

FAMILIES FORWARD, INC.

**Financial Statements
For the Years Ended
September 30, 2015 and 2014
and
Independent Auditor's Report**

Families Forward, Inc.
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Independent Auditor's Report

To the Audit Committee and Board of Directors of
Families Forward, Inc.
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of Families Forward, Inc. (a California nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Families Forward, Inc. as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of Families Forward, Inc.'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 Families Forward, Inc.'s internal control over financial reporting and compliance.

HBKA Certified Public Accountants, Inc.

December 11, 2015

Families Forward, Inc.
Statements of Financial Position
September 30, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash and cash equivalents	\$ 615,394	\$ 901,041
Grants receivable	320,813	363,451
Prepaid expenses and other current assets	84,816	71,905
Investments	878,863	742,774
Total current assets	1,899,886	2,079,171
Property and Equipment, net	7,174,397	7,003,451
Other Assets		
Assets held in charitable remainder trust	380,303	411,384
Contributions receivable	93,000	-
Investments	23,013	-
Total other assets	496,316	411,384
Total assets	\$ 9,570,599	\$ 9,494,006
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 24,532	\$ 44,276
Accrued expenses	103,195	97,653
Clients' deposits	1,286	9,507
Note payable, current portion	-	23,571
Total current liabilities	129,013	175,007
Long-Term Debt		
Liability for amounts held for others	187,611	195,466
Note payable, net of current portion	36,161	-
Total long-term debt	223,772	195,466
Total liabilities	352,785	370,473
Net Assets		
Unrestricted	8,705,956	8,702,293
Temporarily restricted	411,858	421,240
Permanently restricted	100,000	-
Total net assets	9,217,814	9,123,533
Total liabilities and net assets	\$ 9,570,599	\$ 9,494,006

See accompanying notes to financial statements and independent auditor's report.

Families Forward, Inc.
Statements of Activities
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Net Assets		
Support and revenue		
Contributions	\$ 1,481,313	\$ 1,444,401
Special events, net of direct benefit expenses of \$101,497 and \$87,117, respectively	401,738	347,783
Grants from government agencies	619,857	640,787
Investment income (loss)	(10,549)	46,680
Rental and other income	59,732	92,829
Gain on sale of property and equipment	-	2,000
Donated goods and services	<u>1,348,339</u>	<u>1,113,473</u>
Total support and revenue	3,900,430	3,687,953
Net assets released from restrictions	<u>122,906</u>	<u>9,156</u>
Total support, revenue, and satisfaction of restrictions	<u>4,023,336</u>	<u>3,697,109</u>
Expenses		
Housing and other programs	3,578,799	3,264,534
Administration	191,985	172,577
Fundraising	<u>248,889</u>	<u>228,793</u>
Total expenses	<u>4,019,673</u>	<u>3,665,904</u>
Increase in unrestricted net assets	<u>3,663</u>	<u>31,205</u>
Temporarily Restricted Net Assets		
Changes in assets and liabilities held in charitable remainder trust	(23,226)	13,788
Contributions	136,750	113,750
Net assets released from restrictions	<u>(122,906)</u>	<u>(9,156)</u>
Increase (decrease) in temporarily restricted net assets	<u>(9,382)</u>	<u>118,382</u>
Permanently Restricted Net Assets		
Contributions	<u>100,000</u>	<u>-</u>
Total increase in net assets	<u>\$ 94,281</u>	<u>\$ 149,587</u>

See accompanying notes to financial statements and independent auditor's report.

Families Forward, Inc.
Statements of Changes in Net Assets
For the Years Ended September 30, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, October 1, 2013	\$ 8,671,088	\$ 302,858	\$ -	\$ 8,973,946
Increase in net assets	<u>31,205</u>	<u>118,382</u>	<u>-</u>	<u>149,587</u>
Net assets, September 30, 2014	8,702,293	421,240	-	9,123,533
Increase (decrease) in net assets	<u>3,663</u>	<u>(9,382)</u>	<u>100,000</u>	<u>94,281</u>
Net assets, September 30, 2015	<u><u>\$ 8,705,956</u></u>	<u><u>\$ 411,858</u></u>	<u><u>\$ 100,000</u></u>	<u><u>\$ 9,217,814</u></u>

See accompanying notes to financial statements and independent auditor's report.

