

**FAMILIES FORWARD, INC.**

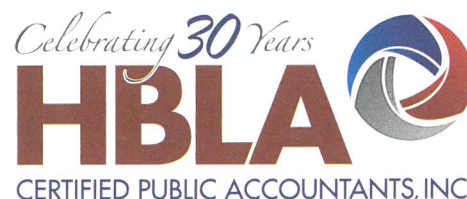
**Financial Statements  
For the Years Ended  
September 30, 2016 and 2015  
and  
Independent Auditor's Report**

**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, 2016 and 2015, and the related statements of activities and 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, 2016 and 2015, 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 9, 2016, 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.

*H&LA Certified Public Accountants, Inc.*

December 9, 2016



**Families Forward, Inc.**  
**Statements of Financial Position**  
**September 30, 2016 and 2015**

Assets	2016	2015
Current Assets		
Cash and cash equivalents	\$ 800,814	\$ 615,394
Grants receivable	510,481	320,813
Prepaid expenses and other current assets	107,767	84,816
Investments	1,278,785	878,863
Total current assets	2,697,847	1,899,886
Property and Equipment, net	7,361,780	7,174,397
Other Assets		
Assets held in charitable remainder trust	390,841	380,303
Contributions receivable	62,000	93,000
Investments	52,563	23,013
Total other assets	505,404	496,316
Total assets	\$ 10,565,031	\$ 9,570,599
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 28,183	\$ 24,532
Accrued expenses	121,566	103,195
Clients' deposits	10,979	1,286
Total current liabilities	160,728	129,013
Long-Term Debt		
Liability for amounts held for others	204,431	187,611
Note payable	36,161	36,161
Total long-term debt	240,592	223,772
Total liabilities	401,320	352,785
Net Assets		
Unrestricted	9,553,041	8,705,956
Temporarily restricted	510,670	411,858
Permanently restricted	100,000	100,000
Total net assets	10,163,711	9,217,814
Total liabilities and net assets	\$ 10,565,031	\$ 9,570,599

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

**Families Forward, Inc.**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended September 30, 2016**  
**(with comparative totals for the year ended September 30, 2015)**

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Contributions	\$ 1,775,019	\$ 239,000	\$ -	\$ 2,014,019	\$ 1,718,063
Special events, net of direct benefit expenses of \$103,759	483,348	-	-	483,348	401,738
Grants from government agencies - program	743,307	-	-	743,307	542,657
Grants from government agencies - capital	328,297	-	-	328,297	77,200
Investment income (loss)	87,287	-	-	87,287	(10,549)
Rental and other income	135,723	-	-	135,723	59,732
Gain on sale of real property	330,893	-	-	330,893	-
Donated goods and services	1,232,116	-	-	1,232,116	1,348,339
Changes in assets and liabilities held in charitable remainder trust	-	(6,282)	-	(6,282)	(23,226)
Total support and revenue	5,115,990	232,718	-	5,348,708	4,113,954
Net assets released from restrictions	133,906	(133,906)	-	-	-
Total support, revenue, and satisfaction of restrictions	5,249,896	98,812	-	5,348,708	4,113,954
Expenses					
Housing and other programs	3,956,037	-	-	3,956,037	3,578,799
Administration	215,398	-	-	215,398	191,985
Fundraising	231,376	-	-	231,376	248,889
Total expenses	4,402,811	-	-	4,402,811	4,019,673
Increase net assets	847,085	98,812	-	945,897	94,281
Net assets, beginning of year	8,705,956	411,858	100,000	9,217,814	9,123,533
Net assets, end of year	\$ 9,553,041	\$ 510,670	\$ 100,000	\$ 10,163,711	\$ 9,217,814

