

Rubicon Programs Incorporated and Affiliates

Consolidated Financial Statements and
Single Audit Reports and Schedules

June 30, 2018
(With Comparative Totals for 2017)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 18
Supplementary Information	
Consolidating Statement of Financial Position	20 - 21
Consolidating Statement of Activities	22
Statement of Functional Expenses - Rubicon Programs Incorporated	23
Statement of Functional Expenses - Rubicon Enterprises, Inc.	24
Statement of Functional Expenses - Rubicon Homes	25
Single Audit Reports and Schedules	
Independent Auditor's 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>	26 - 27
Independent Auditor's Report on Compliance for Each Major Program, Internal Control Over Compliance, and on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	28 - 29
Schedule of Expenditures of Federal Awards	30 - 31
Notes to Schedule of Expenditures of Federal Awards	32
Schedule of Findings and Questioned Costs	33 - 34
Summary Schedule of Prior Audit Findings	35



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rubicon Programs Incorporated and Affiliates
Richmond, California

We have audited the accompanying consolidated financial statements of Rubicon Programs Incorporated and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 of America. 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 auditor's 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 financial position of Rubicon Programs Incorporated and Affiliates as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 20 - 25 is presented for purposes of additional analysis and is 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 December 12, 2018, on our consideration of the Organization'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 *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Rubicon Programs Incorporated and Affiliates's 2017 consolidated financial statements, and our report dated November 27, 2017 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Francisco, California

December 12, 2018

Rubicon Programs Incorporated and Affiliates
Consolidated Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,872,316	\$ 1,283,597
Accounts receivable	2,081,490	2,975,274
Pledges receivable	700,200	835,773
Notes receivable	43,154	63,202
Prepaid expenses	213,144	237,567
Deposits and other assets	<u>303,214</u>	<u>309,528</u>
Total current assets	<u>5,213,518</u>	<u>5,704,941</u>
Non-current assets		
Pledges receivable, net of current portion	-	100,000
Property and equipment, net	<u>3,637,923</u>	<u>4,141,549</u>
Total non-current assets	<u>3,637,923</u>	<u>4,241,549</u>
Total assets	<u>\$ 8,851,441</u>	<u>\$ 9,946,490</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 211,622	\$ 744,613
Accrued liabilities	1,171,298	1,219,143
Other current liabilities	4,624	26,445
Capital lease obligation	93,147	133,387
Line of credit	1,422,000	-
Current portion of mortgage payable	<u>345,906</u>	<u>377,942</u>
Total current liabilities	<u>3,248,597</u>	<u>2,501,530</u>
Long-term liabilities		
Notes payable, net of current portion	2,242,847	2,554,487
Capital lease obligation, net of current portion	<u>107,024</u>	<u>198,165</u>
Total long-term liabilities	<u>2,349,871</u>	<u>2,752,652</u>
Total liabilities	<u>5,598,468</u>	<u>5,254,182</u>
Net assets		
Unrestricted	2,544,165	3,110,321
Temporarily restricted	<u>708,808</u>	<u>1,581,987</u>
Total net assets	<u>3,252,973</u>	<u>4,692,308</u>
Total liabilities and net assets	<u>\$ 8,851,441</u>	<u>\$ 9,946,490</u>

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

Rubicon Programs Incorporated and Affiliates
Consolidated Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenues, gains and other support				
Program service contracts and grants	\$ 6,653,617	\$ -	\$ 6,653,617	\$ 8,447,619
Landscape services	6,927,141	-	6,927,141	6,860,209
Grants and contributions	1,780,338	533,629	2,313,967	3,351,500
Other income	148,301	-	148,301	149,611
In-kind contributions	-	-	-	3,100
Net assets released from restriction	1,406,808	(1,406,808)	-	-
Total revenues, gains and other support	<u>16,916,205</u>	<u>(873,179)</u>	<u>16,043,026</u>	<u>18,812,039</u>
Functional expenses				
Program services	<u>13,387,177</u>	<u>-</u>	<u>13,387,177</u>	<u>14,331,638</u>
Support services				
Management and general	3,472,776	-	3,472,776	3,411,894
Fundraising	622,408	-	622,408	548,972
Total support services	<u>4,095,184</u>	<u>-</u>	<u>4,095,184</u>	<u>3,960,866</u>
Total functional expenses	<u>17,482,361</u>	<u>-</u>	<u>17,482,361</u>	<u>18,292,504</u>
Change in net assets	(566,156)	(873,179)	(1,439,335)	519,535
Net assets, beginning of year	<u>3,110,321</u>	<u>1,581,987</u>	<u>4,692,308</u>	<u>4,172,773</u>
Net assets, end of year	<u>\$ 2,544,165</u>	<u>\$ 708,808</u>	<u>\$ 3,252,973</u>	<u>\$ 4,692,308</u>