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2015

	Housing and Other Programs	Administration	Fundraising	Total
Association dues	\$ 118,664	\$ -	\$ -	\$ 118,664
Auto mileage	8,365	188	1,428	9,981
Bank charges	-	9,120	-	9,120
Closing costs and relocation expense	1,936	-	-	1,936
Community education	8,077	124	320	8,521
Computer expenses	40,969	4,047	6,196	51,212
Consultants	44,665	-	4,450	49,115
Depreciation	197,908	18,174	16,151	232,233
Donated materials and services	1,189,584	7,718	-	1,197,302
Dues and subscriptions	915	180	45	1,140
Employee benefits	102,360	10,236	15,354	127,950
Fund development	-	-	3,046	3,046
Insurance	21,241	1,243	1,868	24,352
Maintenance and rent	50,576	943	1,497	53,016
Mortgage interest	211	9	11	231
Newsletter and printing	9,634	959	8,969	19,562
Office expense	26,409	1,527	6,603	34,539
Payroll	1,194,477	103,855	155,782	1,454,114
Payroll service fees	4,164	446	625	5,235
Payroll taxes	97,765	9,777	14,665	122,207
Postage	1,547	350	3,710	5,607
Prevention program expenses	237,311	-	-	237,311
Professional fees	1,933	17,868	361	20,162
Property tax	5,528	27	46	5,601
Telephone	23,899	2,544	3,585	30,028
Transitional housing expenses	93,933	-	-	93,933
Truck expenses	14,046	-	-	14,046
Utilities	68,929	1,275	2,113	72,317
Workers compensation	13,753	1,375	2,064	17,192
Total functional expenses	<u>\$ 3,578,799</u>	<u>\$ 191,985</u>	<u>\$ 248,889</u>	<u>\$ 4,019,673</u>

See accompanying notes to financial statements and independent auditor's report.

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2014

	Housing and Other Programs	Administration	Fundraising	Total
Association dues	\$ 115,863	\$ -	\$ -	\$ 115,863
Auto mileage	8,511	366	223	9,100
Bank charges	-	7,002	-	7,002
Community education	1,856	-	-	1,856
Computer expenses	39,304	3,927	6,017	49,248
Consultants	22,030	-	-	22,030
Depreciation	197,147	17,610	15,588	230,345
Donated materials and services	1,119,912	1,100	-	1,121,012
Dues and subscriptions	1,727	110	352	2,189
Employee benefits	106,158	10,616	15,924	132,698
Fund development	-	-	15,991	15,991
Insurance	22,700	1,328	1,696	25,724
Maintenance and rent	48,652	1,587	1,399	51,638
Mortgage interest	10,117	732	727	11,576
Newsletter and printing	11,325	201	7,586	19,112
Office expense	13,520	2,645	5,873	22,038
Payroll	1,057,867	89,952	134,042	1,281,861
Payroll service fees	3,000	300	450	3,750
Payroll taxes	86,489	8,649	12,973	108,111
Postage	2,083	298	2,544	4,925
Prevention program expenses	172,022	-	-	172,022
Professional fees	-	18,375	-	18,375
Property tax	10,623	202	269	11,094
Telephone	21,407	2,147	3,211	26,765
Transitional housing expenses	101,531	-	-	101,531
Truck expenses	9,201	-	-	9,201
Utilities	67,840	4,065	1,881	73,786
Workers compensation	13,649	1,365	2,047	17,061
Total functional expenses	<u>\$ 3,264,534</u>	<u>\$ 172,577</u>	<u>\$ 228,793</u>	<u>\$ 3,665,904</u>

See accompanying notes to financial statements and independent auditor's report.

Families Forward, Inc.
Statements of Cash Flows
For the Years Ended September 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Increase in unrestricted net assets	\$ 3,663	\$ 31,205
Increase (decrease) in temporarily restricted net assets	(9,382)	118,382
Increase in permanently restricted net assets	100,000	-
Total increase in net assets	<u>94,281</u>	<u>149,587</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	232,233	230,345
Donated property and equipment	(156,805)	-
Gain on sale of property and equipment	-	(2,000)
Unrealized loss (gain) on investments	27,912	(32,346)
Decrease (increase) in assets and liabilities held in charitable remainder trust	23,226	(13,788)
Decrease in grants receivable	42,638	93,254
Increase in contributions receivable	(93,000)	-
Decrease (increase) in prepaid expenses and other current assets	(12,911)	29,172
Decrease in accounts payable	(19,744)	(22,003)
Increase in accrued expenses	5,542	15,536
Decrease in clients' deposits	(8,221)	(12,690)
Total adjustments	<u>40,870</u>	<u>285,480</u>
Net cash provided by operating activities	<u>135,151</u>	<u>435,067</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(210,213)	(212,370)
Sale of property and equipment	-	2,000
Proceeds from sales of investments	-	59,925
Purchases of investments	(187,014)	(71,600)
Net cash used by investing activities	<u>(397,227)</u>	<u>(222,045)</u>
Cash Flows from Financing Activities		
Payments on bank term loans	(23,571)	(758,202)
Net decrease in cash and cash equivalents	(285,647)	(545,180)
Cash and cash equivalents, beginning of year	<u>901,041</u>	<u>1,446,221</u>
Cash and cash equivalents, end of year	<u>\$ 615,394</u>	<u>\$ 901,041</u>

