANCIAL STATEMENTS | 7-14 |

INDEPENDENT AUDITORS' REPORT

Board of Directors
Homeboy Industries
130 Bruno Street
Los Angeles, California 90012

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Homeboy Industries (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Mannon Kaplan, CPA
George Nadel Rivin, CPA
Edwin Kanemaru, CPA
Kenneth R. Holmer, CPA
Douglas S. Waite, CPA
Donald G. Garrett, CPA
Catherine C. Gardner, CPA
Jeffrey L. Goss, CPA
Richard DeFronzo, JD
Joanna Bolsky, CPA
Ronald D. Chandler, CPA
Michael G. Kaplan, CPA
Michael J. Quackenbush, CPA
Edmond Avanness, CPA
Crane Curran, CPA
Gregory E. Klein, CPA
Andrew B. Koski, MBA
Grant K. Miller, CPA
Barbara Kogen, CPA
Kami B. Cohen, CPA
Kelly W. Fox, CPA
Andrew M. Rosen, CPA
Kelly Harper, CPA
Vincent Leoni, CPA
Alexandra Chernyak, CPA
Stephen Ozen, CPA
Justine Grant Ruffalo, CPA

Stanley L. Miller, CPA (1921-1995)
Paul Arase, CPA (1921-2015)

Los Angeles
4123 Lankershim Boulevard
North Hollywood, CA 91602
Tel: 818.769.2010

San Francisco
44 Montgomery Street
Suite 3701
San Francisco, CA 94104
Tel: 415.956.3600

Seattle
600 Stewart Street
Suite 618
Seattle, WA 98101
Tel: 206.596.3930

Las Vegas
330 East Warm Springs Road
Las Vegas, NV 89119
Tel: 702.315.4213

Denver
3801 East Florida Avenue
Suite 400
Denver, CO 80210
Tel: 303.991.4674

Board of Directors
Homeboy Industries

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homeboy Industries as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Homeboy Industries' 2014 financial statements, and our report dated July 8, 2015 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



MILLER KAPLAN ARASE LLP

North Hollywood, California

September 15, 2016

Homeboy Industries
Statements of Financial Position

| <u>ASSETS</u> | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|--|--------------------------|--------------------------|
| <u>CURRENT ASSETS</u> | | |
| Cash and Cash Equivalents | \$ 2,332,266 | \$ 2,947,980 |
| Accounts Receivable, net of allowance of \$75,815 and \$20,701 | 801,504 | 394,623 |
| Contributions Receivable, Current | 300,000 | 496,500 |
| Due from Employees, net of allowance of \$65,384 and \$15,223 | 89,697 | 86,265 |
| Prepaid Expenses and Deposits | 110,448 | 70,617 |
| Inventory | 126,242 | 128,539 |
| | <hr/> | <hr/> |
| <u>TOTAL CURRENT ASSETS</u> | 3,760,157 | 4,124,524 |
| Contributions Receivable, Less Current Portion, Net of Discount of \$9,000 and \$14,000 | 262,500 | 386,000 |
| Land, Buildings and Equipment, Net (Note 3) | 8,646,738 | 7,528,359 |
| | <hr/> | <hr/> |
| <u>TOTAL ASSETS</u> | <u>\$ 12,669,395</u> | <u>\$ 12,038,883</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>LIABILITIES</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts Payable and Accrued Expenses | \$ 625,897 | \$ 984,499 |
| Notes Payable, Current (Note 8) | 18,389 | - |
| Accrued Payroll and Compensated Absences | 908,752 | 695,382 |
| <u>TOTAL CURRENT LIABILITIES</u> | <hr/> 1,553,038 | <hr/> 1,679,881 |
| Notes Payable, Less Current Portion (Note 8) | 1,183,041 | 700,000 |
| Deposits | 22,533 | - |
| Security Interest in Land (Note 5) | 1,468,000 | 918,000 |
| | <hr/> | <hr/> |
| <u>TOTAL LIABILITIES</u> | 4,226,612 | 3,297,881 |
| <u>COMMITMENTS AND CONTINGENCIES (NOTE 4)</u> | | |
| <u>NET ASSETS</u> | | |
| Unrestricted | 6,577,820 | 6,099,225 |
| Temporarily Restricted | 1,864,963 | 2,641,777 |
| <u>TOTAL NET ASSETS</u> | <hr/> 8,442,783 | <hr/> 8,741,002 |
| <u>TOTAL LIABILITIES AND NET ASSETS</u> | <u>\$ 12,669,395</u> | <u>\$ 12,038,883</u> |