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

Rubicon Programs Incorporated and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

		Support Services				
	Program Services	Management and General	Fundraising	Total Support Services	2018 Total	2017 Total
Personnel expenses						
Salaries	\$ 6,837,183	\$ 2,074,279	\$ 373,345	\$ 2,447,624	\$ 9,284,807	\$ 9,412,499
Employee benefits and payroll taxes	1,793,983	367,540	59,259	426,799	2,220,782	2,332,120
Total personnel expenses	<u>8,631,166</u>	<u>2,441,819</u>	<u>432,604</u>	<u>2,874,423</u>	<u>11,505,589</u>	<u>11,744,619</u>
Occupancy	512,790	123,142	15,541	138,683	651,473	925,974
Consultants and professional services	1,077,299	166,118	50,006	216,124	1,293,423	1,969,031
Landscape operations	826,655	-	-	-	826,655	981,321
Office expenses	355,039	406,207	23,915	430,122	785,161	784,985
Transportation and travel	567,852	24,387	369	24,756	592,608	601,624
Depreciation and amortization	437,434	96,469	8,209	104,678	542,112	498,192
Program and participant support	269,197	600	171	771	269,969	203,248
Other staff costs	410,019	145,443	3,073	148,516	558,535	211,036
Housing operations	243,385	-	-	-	243,385	192,880
Events and marketing	40,264	22,925	88,520	111,445	151,709	138,412
Miscellaneous non-operating expenses	16,077	45,666	-	45,666	61,742	38,082
In-kind expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,100</u>
	<u>\$ 13,387,177</u>	<u>\$ 3,472,776</u>	<u>\$ 622,408</u>	<u>\$ 4,095,184</u>	<u>\$ 17,482,361</u>	<u>\$ 18,292,504</u>

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

Rubicon Programs Incorporated and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (1,439,335)	\$ 519,535
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	542,272	498,192
Changes in operating assets and liabilities		
Accounts receivable	893,784	298,902
Pledges receivable	235,573	(613,773)
Receivables from related parties	-	138,443
Prepaid expenses	24,423	239,892
Accounts payable	(532,991)	(10,725)
Accrued liabilities	(47,845)	(120,278)
Funds held in trust	(21,821)	8,803
Deposits and other assets	6,314	(294,145)
Net cash provided by (used in) operating activities	<u>(339,626)</u>	<u>664,846</u>
Cash flows from investing activities		
Payments received on notes receivables	20,048	13,203
Purchase of property and equipment	(38,486)	(173,788)
Net cash used in investing activities	<u>(18,438)</u>	<u>(160,585)</u>
Cash flows from financing activities		
Payments on line of credit	(4,541,000)	(3,970,000)
Proceeds from borrowings on line of credit	5,963,000	3,970,000
Payments on capital lease obligations	(131,381)	(117,940)
Proceeds from borrowings on notes payable	34,113	185,000
Payments on notes payable	(377,949)	(551,593)
Net cash provided by (used in) financing activities	<u>946,783</u>	<u>(484,533)</u>
Net increase in cash	588,719	19,728
Cash, beginning of year	<u>1,283,597</u>	<u>1,263,869</u>
Cash, end of year	<u><u>\$ 1,872,316</u></u>	<u><u>\$ 1,283,597</u></u>

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest	\$ 95,777	\$ 87,071

Supplemental schedule of noncash investing and financing activities

Acquisition of vehicles with capital lease	\$ -	\$ 135,429
--	------	------------

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

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

1. NATURE OF OPERATIONS

Rubicon Programs Incorporated ("Rubicon") is a nationally recognized nonprofit founded in 1973. Rubicon's mission is to prepare very low-income people to achieve financial independence. Each year, Rubicon serves more than 3,000 people across Alameda County and Contra Costa County.

People in the East Bay's hardest hit communities need intensive support and follow-up services to access the jobs and opportunities that will enable them to move and stay out of poverty. Rubicon finds support that's right for each individual and their family - a personalized, comprehensive set of services that includes job placement, housing, counseling, healthcare, legal services, and financial literacy.

The Board of Directors of Rubicon appoints members to the Board of Directors of or has Board representation on the following nonprofit corporations: Rubicon Enterprises, Inc. ("REI") and Rubicon Homes ("RH"). Rubicon has a majority voting interest in Rubicon Landscape Corporation ("RLC"), a for-profit corporation.

REI, established in 1995, is a supporting organization of Rubicon and provides employment opportunities, rehabilitation, and training to homeless, disabled, and other disadvantaged residents of the San Francisco Bay Area and Contra Costa County. REI currently operates as Rubicon Landscape Services.