See accompanying notes to financial statements and independent auditor's report.

Families Forward, Inc.
Statements of Cash Flows (Continued)
For the Years Ended September 30, 2015 and 2014

Supplemental Disclosure of Cash Flow Information:

	<u>2015</u>	<u>2014</u>
Cash paid during the year for interest	<u>\$ 231</u>	<u>\$ 11,576</u>

Supplemental Disclosure of Noncash Investing and Financing Activities:

Property and equipment acquisitions of \$36,161 were financed with a promissory note during the year ended September 30, 2015 (Note 7).

See accompanying notes to financial statements and independent auditor's report.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2015 and 2014

1. Organization

Families Forward, Inc. (the Organization) is a not-for-profit agency dedicated to helping low income and homeless families in need. The Organization addresses families' needs at any point in their crisis by providing a broad spectrum of services, including housing, counseling, food, education, case management, life-skills training, and rent or utility assistance. Support and revenues are raised through various charitable events, grants, and private donations. The Organization was incorporated on November 30, 1984, is headquartered in Irvine, California, and serves families throughout Orange County, California.

2. Summary of Significant Accounting Policies

Net Asset Classifications

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including Board-designated amounts, are legally unrestricted, and are reported as part of the unrestricted class.

Unrestricted net assets consist of funds that are fully available for the Organization to utilize in any of its programs or supporting services at the discretion of the Board of Directors.

Temporarily restricted net assets consist of funds that are restricted by donors for a specific time period or purpose.

Permanently restricted net assets consist of funds that contain donor-imposed restrictions requiring the principal be invested in perpetuity and that only the income be used. Income earned on these funds may be unrestricted or temporarily restricted, depending upon the donor-imposed restrictions.

Support and Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as additions to temporarily restricted or permanently restricted net assets. When a temporary restriction has been satisfied, the related temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as "net assets released from restrictions."

When donor restrictions on contributions are satisfied in the same period as the receipt of the contribution, the Organization reports both revenue and the related expense in the unrestricted net asset category.

Grants are received from various governmental agencies and private foundations. The majority of grant funds are used for program related purposes and acquisitions of and improvements to facilities owned by the Organization.

Rental income consists of rents paid by participants in the transitional housing program. Rental rates are scaled based on participants' income and rents are month-to-month.

Grants Receivable

Grants receivable are recorded when an obligation from a granting agency is committed in writing and when qualifying expenditures are made in connection with grants that provide for reimbursement of such expenditures. Management believes that all grants receivable as of September 30, 2015 and 2014 were fully collectible; therefore, no allowance for doubtful accounts was recorded.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

Promises to Give

Unconditional promises to give are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Purchased property and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to be used for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Organization has elected to capitalize all property and equipment additions greater than \$500. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Allocations are made based on a combination of time spent by employees on various projects and square footage utilized by each cost center.

Cash and Cash Equivalents

The Organization considers all cash and short-term investments with an original maturity date of three months or less to be cash and cash equivalents.

Investments

Investments and assets held in charitable remainder trust are reported at fair value and consist of mutual funds and money market funds.

Income Taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code Section 501(c)(3) and similar provisions of the State of California Revenue and Taxation Code.

The Organization's federal income tax and informational returns for the fiscal years ended September 30, 2012, and subsequent, remain open for examination by the Internal Revenue Service. The returns for California, the Organization's only state jurisdiction, remain open for examination by the California Franchise Tax Board for the fiscal years ended September 30, 2011, and subsequent.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

Management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, deposits of up to \$250,000 at FDIC-insured institutions are covered by FDIC insurance. At times, deposits may be in excess of the FDIC insurance limit; however, management does not believe the Organization is exposed to any significant related credit risk.