Homeboy Industries
Statements of Activities

EXHIBIT "B"

| | January 1, 2015 to December 31, 2015 | | January 1, 2014 to December 31, 2014 | | | |
|--|--------------------------------------|------------------------|--------------------------------------|--------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| REVENUE | | | | | | |
| Grants and Contributions | \$ 7,264,203 | \$ 1,761,121 | \$ 9,025,324 | \$ 6,757,789 | \$ 2,531,544 | \$ 9,289,333 |
| Government Grants and Subcontracts (Note 10) | 633,673 | - | 633,673 | 574,407 | - | 574,407 |
| Sales | 6,045,935 | - | 6,045,935 | 4,856,671 | - | 4,856,671 |
| Other Income | 507,067 | - | 507,067 | 434,431 | - | 434,431 |
| | 14,450,878 | 1,761,121 | 16,211,999 | 12,623,298 | 2,531,544 | 15,154,842 |
| Net Assets Released from Restrictions | 2,537,935 | (2,537,935) | - | 2,017,977 | (2,017,977) | - |
| TOTAL REVENUE | 16,988,813 | (776,814) | 16,211,999 | 14,641,275 | 513,567 | 15,154,842 |
| EXPENSES | | | | | | |
| Management and General | 1,975,568 | - | 1,975,568 | 2,094,193 | - | 2,094,193 |
| Fundraising and Marketing | 1,508,866 | - | 1,508,866 | 1,160,937 | - | 1,160,937 |
| Program Services | 13,025,784 | - | 13,025,784 | 11,136,104 | - | 11,136,104 |
| TOTAL EXPENSES | 16,510,218 | - | 16,510,218 | 14,391,234 | - | 14,391,234 |
| CHANGE IN NET ASSETS | 478,595 | (776,814) | (298,219) | 250,041 | 513,567 | 763,608 |
| NET ASSETS, BEGINNING OF YEAR | 6,099,225 | 2,641,777 | 8,741,002 | 5,849,184 | 2,128,210 | 7,977,394 |
| NET ASSETS, END OF YEAR | \$ 6,577,820 | \$ 1,864,963 | \$ 8,442,783 | \$ 6,099,225 | \$ 2,641,777 | \$ 8,741,002 |

(Attached notes are an integral part of this statement)

Homeboy Industries
Statement of Functional Expenses
January 1, 2015 to December 31, 2015 with Comparative Totals for 2014