RH, established in 1981, is a nonprofit organization which owns and operates a 10-unit apartment building located in Richmond, California (the "Project"). The Project operates under Section 202 of the National Housing Act and is thus subject to compliance with the U.S. Department of Housing and Urban Development ("HUD") regulations regarding their rental rates, tenant eligibility, financial operating requirements, and management of the Project's operations.

RLC, established in 2018, is a for-profit corporation and provides full integrated services, landscape maintenance, proactive watering management and landscape construction for customers in the San Francisco Bay Area and Contra Costa County. RLC is authorized to issue one class of shares of stock and is authorized to issue 1,000 shares. Rubicon owns all 1,000 shares.

The consolidated financial statements include the accounts of Rubicon, REI, RH, and RLC, and are collectively referred to as the "Organization".

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of accounting and financial statement presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

The Organization reports information regarding its financial position and activities into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- *Unrestricted net assets* - Unrestricted net assets consist of all resources of the Organization available to support the operations of the Organization and those resources which have become available for use in accordance with the intentions of the donor. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions. The board has appropriated certain unrestricted net assets for particular purposes. The board designated funds are included in unrestricted net assets and amounted to \$2,544,165 at June 30, 2018.
- *Temporarily restricted net assets* - The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization had \$708,808 of temporarily restricted net assets at June 30, 2018.
- *Permanently restricted net assets* - These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend the income (or other economic benefits) derived from the donated assets. The Organization had no permanently restricted net assets at June 30, 2018.

Basis of consolidation

All material intercompany balances and transactions have been eliminated from the consolidated financial statements.

Cash and cash equivalents

The Organization has defined cash and cash equivalents as cash in banks and money market fund accounts.

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- *Level 1* - quoted prices in active markets for identical assets
- *Level 2* - quoted prices in active or inactive markets for the same or similar assets
- *Level 3* - estimates using the best information available when there is little or no market

The Organization has no financial instruments measured at fair value on a recurring basis.

Receivables

The Organization uses the allowance method in order to reserve for potential uncollectible accounts receivable. There is no allowance at June 30, 2018 as the Organization deems all accounts receivable to be fully collectible.

Pledges receivable

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 future years are recorded at fair value, which is measured as 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 received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Contributed goods and services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2018, the Organization did not receive donated materials and/or service which met the criteria for recognition.

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the lease term or estimated useful life. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$5,000 and the useful life is greater than one year.

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	5 - 40 years
Furniture and fixtures	3 - 7 years
Buildings	31.5 years
Vehicles	5 years

Comparative totals

The consolidated 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 consolidated financial statements for the year ended June 30, 2017 from which the summarized information was derived from.

Revenue recognition

Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If revenue is subject to donor-restrictions, it is included in temporarily restricted net assets and once restrictions are met, release from restrictions is recorded and revenue released to unrestricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law.

- Government grants - the Organization recognizes revenue from grants for programmatic purposes in the period the services are provided. Government loans with contingent forgiveness clauses are accounted for as contribution revenue if and when the debt is forgiven and all conditions on the debt are met.
- Private grants and contributions - Contributions and certain grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- Rental and program contracts income - Rental income includes rent received from clients at various housing facilities and is recognized as they are received. Program contracts income are recognized when earned.

Accrued revenue includes services performed for which the Organization has not billed the customer. The accrued revenue at June 30, 2018 was \$38,259 and is included in accounts receivable in the accompanying consolidated financial statements.

Functional expenses

Costs of providing the Organization's programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Direct costs associated with specific programs are recorded as program expenses. Program expenses may include allocable management and general and fundraising expenses. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Organization uses actual salary dollars to allocate indirect costs.

Income tax status

Rubicon, REI, and RH are exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Continuance of such exemption is subject to compliance with regulations and review of the activities by taxing authorities. The Organization is not aware of any transactions that would affect its tax-exempt status.

RLC is subject federal and state income taxes. Income taxes are provided for those taxes currently payable and deferred. RLC files its income tax returns on the accrual basis of accounting. A provision for income taxes is provided for deferred taxes resulting from differences in the timing of reporting revenue and expense items for financial versus tax purposes. There was no provision for income taxes for the year ended June 30, 2018.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's tax returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

The Organization follows the accounting guidance for uncertain tax positions. Management determined that there are no uncertain positions as of June 30, 2018.

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through December 12, 2018, the date the consolidated financial statements were available for issuance. No events or transactions have occurred during this period that require recognition or disclosure in the consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

Reimbursement for contract services and grants	\$ 1,413,808
Housing and landscape services	639,459
Other	<u>28,223</u>
	<u><u>\$ 2,081,490</u></u>

4. PLEDGES RECEIVABLE

Pledges receivable are recorded as support when pledged unless designated otherwise and deemed fully collectible. All pledges are valued at estimated fair value at June 30, 2018.