Donated Goods and Services

Donated goods and services are recorded at their estimated fair values at the date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended September 30, 2015 and 2014, donated goods and services received by the Organization meeting the above criteria were valued at \$1,348,339 and \$1,113,473, respectively, most of which related to rent for the housing program participants, food donated to the food pantry, and other household furnishings.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported results of operations or net assets.

Subsequent Events

Management has evaluated subsequent events through December 11, 2015, the date the financial statements were available to be issued.

3. Fair Value of Financial Instruments

The Organization determines the fair values of its investments based on the fair value hierarchy established in Accounting Standards Codification (ASC) Section 820, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The statement requires fair value measurements to be classified and disclosed in one of the following three categories.

Level 1 - Quoted prices in active markets for identical assets and liabilities, including equity and debt securities and derivative contracts that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2015 and 2014

3. Fair Value of Financial Instruments (Continued)

Mutual funds, bond funds, and equity funds are valued at the closing price reported on the active market on which the individual securities are traded.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30:

	<u>2015</u>	<u>2014</u>
	Quoted Prices (Level 1)	Quoted Prices (Level 1)
Investments:		
Bond funds	\$ 499,133	\$ 410,366
Equity funds	402,743	332,408
	<u>\$ 901,876</u>	<u>\$ 742,774</u>
Assets held in charitable remainder trust:		
Money market funds	\$ 17,538	\$ 28,083
Bond funds	144,615	143,850
Equity funds	218,150	239,451
	<u>\$ 380,303</u>	<u>\$ 411,384</u>

The fair value of donated services, food items, rent, and supplies is estimated using third-party quotations and is categorized in Level 2 of the fair value hierarchy.

4. Property and Equipment

Property and equipment is summarized as follows at September 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 2,921,477	\$ 2,816,633
Buildings and improvements	4,859,732	4,766,333
Furniture and equipment	381,961	370,067
Autos and trucks	24,998	24,998
Construction in progress	193,042	-
	<u>8,381,210</u>	<u>7,978,031</u>
Total property and equipment	8,381,210	7,978,031
Accumulated depreciation	(1,206,813)	(974,580)
	<u>\$ 7,174,397</u>	<u>\$ 7,003,451</u>
Total property and equipment, net	<u>\$ 7,174,397</u>	<u>\$ 7,003,451</u>

In September 2015, the Organization acquired a four-unit housing complex for \$100,000 cash and a non-interest-bearing \$100,000 promissory note, discounted to the net present value of \$36,161, to the Lake Forest Housing Authority (Note 7). The property requires significant improvements and is intended to be used for affordable housing. Additionally, the City of Lake Forest, in accordance with a grant agreement dated May 2015, will reimburse the Organization up to a maximum of \$400,000 for rehabilitation costs. The building acquisition and rehabilitation costs are reported in construction in progress, until the property is placed in service.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2015 and 2014

5. Restricted Net Assets

Grant Loan

On November 17, 2004, the Organization received a Community Housing Development Organization (CHDO) grant loan from the City of Irvine in the amount of \$183,139 to partially fund the purchase of real property. The property was to be used for transitional housing rentals for homeless families for a period of 20 years. The purchase price of the property was approximately \$382,000. The remaining funds were provided through a bank loan, which was paid in full during 2007. If, after the 20 year period, the Organization is not in default of the provisions of the grant loan, as defined in the agreement, the grant loan will expire and be of no force or effect on the Organization. In the event the Organization is in default, a pro rata portion of the grant loan plus accrued interest at 10% per annum will become immediately due and payable. The pro rata amount shall be determined by multiplying \$183,139 times the percentage obtained by dividing the number of months remaining on the 20 year term by 240. The grant loan was reported as a temporarily restricted contribution, as management considers the likelihood of default of the provisions of the grant loan to be remote, and is being released from restriction over the 20 years at \$9,156 per year. At September 30, 2015, the unreleased portion of the grant was \$82,416. The CHDO grant loan is secured by a deed of trust on the property. Management believes that the Organization was in compliance with the provisions of the CHDO grant loan as of September 30, 2015.