| <u>EXPENSES</u> | <u>Management & General</u> | <u>Fundraising & Marketing</u> | <u>Programs</u> | <u>Social Enterprises</u> | <u>TOTAL 2015</u> | <u>TOTAL 2014</u> |
|--------------------------------|-------------------------------------|--|----------------------------|-------------------------------|-----------------------------|-----------------------------|
| Advertising | \$ - | \$ 17,167 | \$ - | \$ 1,318 | \$ 18,485 | \$ 9,317 |
| Bad debt expense | 26,487 | - | (5,000) | 38,324 | 59,811 | 138,434 |
| Bank charges & fees | 28,358 | 39,878 | 795 | 63,886 | 132,917 | 152,081 |
| Cash Register Short/Over | (165) | 33 | - | 11,447 | 11,315 | 22,189 |
| Total COGS | - | - | - | 1,985,541 | 1,985,541 | 1,477,997 |
| Conferences & meetings | 790 | - | 6,069 | 3,630 | 10,489 | 18,271 |
| Depreciation expense | 182,408 | 3,452 | 110,186 | 221,502 | 517,548 | 429,917 |
| Employee benefits | 81,367 | 48,271 | 283,477 | 334,963 | 748,078 | 623,358 |
| Equipment rental & maint. | 10,270 | - | - | 2,424 | 12,694 | 27,931 |
| Information Technology | 24,429 | 1,289 | 1,500 | 8,814 | 36,032 | 20,584 |
| Insurance - general | 167,162 | - | - | (1,000) | 166,162 | 143,468 |
| Interest | 48,899 | - | - | - | 48,899 | 29,061 |
| Membership dues | 14,036 | 30,427 | 591 | 18,866 | 63,920 | 40,284 |
| Occupancy expenses | 158,539 | - | 75,120 | 392,666 | 626,325 | 598,394 |
| Other expenses | 300 | 1,875 | 1,595 | - | 3,770 | 579 |
| Postage & delivery | 3,042 | 4,886 | 40 | 19,849 | 27,817 | 26,401 |
| Printing & publications | 36,612 | 156,413 | - | 31,830 | 224,855 | 132,013 |
| Professional fees | 161,616 | 528,665 | 164,980 | 33,871 | 889,132 | 788,334 |
| Program Activities | 35,907 | 9,727 | 313,804 | 423,328 | 782,766 | 698,296 |
| Sr. Staff Payroll Expense | 764,346 | 631,275 | 2,225,947 | 898,367 | 4,519,935 | 3,847,079 |
| Supplies | 53,794 | 6,376 | 12,689 | 152,476 | 225,335 | 190,072 |
| Telecommunications | 56,555 | 44 | 2,365 | 10,249 | 69,213 | 57,223 |
| Training Staff Payroll Expense | 64,040 | 854 | 3,360,100 | 1,148,104 | 4,573,098 | 4,320,283 |
| Transition Support | - | - | 435,784 | - | 435,784 | 313,868 |
| Travel | 39,995 | 27,570 | 69,894 | 36,960 | 174,419 | 147,447 |
| Vehicle Expense | 16,781 | 664 | 21,673 | 106,760 | 145,878 | 138,353 |
| <u>TOTAL EXPENSES</u> | <u>\$ 1,975,568</u> | <u>\$ 1,508,866</u> | <u>\$ 7,081,609</u> | <u>\$ 5,944,175</u> | <u>\$ 16,510,218</u> | <u>\$ 14,391,234</u> |

Homeboy Industries
Statements of Cash Flows

| | January 1, 2015 to <u>December 31, 2015</u> | January 1, 2014 to <u>December 31, 2014</u> |
|---|---|---|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Change in Net Assets | \$ (298,219) | \$ 763,608 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 517,548 | 429,917 |
| Debt Forgiveness | (200,000) | (100,000) |
| Gain on Sale of Assets | (10,300) | - |
| (Increase) Decrease in: | | |
| Accounts Receivable, Net | (406,881) | (138,015) |
| Contributions Receivable, Net | 320,000 | 611,500 |
| Due from Employees, Net | (3,432) | (42,724) |
| Prepaid Expenses and Deposits | (39,831) | (5,795) |
| Inventory | 2,297 | (24,035) |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | (358,602) | 281,910 |
| Accrued Payroll and Compensated Absences | 213,370 | 113,178 |
| Deferred Revenue and Deposits | 22,533 | (194,577) |
| <u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u> | <u>(241,517)</u> | <u>1,694,967</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Investments | - | 256,608 |
| Proceeds from Sale of Equipment | 10,300 | - |
| Purchases of Land, Building and Equipment | (1,635,927) | (93,776) |
| <u>NET CASH PROVIDED (USED BY) INVESTING ACTIVITIES</u> | <u>(1,625,627)</u> | <u>162,832</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Proceeds from Mortgage Payable (Note 8) | 717,000 | - |
| Security Interest in Land (Note 5) | 550,000 | - |
| Principal Payments on Notes Payable | (15,570) | - |
| <u>NET CASH PROVIDED (USED BY) FINANCING ACTIVITIES</u> | <u>1,251,430</u> | <u>-</u> |
| <u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u> | <u>(615,714)</u> | <u>1,857,799</u> |
| <u>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</u> | <u>2,947,980</u> | <u>1,090,181</u> |
| <u>CASH AND CASH EQUIVALENTS END OF YEAR</u> | <u>\$ 2,332,266</u> | <u>\$ 2,947,980</u> |
| <u>Supplemental Disclosure of Cash Flow Information</u> | | |
| Cash Paid during the year for interest | <u>\$ 27,899</u> | <u>\$ 2,061</u> |