Future collections of pledges receivable are expected as follows:

Year ending June 30,

2019	<u>\$ 700,200</u>
	<u><u>\$ 700,200</u></u>

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

5. NOTES RECEIVABLE

As a result of an equipment purchase agreement, Rubicon has a note receivable with a corporation in the amount of \$150,000, bearing annual simple interest of 5% beginning the third year of the loans. The total outstanding amount of the note at June 30, 2018 was \$43,154.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Leasehold improvements	\$ 4,026,313
Furniture and equipment	1,678,527
Buildings	1,751,629
Vehicles	850,278
Land	<u>498,460</u>
	8,805,207
Less: Accumulated depreciation	<u>(5,167,284)</u>
	<u><u>\$ 3,637,923</u></u>

Depreciation expense for 2018 amounted to \$542,112.

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

Accrued vacation	\$ 491,090
Accrued salaries and payroll taxes	295,202
Accrued interest	954
Other accrued liabilities	<u>384,052</u>
	<u><u>\$ 1,171,298</u></u>

8. CAPITAL LEASE OBLIGATIONS

The Organization leases vehicles under capital leases with various terms.

Future maturities of capital lease obligations are as follows:

Year ending June 30,

2019	\$ 93,147
2020	79,550
2021	<u>27,474</u>
	<u><u>\$ 200,171</u></u>

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

9. LINE OF CREDIT

The Organization has a revolving line of credit with a bank, with a borrowing limit of \$2,000,000, that bears interest at the bank's index plus 0.75%, maturing April 30, 2019. The interest rate as of June 30, 2018 was approximately 5.75%. The line of credit is secured by the Organization's assets including real property and all personal property (tangible and intangible). The line of credit contains certain financial covenants surrounding profitability, debt service coverage, and liquidity. At June 30, 2018, the Organization did not meet the profitability covenant requirement, but obtained a waiver from the bank. The outstanding balance of the line of credit at June 30, 2018 was \$1,422,000.

10. NOTES PAYABLE

Notes payable are detailed as follows:

Note payable to non-profit finance fund for a 7 year loan to renovate and replace roofing at the 101 Broadway and 2500 Bissell Avenue, Richmond, California properties, secured by a deed of trust against the 2500 Bissell Avenue property, monthly payments of \$12,158, including interest at 6.00%, due April 2020.	\$ 251,455
Note payable to Bank of America for a 23 year loan, secured by a deed of trust on the 2500 Bissell Avenue property, monthly payments of \$5,497, including interest at 8.62%, due June 2020.	125,225
Note payable to Source America for a 5 year loan, unsecured, quarterly payment of \$8,082, including interest at 1.625%, due May 2021.	96,978
Note payable to Wells Fargo Bank for a 15 year loan to purchase the property at 101 Broadway, secured by real property, monthly payment of \$2,330 including interest at 6.95%, due August 2020.	55,868
Promissory note issued to the City of Richmond for 20 years to acquire the 534 Ohio Avenue, Richmond, California property, secured by a deed of trust on property, non-interest bearing, and due May 2012 but extendable. Management is currently in process of renegotiating the terms of agreement. No principal payment has been made as of June 30, 2017 as part of the renegotiation process.	80,000
Note payable to Source America for a 5 year loan, unsecured, monthly payments of \$5,011, including interest at 1.625%, due January 2020.	35,076
Promissory note issued to the City of Richmond, no loan terms specified in the loan agreement. Management is currently in process of renegotiating the terms of the agreement. No principal payment has been made as of June 30, 2017, as part of the renegotiation process.	67,574
Note payable to Source America for a 5 year loan, unsecured, monthly payments of \$2,791, including interest at 1.625%, due January 2020.	19,540

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

10. NOTES PAYABLE (continued)

Note payable to First Republic Bank for a 30 year loan, monthly payments of \$922 including interest at 4.30% with a last payment estimated at \$148,425, secured by a deed of trust on the 903 Virginia Avenue, Richmond, California property, due May 1, 2017. 181,434

Mortgage payable to CalHFA, secured by a deed of trust, principal and interest payable in monthly payments of \$5,549, including interest at 1.50%, due December 2028. 651,289

Note payable to Wells Fargo Vendor Financial Services, LLC for a 3 year loan, secured by an equipment, monthly payments of \$964, non-interest bearing, due November 2011. 27,525

Forgivable Notes:

Promissory note issued to Contra Costa County for a 20 year loan to renovate the Virginia housing units, secured by a deed of trust against the 909 Virginia Avenue, Richmond, California property, non-interest bearing, due March 2028, forgivable upon maturity if certain conditions are met. 564,332

Promissory note issued to the City of Richmond for a 25 year loan to purchase and rehabilitate the building at 101 Broadway, Richmond, California, non-interest bearing, due March 2023, forgivable upon maturity if certain conditions are met. 255,000