Charitable Remainder Trust

The Organization has been named trustee and remainder beneficiary of an irrevocable charitable remainder annuity trust, which was created in September 2008. In each taxable year of the trust, during the annuity period, the trustee shall pay the annuity beneficiary an annuity amount equal to 5.76% of the initial fair value of the trust assets. Upon the death of the beneficiary, the remaining trust assets will be distributed to the Organization. The Organization is restricted by the trust agreement to utilize the assets for programs. A noncurrent asset for the charitable remainder trust was recognized at the appraised value of \$360,000 as of September 30, 2008.

The present value of the expected future annuity payments discounted at a rate of 5% was recognized as a Liability for Amount Held for Others.

The fair value of Assets Held in Charitable Remainder Trust at September 30, 2015 and 2014 was \$380,303 and \$411,384, respectively; the Liability for Amounts Held for Others was \$187,611 and \$195,466, respectively; the temporarily restricted net residual was \$192,692 and \$215,918, respectively; and the Changes in Assets and Liabilities Held in Charitable Remainder Trust was a loss of \$23,226 and a gain of \$13,788, respectively.

The Change in Assets Held in Charitable Remainder Trust was comprised of the following for the years ending September 30:

	<u>2015</u>	<u>2014</u>
Investment (loss) income	\$ (10,345)	\$ 26,939
Payments to beneficiary from trust	(20,736)	(20,736)
Amortized interest on payments to beneficiary	<u>7,855</u>	<u>7,585</u>
Change in assets and liabilities held in charitable remainder trust	<u>\$ (23,226)</u>	<u>\$ 13,788</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2015 and 2014

5. Restricted Net Assets (Continued)

Net assets were restricted for the following purposes as of September 30:

	2015	2014
Temporarily restricted:		
CHDO grant	\$ 82,416	\$ 91,572
Charitable remainder trust	192,692	215,918
Contributions for endowment distributions	18,000	-
FACE 2024 - Phase I Housing Grant	118,750	113,750
	<u>411,858</u>	<u>421,240</u>
Total temporarily restricted net assets	<u>\$ 411,858</u>	<u>\$ 421,240</u>

Net assets released from restriction consisted of the following during the years ended September 30:

	2015	2014
Satisfaction of restrictions:		
CHDO grant	\$ 9,156	\$ 9,156
FACE 2024 - Phase I Housing Grant	113,750	-
	<u>122,906</u>	<u>9,156</u>
Total net assets released from restrictions	<u>\$ 122,906</u>	<u>\$ 9,156</u>

Endowment

Pursuant to a gift agreement, dated December 10, 2014, Irving and Nancy Chase (the donors) committed to fund an endowment (The Nancy Fund) of \$100,000. The first endowment installment for \$25,000 was received in February 2015, with the balance to be paid in annual installments, beginning November 2015 and ending November 2018. The donors also committed to contribute \$6,000 annually, as funds immediately available for use as endowment distributions, until the \$100,000 endowment is fully funded, after which time income from the endowment investments will finance the distributions. The first \$6,000 contribution was received in February 2015. The remaining promise-to-give of \$93,000 is recorded as contributions receivable in the statement of financial position at September 30, 2015. Additionally, investments restricted for permanent endowment of \$23,013 are included in noncurrent assets in the statement of financial position at September 30, 2015.

The endowment will distribute an annual amount of up to but not more than 5% of its three-year average value (or less, if the endowment has not been in existence for at least three years), for the purpose of supporting children's needs. The original gift amount will be designated as principal and will remain in the endowment in perpetuity to generate future income for distribution. Any distributions from the endowment will be used specifically to allocate direct grants to provide children with funding to enroll in enrichment programs, participate in special occasions, or receive vital fees, equipment, or materials to succeed.

The Organization's long-term investment policy is that no more than 5% of the investment portfolio shall be placed in any one security or fund, with the exception of a money market fund or a broadly diversified mutual fund or exchange-traded fund. As of September 30, 2015, the investment restricted for permanent endowment was comprised of an equity fund that allocates its assets among underlying funds that represent a variety of different asset classes.