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - NATURE OF ACTIVITIES

Homeboy Industries ("Homeboy") is a non-profit, community-based, human services organization formed to assist the community through grass roots projects in education, training and service. Originally a subsidiary of Proyecto Pastoral Corporation, Homeboy became an independent organization in August 2001. Homeboy clients include job readiness trainees and trainees placed in the organization's businesses and headquarters for employment experience. In addition, they are required to participate in mandatory classes and counseling. Furthermore, Homeboy services are available to all those in the Los Angeles community who are seeking to withdraw from gangs or those who may be impacted by gang involvements. Youth and adults from the community generally participate in Employment Counseling, Tattoo Removal, Mental Health Counseling and other education programs. All services are offered free of charge to trainees and community clients. Its major programs are as follows:

Programs

- **Case Management:** Each trainee (someone who is assigned to one of the Homeboy businesses) or job readiness trainee (someone attending classes to obtain basic job skills) is assigned to a Homeboy Case Manager who works with the individual to create a personal long-term plan for training and other services to ensure movement through designated steps. Case Managers closely monitor each person and his or her progress.
- **Curriculum:** Prepares at-risk and former gang-involved youth for mainstream employment through training and coursework. Classes are supplemental to job training and employment at Homeboy. Curriculum includes GED training, solar panel training, high school continuation in partnership with Learning Works Charter High School, and court ordered classes.
- **Employment Services:** Job Developers work with local employers, searching out available jobs, and talking with employers about the unique challenges and rewards of hiring our clients. Additionally, they work one-on-one with clients developing resumes, honing interview skills, and finding good employment matches.
- **Legal Services:** Provides personal consultation from an on-site attorney to clients on a wide variety of issues. The program provides on-site guidance, support, and referrals for criminal and immigration status issues, helps clients' clear warrants, expunge records, and works to resolve child custody issues. All of these are often obstacles for young people seeking employment.
- **Mental Health:** Provides on-site counselors, dedicated substance and domestic violence abuse counselors, group therapy, and a psychiatrist for clients in need of more in-depth help. By providing these services in a safe and supportive environment, Homeboy is reducing the stigma often attached to mental health support in this community while also making the service more accessible.
- **Tattoo Removal:** This service is provided to trainees and clients participating in Homeboy's programs free of charge.

Businesses

- Homeboy Bakery provides employment opportunities and business experience for formerly gang-involved youth. Training includes bakery maintenance, inventory management, baking techniques, and food handling certification.

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - NATURE OF ACTIVITIES (Continued)

Businesses (Continued)

- Homegirl Café & Catering provides employment opportunities and business experience to formerly gang-involved youth. Training includes restaurant maintenance, customer service, food preparation techniques, food handling, urban farming, food service, restaurant management and catering.
- Homeboy Diner at City Hall provides employment opportunities and business experience for formerly gang involved youth. Training includes customer service in a café setting, restaurant maintenance, inventory management, money management, food handling certification, catering and barista training.
- Homeboy/Homegirl Merchandise provides employment opportunities and business experience to formerly gang-involved youths. Training includes customer service, business and inventory management. Merchandise items emblazoned with Homeboy's name and mission are sold in Homeboy's retail store, at events, by mail and on-line to promote the Organization's cause.
- Homeboy Silkscreen, formerly a for-profit corporation, was donated to Homeboy in September 2001. Silkscreen and embroidery techniques are used to create custom clothing and accessories. It provides jobs and an opportunity to learn a trade and the fundamentals of work ethic.
- Homeboy's Farmers Markets business venture began in August 2011 and serves multiple Farmers Markets per week in Southern California. We offer baked goods from the Homeboy Bakery, as well as several products from the Homegirl Café. This program is another of our businesses in which we employ Homeboys and Homegirls. Our businesses serve the dual functions of creating job training opportunities and revenue to help support our free services.
- Homeboy Chips & Salsas provides employment opportunities and business experience to formerly gang-involved youths. Training includes customer services, sales, promotions, and marketing at different grocery stores in the Southern California Area.
- Homeboy Café and Bakery at LAX opened in February 2013. The restaurant is located in the American Airlines terminal at Los Angeles International Airport. The facility is operated by our license partner Areas USA LAX, LLC. The airport restaurant offers sandwiches, beverages and baked goods to travelers at the airport. Homeboy receives a monthly license fee based on the sales at the restaurant.
- Food Truck: Started operating in August 2014 as a means to extend our food service enterprises, to provide additional jobs and training opportunities, and to further promote our brand. The "Food Truck with a Purpose" operates at events and also extends our catering abilities to venues throughout greater Los Angeles.
- Catch Basin: Also began operating in August 2014. This business provided employment and training opportunities as we operated under a general contractor who contracted with the County of Los Angeles to clean Catch Basins of debris and to update stencil markings on drains. Homeboy discontinued this business in December 2014.