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

**Families Forward, Inc.**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended September 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Contributions	\$ 1,481,313	\$ 136,750	\$ 100,000	\$ 1,718,063
Special events, net of direct benefit expenses of \$101,497	401,738	-	-	401,738
Grants from government agencies - program	542,657	-	-	542,657
Grants from government agencies - capital	77,200	-	-	77,200
Investment loss	(10,549)	-	-	(10,549)
Rental and other income	59,732	-	-	59,732
Donated goods and services	1,348,339	-	-	1,348,339
Changes in assets and liabilities held in charitable remainder trust	-	(23,226)	-	(23,226)
Total support and revenue	3,900,430	113,524	100,000	4,113,954
Net assets released from restrictions	122,906	(122,906)	-	-
Total support, revenue, and satisfaction of restrictions	4,023,336	(9,382)	100,000	4,113,954
Expenses				
Housing and other programs	3,578,799	-	-	3,578,799
Administration	191,985	-	-	191,985
Fundraising	248,889	-	-	248,889
Total expenses	4,019,673	-	-	4,019,673
Increase (decrease) in net assets	3,663	(9,382)	100,000	94,281
Net assets, beginning of year	8,702,293	421,240	-	9,123,533
Net assets, end of year	<u>\$ 8,705,956</u>	<u>\$ 411,858</u>	<u>\$ 100,000</u>	<u>\$ 9,217,814</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, 2016**  
**(with comparative totals for the year ended September 30, 2015)**

	2016				2015
	Housing and Other Programs	Administration	Fundraising	Total	Total
Association dues	\$ 114,965	\$ -	\$ -	\$ 114,965	\$ 118,664
Auto mileage	10,786	495	803	12,084	9,981
Bank charges	-	14,170	-	14,170	9,120
Closing and commission fees	15,783	-	-	15,783	1,936
Community education	5,364	82	212	5,658	8,521
Computer expenses	47,998	4,795	5,719	58,512	51,212
Consultants	576	-	-	576	49,115
Depreciation	208,311	18,355	16,333	242,999	232,233
Donated materials and services	1,108,368	-	-	1,108,368	1,197,302
Dues and subscriptions	1,470	289	72	1,831	1,140
Employee benefits	142,632	12,186	13,959	168,777	127,950
Fund development	-	-	8,047	8,047	3,046
Insurance	19,849	1,095	953	21,897	24,352
Maintenance and rent	56,687	1,111	1,227	59,025	53,016
Mortgage interest	-	-	-	-	231
Newsletter and printing	13,182	1,312	12,270	26,764	19,562
Office expense	22,792	1,318	5,699	29,809	34,539
Payroll	1,467,705	125,401	143,641	1,736,747	1,454,114
Payroll service fees	7,721	660	754	9,135	5,235
Payroll taxes	122,606	10,475	11,999	145,080	122,207
Postage	1,671	388	3,690	5,749	5,607
Prevention program expenses	379,804	-	-	379,804	237,311
Professional fees	-	17,403	-	17,403	20,162
Property tax	10,202	116	131	10,449	5,601
Telephone	24,774	3,173	3,044	30,991	30,028
Transitional housing expenses	81,534	-	-	81,534	93,933
Truck expenses	10,246	-	-	10,246	14,046
Utilities	63,434	1,073	1,103	65,610	72,317
Workers compensation	17,577	1,501	1,720	20,798	17,192
Total functional expenses	<u>\$ 3,956,037</u>	<u>\$ 215,398</u>	<u>\$ 231,376</u>	<u>\$ 4,402,811</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, 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.**  
**Statements of Cash Flows**  
**For the Years Ended September 30, 2016 and 2015**