Promissory note issued to Contra Costa County for a 30 year loan for the Ohio Avenue building in Richmond, California, secured by a deed of trust on the property, bearing a 3.00% simple interest, due May 2044, forgivable upon maturity if certain conditions are met. 80,000

Promissory note issued to the City of Richmond for a 25 year loan for improvements to the 534 Ohio Avenue and 22nd Street properties in Richmond, California, secured by a deed of trust on the 534 Ohio Avenue property, bearing a 3.00% simple interest, principal and interest due February 2031, forgivable upon maturity if certain conditions are met. 42,200

Promissory note issued to the City of Richmond for a 25 year loan for capital improvements to the Bissell and Broadway properties in Richmond, California, secured by the Broadway property, bearing a 3.00% simple interest, principal and interest due February 2031, forgivable upon maturity if certain conditions are met. 42,000

Promissory note to the City of Richmond for a 25 year loan for improvements to the Bissell property in Richmond, California, secured by a deed of trust on the Bissell property, non-interest bearing, due June 2035, forgivable upon maturity if certain conditions are met. 14,931

2,590,427

Less unamortized debt issuance costs

(1,674)

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

10. NOTES PAYABLE (continued)

	2,588,753
Current portion	<u>(345,906)</u>
	<u><u>\$ 2,242,847</u></u>

The future maturities of the notes payable are as follows:

Year ending June 30,

2019	\$ 345,906
2020	346,313
2021	104,107
2022	63,630
2023	64,700
Thereafter	<u>1,665,771</u>
	<u><u>\$ 2,590,427</u></u>

11. FUNDS HELD IN TRUST

The Legal Services Center Trust Account consists of deposits made for attorney fees and other payments related to clients. Once fees have been approved by the Social Security Administration, fees are transferred to the operating account. Until fees are approved, the Legal Services Center is required to hold the funds in the attorney trust account. In addition, all funds collected on behalf of, held for, or owing to a client, must be kept on deposit in the trust account until payment is made to the client. The balance of these funds at June 30, 2018 was \$1,657. The amount is included in other current liabilities in the accompanying consolidated financial statements.

12. RETIREMENT PLAN

The Organization has established a tax-deferred retirement savings plan for its employees under Section 403(b) of the Internal Revenue Code. Employees are eligible to participate in non-elective or matching contributions if they are 18 years of age or older, and have completed one year of service defined as twelve consecutive months of employment during which a participant accrues at least 1,000 hours of services. The contribution by the Organization for the year ended June 30, 2018 was 50% of an employee's deferral up to \$500 and amounted to \$40,166.

13. COMMITMENTS AND CONTINGENCIES

The Organization leases various facilities and equipment under operating leases with various terms.

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

13. COMMITMENTS AND CONTINGENCIES (continued)

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2019	\$ 136,432
2020	97,287
2021	88,981
2022	94,182
2023	<u>25,603</u>
	<u>\$ 442,485</u>

Rent expense under operating leases for the year ended June 30, 2018 was \$243,375.

Contracts

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits, cannot be reasonably estimated and, accordingly, the Organization has no provisions for the possible disallowance of program costs on its consolidated financial statements.

Litigation

The Organization has claims arising in the normal course of business. In the opinion of the Organization's legal counsel and management, any outcome will be immaterial to the financial statements. Accordingly, no loss provision has been made in the accompanying consolidated financial statements.

14. CONCENTRATIONS

The Organization places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be indexes of the Federal Deposit Insurance Corporation insurance limit. The Organization has not incurred losses related to these investments.

Two landscape customers comprised approximately 55% of total landscape services revenues during the year ended June 30, 2018.

Rubicon Programs Incorporated and Affiliates
Notes to Consolidated Financial Statements
June 30, 2018

15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Economic empowerment program	\$ 635,375
Executive program	31,518
Landscape program	28,857
Other	<u>13,058</u>
	<u>\$ 708,808</u>

Temporarily restricted net assets released from restriction during the year were as follows:

Economic empowerment program	\$ 1,272,028
Executive program	66,413
Organizational impact	25,000
Landscape program	33,925
Other	<u>9,442</u>
	<u>\$ 1,406,808</u>

SUPPLEMENTARY INFORMATION

Rubicon Programs Incorporated and Affiliates
Consolidating Statement of Financial Position
For the Year Ended June 30, 2018