Homeboy's funding is provided primarily by public and corporate donations, foundation grants, government contracts, and its business revenues.

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

B. Donated Services and Materials

Donated services and materials are recognized at their estimated value as in-kind contributions. Such contributions are included in both revenue and expense in Homeboy's statements of activities. The estimated value of medical personnel donated services for tattoo removal for each of the years ended December 31, 2015 and 2014 was \$161,495 and \$100,000, respectively. No donated materials met the criteria for recognition under GAAP for 2015.

C. Land, Buildings and Equipment

Expenditures of \$1,000 or more for land, buildings, equipment and major improvements are capitalized and reported in the accompanying statement of financial position at cost if purchased, or estimated fair value on the date received if donated. Depreciation is provided by the straight-line method over the estimated useful lives of the assets (Note 3).

D. Income Tax Status

Homeboy is a non-profit organization and is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Homeboy has adopted guidance on accounting for uncertainty in income taxes issued by the Financial Accounting Standards Board. Management believes that Homeboy has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Information returns for years subsequent to 2011 (2010 for state returns) are subject to examination by authorities.

E. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, Homeboy considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. As of December 31, 2015, cash and cash equivalents comprised demand deposits and money market funds.

G. Grants and Contributions

Contributions, including unconditional promises to give, are recognized as public support in the year received. Homeboy records contributions as temporarily restricted if they are received with

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Grants and Contributions (Continued)

donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted. Government grants are reported as income when earned.

H. Contributions Receivable

Contributions receivable comprise unconditional promises to give on or before December 31 for which payment had not yet been received. No allowance is provided for uncollectible accounts. Contributions receivable as of December 31, 2015 are as follows:

| | |
|-------------------------------------|-------------------|
| Receivable in Less Than One Year | <u>\$ 300,000</u> |
| Receivable in One to Five Years | \$ 271,500 |
| Less Discount to Net Present Value | <u>(9,000)</u> |
| Net Receivable in One to Five Years | <u>\$ 262,500</u> |

Promises to give receivable in more than one year are discounted at 1%.

I. Accounts Receivable

Accounts receivable consist of trade accounts receivable from program sales, and reimbursements for expenditures under government contracts or subcontracts. Homeboy considers trade accounts receivable to be uncollectible if they are over one year and no proof of delivery is on file, or for balances under \$20 after six months when the customer cannot be contacted, or if a customer goes out of business and cannot be contacted, and when all collection efforts have been exhausted. As of December 31, 2015 and 2014 respectively, the allowance for uncollectible accounts totaled \$75,815 and \$20,701.

J. Inventory

Inventory consists of clothing and other items printed with the Homeboy Industries logo held for sale by the Merchandise store and Silkscreen. Inventory is valued at cost on an average cost basis.

K. Sales Tax

Sales tax collected on sales totaled \$266,625 in 2015 and \$224,000 in 2014. Sales tax paid totaled \$273,949 in 2015 and \$209,000 in 2014.

L. Functional Allocation of Expenses

The costs of providing Homeboy's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Functional Allocation of Expenses (Continued)

have been allocated among the programs and supporting services benefited. The financial statements include 2014 expenses by their natural classifications in total, but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction Homeboy's 2014 financial statements, from which the summarized information was derived.

NOTE 3 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

| | <u>Asset Life in Years</u> | <u>2015</u> | <u>2014</u> |
|--------------------------------|--------------------------------|---------------------|---------------------|
| Land | - | \$ 1,927,587 | \$ 1,775,472 |
| Buildings | 30 | 8,169,126 | 6,812,112 |
| Leasehold Improvements | 15 | 365,893 | 365,893 |
| Furniture and Equipment | 3 | 754,849 | 753,674 |
| Machinery and Equipment | 5 | 2,143,534 | 2,042,141 |
| Vehicles | 5 | 279,616 | 301,119 |
| Computers and Software | 3-5 | 335,419 | 311,188 |
| | | <u>13,976,024</u> | <u>12,361,599</u> |
| Less: Accumulated Depreciation | | <u>(5,329,286)</u> | <u>(4,833,240)</u> |
| | | <u>\$ 8,646,738</u> | <u>\$ 7,528,359</u> |

Land includes a parcel purchased for use in the bakery program valued at \$792,000. This parcel is subject to certain covenants (Notes 5 and 8).