	2016	2015
Cash Flows from Operating Activities		
Increase in unrestricted net assets	\$ 847,085	\$ 3,663
Increase (decrease) in temporarily restricted net assets	98,812	(9,382)
Increase in permanently restricted net assets	-	100,000
Total increase in net assets	945,897	94,281
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	242,999	232,233
Donated property and equipment	(119,650)	(156,805)
Gain on sale of real property	(330,893)	-
Unrealized loss (gain) on investments	(62,620)	27,912
Decrease in assets and liabilities held in charitable remainder trust	6,282	23,226
Decrease (increase) in grants receivable	(189,668)	42,638
Decrease (increase) in contributions receivable	31,000	(93,000)
Increase in prepaid expenses and other current assets	(22,951)	(12,911)
Increase (decrease) in accounts payable	3,651	(19,744)
Increase in accrued expenses	18,371	5,542
Increase (decrease) in clients' deposits	9,693	(8,221)
Total adjustments	(413,786)	40,870
Net cash provided by operating activities	532,111	135,151
Cash Flows from Investing Activities		
Purchases of property and equipment	(421,746)	(210,213)
Sale of property and equipment	441,907	-
Purchases of investments	(366,852)	(187,014)
Net cash used by investing activities	(346,691)	(397,227)
Cash Flows from Financing Activities		
Payments on note payable	-	(23,571)
Net increase (decrease) in cash and cash equivalents	185,420	(285,647)
Cash and cash equivalents, beginning of year	615,394	901,041
Cash and cash equivalents, end of year	\$ 800,814	\$ 615,394

Supplemental Disclosure of Cash Flow Information:

	2016	2015
Cash paid during the year for interest	\$ -	\$ 231

Supplemental Disclosure of Noncash Investing and Financing Activities:

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

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



**Families Forward, Inc.**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**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

Contributions receivable are recognized upon notification of a donor's unconditional promise to give to the Organization. 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 and affordable housing programs. 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, 2016 and 2015 were fully collectible; therefore, no allowance for doubtful accounts was recorded.

**Families Forward, Inc.**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**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, 2013, 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, 2012, and subsequent.

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.

**Families Forward, Inc.**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**2. Summary of Significant Accounting Policies (Continued)**

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. As of September 30, 2016 and 2015, such deposits were substantially in excess of FDIC insurance limits; 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. Donated goods and services received by the Organization meeting the above criteria were valued at \$1,232,116 and \$1,348,339 for 2016 and 2015, respectively, most of which related to rent for the housing program participants, rehabilitation costs for housing units, food donated to the food pantry, and other household furnishings.

Subsequent Events

Management has evaluated subsequent events through December 9, 2016, 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. 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, 2016 and 2015**

**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:

	2016 Quoted Prices (Level 1)	2015 Quoted Prices (Level 1)
Investments:		
Money market funds	\$ 1,468	\$ -
Bond funds	786,030	499,133
Equity funds	543,850	402,743
Total investments	<u>\$ 1,331,348</u>	<u>\$ 901,876</u>
Assets held in charitable remainder trust:		
Money market funds	\$ 2,153	\$ 17,538
Bond funds	146,798	144,615
Equity funds	241,890	218,150
Total assets held in charitable remainder trust	<u>\$ 390,841</u>	<u>\$ 380,303</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:

	2016	2015
Land	\$ 2,848,212	\$ 2,921,477
Buildings and improvements	5,444,220	4,859,732
Furniture and equipment	341,149	381,961
Autos and trucks	45,000	24,998
Construction in progress	-	193,042
Total property and equipment	8,678,581	8,381,210
Accumulated depreciation	<u>(1,316,801)</u>	<u>(1,206,813)</u>
Total property and equipment, net	<u>\$ 7,361,780</u>	<u>\$ 7,174,397</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 required significant improvements and is being used for affordable housing. Additionally, the City of Lake Forest, in accordance with a grant agreement dated May 2015, reimbursed the Organization approximately \$291,000 for rehabilitation costs. The property was placed in service in December 2015.

In October 2015, the Organization sold a condominium unit in Irvine, California, for approximately \$442,000, resulting in a gain on sale of approximately \$330,000.

**Families Forward, Inc.**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**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, 2016, the unreleased portion of the grant was \$73,260. 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, 2016.