ASSETS

	Rubicon Programs Incorporated	Rubicon Enterprises, Inc.	Rubicon Homes	Rubicon Landscape Corporation	Eliminating Entries	2018 Total
Current assets						
Cash and cash equivalents	\$ 1,872,783	\$ (12,092)	\$ 11,625	\$ -	\$ -	\$ 1,872,316
Accounts receivable	1,442,031	629,906	9,553	-	-	2,081,490
Contributions receivable	700,200	-	-	-	-	700,200
Notes receivable	43,154	-	-	-	-	43,154
Receivables from Rubicon Landscape Corporation	361,073	42,606	-	-	(403,679)	-
Due from other funds	1,632,123	-	-	-	(1,632,123)	-
Prepaid expenses	170,778	42,232	134	-	-	213,144
Deposits and other assets	30,988	10,664	261,562	-	-	303,214
Total current assets	<u>6,253,130</u>	<u>713,316</u>	<u>282,874</u>	<u>-</u>	<u>(2,035,802)</u>	<u>5,213,518</u>
Non-current assets						
Property and equipment, net	<u>3,397,098</u>	<u>6,222</u>	<u>234,603</u>	<u>-</u>	<u>-</u>	<u>3,637,923</u>
Total non-current assets	<u>3,397,098</u>	<u>6,222</u>	<u>234,603</u>	<u>-</u>	<u>-</u>	<u>3,637,923</u>
Total assets	<u>\$ 9,650,228</u>	<u>\$ 719,538</u>	<u>\$ 517,477</u>	<u>\$ -</u>	<u>\$ (2,035,802)</u>	<u>\$ 8,851,441</u>

See accompanying independent auditor's report.

Rubicon Programs Incorporated and Affiliates
Consolidating Statement of Financial Position
For the Year Ended June 30, 2018

LIABILITIES AND NET ASSETS

	Rubicon Programs Incorporated	Rubicon Enterprises, Inc.	Rubicon Homes	Rubicon Landscape Corporation	Eliminating Entries	2018 Total
Current liabilities						
Accounts payable	\$ 158,714	\$ 44,910	\$ 7,998	\$ -	\$ -	\$ 211,622
Accrued liabilities	1,012,978	157,366	954	-	-	1,171,298
Other current liabilities	1,657	-	2,967	-	-	4,624
Capital lease obligation	93,147	-	-	-	-	93,147
Line of credit	1,422,000	-	-	-	-	1,422,000
Current portion of mortgage payable	288,706	-	57,200	-	-	345,906
Due to other funds	-	1,632,064	-	403,679	(2,035,743)	-
Total current liabilities	<u>2,977,202</u>	<u>1,834,340</u>	<u>69,119</u>	<u>403,679</u>	<u>(2,035,743)</u>	<u>3,248,597</u>
Long-term liabilities						
Capital lease obligation, net of current portion	107,024	-	-	-	-	107,024
Notes payable, net of current portion	<u>1,650,432</u>	<u>-</u>	<u>592,415</u>	<u>-</u>	<u>-</u>	<u>2,242,847</u>
Total long-term liabilities	<u>1,757,456</u>	<u>-</u>	<u>592,415</u>	<u>-</u>	<u>-</u>	<u>2,349,871</u>
Total current liabilities	<u>4,734,658</u>	<u>1,834,340</u>	<u>661,534</u>	<u>403,679</u>	<u>(2,035,743)</u>	<u>5,598,468</u>
Net assets						
Unrestricted	4,206,762	(1,114,802)	(144,057)	(403,679)	(59)	2,544,165
Temporarily restricted	<u>708,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>708,808</u>
Total net assets	<u>4,915,570</u>	<u>(1,114,802)</u>	<u>(144,057)</u>	<u>(403,679)</u>	<u>(59)</u>	<u>3,252,973</u>
Total liabilities and net assets	<u>\$ 9,650,228</u>	<u>\$ 719,538</u>	<u>\$ 517,477</u>	<u>\$ -</u>	<u>\$ (2,035,802)</u>	<u>\$ 8,851,441</u>

See accompanying independent auditor's report.

Rubicon Programs Incorporated and Affiliates
Consolidating Statement of Activities
For the Year Ended June 30, 2018

	<u>Rubicon Programs Incorporated</u>	<u>Rubicon Enterprises, Inc.</u>	<u>Rubicon Homes</u>	<u>Rubicon Landscape Corporation</u>	<u>Eliminating Entries</u>	<u>2018 Total</u>
Revenues, gains and other support						
Program service contracts and grants	\$ 6,457,601	\$ -	\$ 195,061	\$ -	\$ -	\$ 6,652,662
Landscape services	3,183,158	4,011,788	-	-	(267,805)	6,927,141
Grants and contributions	2,313,967	-	-	-	-	2,313,967
Other income	346,790	189	2,468	-	(201,146)	148,301
Housing other income	-	-	955	-	-	955
Total revenues, gains and other support	<u>12,301,516</u>	<u>4,011,977</u>	<u>198,484</u>	<u>-</u>	<u>(468,951)</u>	<u>16,043,026</u>
Functional expenses						
Program services	9,320,647	3,979,938	151,805	403,738	(468,951)	13,387,177
Management and general	2,836,009	636,767	-	-	-	3,472,776
Fundraising	622,408	-	-	-	-	622,408
Total functional expenses	<u>12,779,064</u>	<u>4,616,705</u>	<u>151,805</u>	<u>403,738</u>	<u>468,951</u>	<u>17,482,361</u>
Changes in net assets	(477,548)	(604,728)	46,679	(403,738)	-	(1,439,335)
Net assets, beginning of year	<u>5,393,118</u>	<u>(510,074)</u>	<u>(190,736)</u>	<u>-</u>	<u>-</u>	<u>4,692,308</u>
Net assets, end of year	<u>\$ 4,915,570</u>	<u>\$ (1,114,802)</u>	<u>\$ (144,057)</u>	<u>\$ (403,738)</u>	<u>\$ -</u>	<u>\$ 3,252,973</u>