Families Forward, Inc.
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5. Restricted Net Assets (Continued)

The value of the investment restricted for permanent endowment as of September 30, 2015 was accounted for as follows:

Endowment fund balance, September 30, 2014	\$	-
Contribution received for endowment		25,000
Contribution received for distribution		6,000
Distributions made		(6,000)
Dividends and interest earned		209
Change in value of investments		<u>(2,196)</u>
Endowment fund balance, September 30, 2015	\$	<u><u>23,013</u></u>

6. Unrestricted Net Assets

The Board designated unrestricted net assets for the following purposes as of September 30:

	<u>2015</u>	<u>2014</u>
Invested in capital assets	\$ 7,091,981	\$ 6,911,879
Reserves for operations	1,066,715	1,175,946
Legacy fund	547,260	559,468
Undesignated	<u>-</u>	<u>55,000</u>
Total unrestricted net assets	<u><u>\$ 8,705,956</u></u>	<u><u>\$ 8,702,293</u></u>

7. Notes Payable

The \$800,000 US Bank note, dated November 2012, was secured by a deed of trust covering real estate and was payable in 59 monthly installments of \$3,898, including interest at 3.2%, with a final balloon payment due November 20, 2017. The note was paid in full during the year ended September 30, 2015.

	<u>2015</u>	<u>2014</u>
	\$ -	\$ 23,571

The \$100,000 Lake Forest Housing Authority note, dated September 2015, is secured by the deed of trust covering real estate, is non-interest bearing, and is payable in 50 annual installments of \$2,000, beginning in 2020. The debt is recorded at the present value of the future payments under the note, discounted using an imputed interest rate of 4.0%. The carrying value of the non-interest bearing note is reported net of unamortized discount of approximately \$64,000 as of September 30, 2015. Amortization of the discount will be reported in the statement of activities as interest expense (see Note 4).

	<u>36,161</u>	<u>-</u>
Total notes payable	36,161	23,571
Less current portion	<u>-</u>	<u>23,571</u>
Long-term portion	<u><u>\$ 36,161</u></u>	<u><u>\$ -</u></u>

Families Forward, Inc.
Notes to Financial Statements
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7. Notes Payable (Continued)

The future schedules maturities of the note are as follows for the years ending September 30:

2016	\$ -
2017	-
2018	-
2019	-
2020	280
Thereafter	<u>35,881</u>
Total	<u>\$ 36,161</u>

8. Contingencies

The Organization receives a significant portion of its revenues from government grants and contracts, which are subject to audit by the grant making agency. Until such audits have been completed and final settlements determined, there exists a contingency to refund any amount received in excess of allowable costs. Management believes that no material liability will result from such audits.

9. Retirement Plan

In May 1997, the Organization established a tax sheltered annuity retirement plan for qualified employees under Section 403(b) of the Internal Revenue Code. Under the provisions of the plan, employees may make voluntary contributions and the Organization contributes up to 10% of the employees' salaries. The Organization's contributions, charged to expense, were approximately \$102,000 and \$93,000 for the years ended September 30, 2015 and 2014, respectively.

On October 1, 2004, the Board of Directors established a 457(b) deferred compensation plan for members of the management team. The plan provides for salary reduction only, with no matching provision from the Organization.

10. Special Event Activities

The Organization conducted the following special events for fundraising purposes during the years ended September 30:

<u>2015</u>	<u>Proceeds</u>	<u>Direct Expenses</u>	<u>Net</u>
Annual Dinner	<u>\$ 503,235</u>	<u>\$ 101,497</u>	<u>\$ 401,738</u>
<u>2014</u>	<u>Proceeds</u>	<u>Direct Expenses</u>	<u>Net</u>
Annual Dinner	<u>\$ 434,900</u>	<u>\$ 87,117</u>	<u>\$ 347,783</u>

11. Government Grant

In May 2015, the Organization was awarded \$351,817 from the United States Department of Housing and Urban Development (HUD) to be used for the Rapid Rehousing program. The grant is effective from July 1, 2015 through June 30, 2016, is renewable, and will remain in effect until termination either by agreement of the Organization and HUD or upon expiration of the final operation year of the project. As of September 30, 2015, approximately \$65,000 of the funds awarded had been utilized for the program.

Families Forward, Inc.
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12. Subsequent Events

In October 2015, the Organization was selected and awarded \$200,000 by the Bank of America Charitable Foundation as the 2015 Orange County Neighborhood Builder.

In October 2015, the Organization sold a condominium unit in Irvine, California, for approximately \$442,000, resulting in a gain on sale of approximately \$333,000.

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 Audit Committee and Board of Directors of
Families Forward, Inc.
Irvine, 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 financial statements of Families Forward, Inc. (a California nonprofit organization), which comprise the statements of financial position as of September 30, 2015, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Families Forward, Inc.'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 Families Forward, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Families Forward, Inc.'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 Families Forward, Inc.'s 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.

H&A Certified Public Accountants, Inc.

December 11, 2015