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Homeboy Industries leases its silkscreen facility at 1320 South Santa Fe Avenue in Los Angeles from Ruben Rodriguez, a key employee. The lease term is four years; requiring lease payments of \$4,776 per month, increasing 3% annually (see Note 9).

Homeboy leases space for its Homeboy Diner at City Hall under a contract for a flat rate starting at \$945 per month, with annual increases, plus the amount by which 4% of gross receipts exceeds the fixed minimum amount. In addition, Homeboy leases a copier under a five year agreement for \$895 per month. Future minimum lease payments are as follows:

| | <u>Silkscreen</u> | <u>Diner</u> | <u>Copier</u> | <u>Total</u> |
|------|-------------------|------------------|------------------|-------------------|
| 2016 | \$ 62,626 | \$ 13,784 | \$ 10,740 | \$ 87,150 |
| 2017 | - | 13,784 | 10,740 | 24,524 |
| 2018 | - | 13,784 | 10,740 | 24,524 |
| 2019 | - | 13,784 | 10,740 | 24,524 |
| 2020 | - | 13,784 | 10,740 | 24,524 |
| 2021 | - | 13,784 | - | 13,784 |
| | <u>\$ 62,626</u> | <u>\$ 82,704</u> | <u>\$ 53,700</u> | <u>\$ 199,030</u> |

Homeboy paid approximately \$94,000 under the leases in 2015.

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 5 - SECURITY INTEREST IN LAND

Homeboy executed a contract with the City of Los Angeles (City) related to the acquisition of land at 1088 North Alameda Street for use in the bakery program. The City provided \$138,000 to aid Homeboy in its purchase of the property to construct a bakery. Homeboy has agreed to use this property to provide training to at least 70 trainees, and has given the City a security interest in the property for \$138,000, to be terminated on completion of the contract.

Homeboy executed a contract with the City related to the acquisition of land at 917-933 North Main Street. The City provided \$780,000 to aid Homeboy in its purchase of the property for use as a parking lot. Homeboy has agreed to create 23 new permanent positions over the term of the contract, five years, and has given the City a security interest in the property for \$780,000, to be terminated on completion of the contract.

In February 2015 Homeboy purchased a 6,000 sq. ft. building located at 935 North Main Street, Los Angeles, which is adjacent to its headquarters building on Bruno Street, for \$1,500,000. Homeboy received a grant from the City of Los Angeles of \$550,000 toward the purchase price and borrowed \$717,000 from Wells Fargo Bank. The remainder was paid out of operating cash. The grant with the City of Los Angeles calls for Homeboy to provide legal, mental health, and other services to Los Angeles residents, as it does today, for a period of five years. As part of the grant, a deed of trust was secured against 935 North Main Street for an equal amount. The grant will be amortized ratably over its five year term, provided certain service volume commitments are met. The mortgage from Wells Fargo is secured by a deed of trust against 130 West Bruno Street, Los Angeles.

NOTE 6 - TEMPORARILY RESTRICTED NET BANK ASSETS

Temporarily restricted net assets as of December 31, 2015 are available for the following program:

| | |
|-----------------------------------|---------------------|
| General Operations/Future Periods | \$ 840,593 |
| Bakery | 245,000 |
| Farmers Markets | 99,979 |
| Building | 55,646 |
| Curriculum | 92,575 |
| Job Training | 174,810 |
| Retreats | 53,353 |
| Tattoo Removal | 248,439 |
| Other | 54,568 |
| | <u>\$ 1,864,963</u> |

NOTE 7 - PENSION PLAN

Homeboy sponsors a defined contribution pension plan for the benefit of its employees. It did not contribute to the plan in 2015 or 2014.

NOTE 8 - NOTES PAYABLE AND CREDIT LINE

Homeboy entered into a line of credit with the California Province of the Society of Jesus (California Province), which was later converted to a note payable. The note bears interest at 3% annually and is secured by a first deed of trust on its First Street property. The note currently has no maturity date. As of December 31, 2015, \$500,000 was outstanding and Homeboy was in compliance with the terms of its agreement.