See accompanying independent auditor's report.

Rubicon Programs Incorporated and Affiliates
Statement of Functional Expenses - Rubicon Programs Incorporated
For the Year Ended June 30, 2018

	Programs	Housing Management	Landscape Services	Total Program Services	Management and General	Fundraising	2018 Total
Personnel							
Salaries	\$ 3,739,771	\$ -	\$ 949,223	\$ 4,688,994	\$ 2,079,510	\$ 373,345	\$ 7,141,849
Employee benefits and payroll taxes	750,121	-	345,080	1,095,201	362,372	59,259	1,516,832
Total personnel	<u>4,489,892</u>	<u>-</u>	<u>1,294,303</u>	<u>5,784,195</u>	<u>2,441,882</u>	<u>432,604</u>	<u>8,658,681</u>
Operating expenses							
Consultants and professional services	946,866	-	4,601	951,467	166,118	50,006	1,167,591
Occupancy	283,946	-	31,572	315,518	123,142	15,541	454,201
Allocated expenses from Rubicon Enterprises, Inc.	120,798	-	842,891	963,689	(120,798)	-	842,891
Allocated expenses to Rubicon Enterprises, Inc.	1,023,762	-	281,865	1,305,627	(2,048,520)	109,261	(633,632)
Office expenses	206,213	-	4,358	210,571	403,070	23,915	637,556
Depreciation	142,958	38,027	214,678	395,663	96,469	8,209	500,341
Program and participant support	269,197	-	-	269,197	600	171	269,968
Transportation and travel	59,833	-	84,568	144,401	24,387	369	169,157
Housing operations	-	183,120	-	183,120	-	-	183,120
Other staff costs	25,237	-	1,370	26,607	145,443	3,073	175,123
Landscape operations	-	-	337,679	337,679	-	-	337,679
Events and marketing	29,688	-	206	29,894	22,925	88,520	141,339
Miscellaneous non-operating	431	-	(171,048)	(170,617)	45,666	-	(124,951)
Total operating expenses	<u>3,108,929</u>	<u>221,147</u>	<u>1,632,740</u>	<u>4,962,816</u>	<u>(1,141,498)</u>	<u>299,065</u>	<u>4,120,383</u>
Total 2018 functional expenses	<u>\$ 7,598,821</u>	<u>\$ 221,147</u>	<u>\$ 2,927,043</u>	<u>\$ 10,747,011</u>	<u>\$ 1,300,384</u>	<u>\$ 731,669</u>	<u>\$ 12,779,064</u>

See accompanying independent auditor's report.

Rubicon Programs Incorporated and Affiliates
Statement of Functional Expenses - Rubicon Enterprises, Inc.
For the Year Ended June 30, 2018

	Program Services <u>(Landscaping)</u>	Management and General	2018 Total
Personnel			
Salaries	\$ 2,142,958	\$ -	\$ 2,142,958
Employee benefits and payroll taxes	<u>703,950</u>	<u>-</u>	<u>703,950</u>
Total personnel	<u>2,846,908</u>	<u>-</u>	<u>2,846,908</u>
Landscape operations	756,722	-	756,722
Transportation and mileage	423,451	-	423,451
Occupancy	197,273	-	197,273
Office expenses	111,503	3,135	114,638
Consultants and sub-contractors	113,587	-	113,587
Events and marketing	10,370	-	10,370
Other staff costs	383,411	-	383,411
Depreciation	5,831	-	5,831
Miscellaneous non-operating	(26,227)	-	(26,227)
Expenses allocated to Rubicon Programs Incorporated	(842,891)	-	(842,891)
Expenses allocated from Rubicon Programs Incorporated	<u>-</u>	<u>633,632</u>	<u>633,632</u>
Total operating expenses	<u>1,133,030</u>	<u>636,767</u>	<u>1,769,797</u>
	<u>\$ 3,979,938</u>	<u>\$ 636,767</u>	<u>\$ 4,616,705</u>

See accompanying independent auditor's report.