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, 2016 and 2015 was \$390,841 and \$380,303, respectively; the Liability for Amounts Held for Others was \$204,431 and \$187,611, respectively; the temporarily restricted net residual was \$186,410 and \$192,692, respectively; and the Changes in Assets and Liabilities Held in Charitable Remainder Trust was a loss of \$6,282 and \$23,226, respectively.

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

	2016	2015
Investment gain (loss)	\$ 6,599	\$ (10,345)
Payments to beneficiary from trust	(20,736)	(20,736)
Amortized interest on payments to beneficiary	7,855	7,855
Change in assets and liabilities held in charitable remainder trust	<u>\$ (6,282)</u>	<u>\$ (23,226)</u>

**Families Forward, Inc.**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**5. Restricted Net Assets (Continued)**

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

	2016	2015
Temporarily restricted:		
CHDO grant	\$ 73,260	\$ 82,416
Charitable remainder trust	186,410	192,692
Contributions for endowment distributions	12,000	18,000
Contributions with time restrictions	164,000	-
Orange County United Way FACE 2024 Housing Grant	75,000	118,750
	<u>510,670</u>	<u>411,858</u>
Total temporarily restricted net assets	<u>\$ 510,670</u>	<u>\$ 411,858</u>

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

	2016	2015
Satisfaction of restrictions:		
CHDO grant	\$ 9,156	\$ 9,156
FACE 2024 - Phase I Housing Grant	118,750	113,750
Endowment distribution	6,000	-
	<u>133,906</u>	<u>122,906</u>
Total net assets released from restrictions	<u>\$ 133,906</u>	<u>\$ 122,906</u>

Endowment

Pursuant to a gift agreement, dated December 10, 2014, the donors committed to fund an endowment (The Nancy Fund) of \$100,000. The first two \$25,000 endowment installments were received in 2016 and 2015 and the final two \$25,000 installments will be paid in 2017 and 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 two \$6,000 contributions were received in February and November 2015. The remaining promise-to-give of \$62,000 and \$93,000 is recorded as contributions receivable in the statements of financial position at September 30, 2016 and 2015, respectively. Additionally, investments restricted for permanent endowment of \$52,563 and \$23,013 are included in noncurrent assets in the statement of financial position at September 30, 2016 and 2015, respectively.

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, 2016, 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.**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**5. Restricted Net Assets (Continued)**

The value of the investments restricted for permanent endowment were 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	23,013
Contribution received for endowment	25,000
Contribution received for distribution	6,000
Distributions made	(6,000)
Dividends and interest earned	753
Change in value of investments	<u>3,797</u>
Endowment fund balance, September 30, 2016	<u><u>\$ 52,563</u></u>

**6. Unrestricted Net Assets**

The unrestricted net assets consist of the following as of September 30:

	<u>2016</u>	<u>2015</u>
Investment in property and equipment, net of debt	\$ 7,252,359	\$ 7,091,981
Board designated for:		
Reserves for operations	1,525,722	1,066,715
Legacy fund	596,546	547,260
Undesignated	<u>178,414</u>	<u>-</u>
Total unrestricted net assets	<u><u>\$ 9,553,041</u></u>	<u><u>\$ 8,705,956</u></u>

**7. Note Payable**

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, 2016 and 2015 (see Note 4).

**Families Forward, Inc.**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**7. Note Payable (Continued)**

Future maturities of the note are as follows for the years ending September 30:

2017	\$ -
2018	-
2019	-
2020	-
2021	283
Thereafter	<u>35,878</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 \$107,000 and \$102,000 for 2016 and 2015, 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>2016</u>	<u>Proceeds</u>	<u>Direct Expenses</u>	<u>Net</u>
Annual Dinner	<u>\$ 587,107</u>	<u>\$ 103,759</u>	<u>\$ 483,348</u>
 <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>

**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 was 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. In August 2016 the grant was renewed for \$361,105 for the performance period July 1, 2016 through June 30, 2017.

**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 statement of financial position as of September 30, 2016, and the related statements of activities and 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 9, 2016.

**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 9, 2016