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 8 - NOTES PAYABLE AND CREDIT LINE (Continued)

On November 3, 2013 Homeboy entered into a line of credit agreement with Wells Fargo Bank. The two year agreement makes \$600,000 available to Homeboy for immediate operational use. The borrowed funds may be repaid at any time without penalty and carry a variable interest rate of Prime plus 1.0%, or 4.25% at the time the agreement was executed. The agreement also calls for a 30 day rest period each year, during which time no funds may be outstanding. This loan is secured by a deed of trust on Homeboy's Bruno Street property. The line of credit was increased to \$1,000,000 in September 2015 and matures in 2016. There were no funds outstanding at December 31, 2014 or 2015.

In conjunction with its 2015 purchase of property located at 935 North Main Street (Note 5), Homeboy obtained a loan from Wells Fargo Bank. Loan proceeds of \$717,000 bear interest at 3.75%; principal and interest payments of \$3,707 are due monthly. The term of the loan is five years, with the balance due as a lump sum in February 2020. Future minimum principle payments are due as follows:

| | |
|-------------|-------------------|
| Due in 2016 | \$ 18,389 |
| Due in 2017 | 19,197 |
| Due in 2018 | 19,930 |
| Due in 2019 | 20,690 |
| Due in 2020 | <u>623,224</u> |
| | <u>\$ 701,430</u> |

NOTE 9 - RELATED PARTY TRANSACTIONS

Homeboy leases its Silkscreen program facility from an employee. Rent paid to the employee totaled \$59,028 in 2015 and \$59,028 in 2014.

Silkscreen program directors are husband and wife, and two of their sons work in the silkscreen program in accounting and sales. Various employees and members of the board have direct family relationships with other employees of Homeboy.

In 2014, Homeboy received loans from its CEO and the chairman of its board, which were repaid before year-end. The California Province of the Society of Jesus, whose executive assistant serves on Homeboy's board of directors, made a loan to Homeboy in 2009. Principal of \$100,000 and \$200,000 and accumulated interest were forgiven in 2014 and 2015 and recorded as contributions totaling \$124,000 and \$221,000 in 2014 and 2015, respectively. Also see Note 8.

At various times Homeboy executives have chosen to defer their own wages. As of December 31, 2015, approximately \$229,000 due to the CEO were included in accrued payroll on the organization's statement of financial position.

Certain companies whose employees or owners serve on Homeboy's board of directors made contributions to Homeboy Industries during 2015 and 2014.

NOTE 10 - GOVERNMENT GRANTS AND SUBCONTRACTS

Revenue from government grants and subcontracts in 2015 comprise the following:

HOMEBOY INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 10 - GOVERNMENT GRANTS AND SUBCONTRACTS (Continued)

| | |
|-----------------------------|-------------------|
| Federal | \$ 482,761 |
| Mayor's Office - City of LA | 1,000 |
| County | <u>149,912</u> |
| <u>Total</u> | <u>\$ 633,673</u> |

NOTE 11 - CASH IN EXCESS OF FDIC LIMITS

Homeboy Industries maintains cash and cash equivalents at various banks. Cash in banks and certain brokerage firms is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor. Money market funds and investments in brokerage accounts are not covered by FDIC insurance. As of December 31, 2015, Homeboy's funds on deposit at Wells Fargo Bank exceeded the insured limit by \$1,748,190.

NOTE 12 - OPERATING INCOME RECONCILIATION

Homeboy management views operating income to be one of the primary measures of its financial health; however U.S. generally accepted accounting principles do not normally disclose this as part of nonprofit financial reporting. The table below shows how the change in net assets that is reported in the organization's statements of activities reconciles to operating income as measured by management.

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|-------------------|---------------------|
| (Decrease) Increase in Net Assets | \$ (298,219) | \$ 763,608 |
| Add Back: | | |
| Depreciation | 517,548 | 429,917 |
| Interest | <u>48,899</u> | <u>29,061</u> |
| Operating Income | <u>\$ 268,228</u> | <u>\$ 1,222,586</u> |

NOTE 13 - SUBSEQUENT EVENTS

On September 1, 2016, Homeboy Industries renewed its \$1 million line of credit with Wells Fargo for a period of 2.5 years. The new agreement expires in January 2019. All other terms are consistent with the existing agreement.

Management has evaluated subsequent events through September 15, 2016, the date on which these financial statements were available to be issued. Except for the above, there were no additional subsequent events that required recognition or additional disclosure in these financial statements.