Rubicon Programs Incorporated and Affiliates
Statement of Functional Expenses - Rubicon Homes
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018 <u>Program Total</u>
Personnel costs	
Total personnel costs	\$ <u>-</u>
Operating expenses	
Housing operations	60,265
Office expenses	32,967
Consultants and subcontractors	12,245
Depreciation	35,940
Miscellaneous non-operating	<u>10,388</u>
Total operating expenses	<u>151,805</u>
 Total 2018 functional expenses	 \$ <u><u>151,805</u></u>

See accompanying independent auditor's report.



INDEPENDENT AUDITOR'S 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
Rubicon Programs Incorporated and Affiliates
Richmond, California

We have audited, in accordance with the 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 Rubicon Programs Incorporated and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. 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 will not be prevented, or detected and corrected, on a timely basis. 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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 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

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.

A handwritten signature in black ink that reads "Armanino LLP". The script is cursive and fluid, with the letters "Armanino" written in a continuous flow and "LLP" written in a slightly more spaced-out, bold script.

Armanino^{LLP}
San Francisco, California

December 12, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM,
INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Rubicon Programs Incorporated and Affiliates
Richmond, California

Report on Compliance for Each Major Federal Program

We have audited Rubicon Programs Incorporated and Affiliates (the "Organization")'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 the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 *Government 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* (the "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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2018.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization'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 the Organization's internal control over compliance.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the the Organization's consolidated financial statements as of and for the year ended June 30, 2018, and have issued our report thereon dated December 12, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 U.S. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Armanino^{LLP}
San Francisco, California

December 12, 2018

Rubicon Programs Incorporated and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal CFDA Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Housing and Urban Development ("HUD"):			
Direct awards			
Supportive Housing Program			
Berkeley Housing	CA0186L9T051508	14.235	\$ 127,677
Pass-through program from:			
Community Development Block Grants/ Entitlement Grants			
Loans from City of Richmond			
909-919 Virginia Ave.	278-5450000	14.218	67,574
101 Broadway	277-000000	14.218	255,000
534 Ohio Avenue	272-525000	14.218	42,200
2500 Bissell Ave. and 101 Broadway	272-110000	14.218	42,000
2500 Bissell Ave.		14.218	14,931
534 Ohio Avenue	271-525000	14.218	80,000
Loan from Contra Costa County Community Development Department			
534 Ohio Avenue		14.238	80,000
Total HUD			709,382
U.S. Department of Labor ("DOL"):			
Pass-through program from:			
Alameda County Department of Social Services			
WIOA Adult Program - Eden Area	900203	17.258	243,493
WIOA Dislocated Worker Formula Grants - Eden Area	900203	17.278	223,684
NWDG - Storms 2017 Grant Project	900203	17.277	114,138
Direct award			
Reintegration of Ex-Offenders - Non-Youth	PE-30750-17-60-A-6	17.270	243,095
Total DOL			824,410
U.S. Department of Health and Human Services ("DHHS"):			
Direct awards			
Healthy Marriage Promotion and Responsible Fatherhood Grants			
Fathers Advancing Community Together	90FK0062-01-02	93.086	435,481
Fathers Advancing Community Together	90FK0062-02-03	93.086	1,542,522
Community Services Block Grant - Oakland Community Action Partnership Grant	17F-2002	93.569	61,576
			2,039,579
Pass-through program from:			
Alameda County Department of Workforce and Benefits Administration			
Temporary Assistance for Needy Families			
Career and Employment Center - North County	900203	93.558	485,101
Career and Employment Center - South County	900203	93.558	579,870
Contra Costa County Department of Health Services			
Cal-Works	24-958-23	93.570	127,821
Total DHHS			3,232,371

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Rubicon Programs Incorporated and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal CFDA Number	Total Federal Expenditures
U.S. Department of Agriculture			
Direct awards			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			
CalFresh E&T - Fresh Success	FRS-009-16	10.561	<u>219,515</u>
Total U.S. Department of Agriculture			<u>219,515</u>
Total Expenditures of Federal Awards			<u>\$ 4,985,678</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Rubicon Programs Incorporated and Affiliates
Notes to Schedule of Expenditures of Federal Awards
June 30, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Rubicon Programs Incorporated and Affiliates (the "Organization") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule 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 Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported 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 limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The Organization has elected to not use the 10% de minimis indirect cost rate for federal awards. The Organization applies indirect costs in accordance with the specific terms of its federal award agreements.

4. LOANS

The Organization has loans that are funded by the U.S. Department of Housing and Urban Development's Community Development Block Grants program. The balance of outstanding loans for which there are continuing compliance requirements amounted to \$581,705 at June 30, 2018.

Rubicon Programs Incorporated and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Temporary Assistance for Needy Families	93.558
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Rubicon Programs Incorporated and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Rubicon Programs Incorporated and Affiliates
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

There were no prior year findings.