

FAMILIES FORWARD, INC.

**Financial Statements
and
Independent Auditor's Report
For the Years Ended
September 30, 2019 and 2018
and
Single Audit Report
For the Year Ended September 30 2019**

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, 2019 and 2018, 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, 2019 and 2018, 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 Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 March 6, 2020, 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 solely 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 the effectiveness of Families Forward, Inc.'s 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&A Certified Public Accountants, Inc.

March 6, 2020

Families Forward, Inc.
Statements of Financial Position
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,503,489	\$ 1,902,223
Grants and contributions receivable	536,070	771,501
Prepaid expenses and other current assets	127,520	103,237
Investments	1,488,041	1,441,317
Restricted cash (Note 10)	<u>590,000</u>	<u>600,000</u>
Total current assets	<u>4,245,120</u>	<u>4,818,278</u>
Property and Equipment, net	<u>10,624,717</u>	<u>7,655,963</u>
Other Assets		
Assets held in charitable remainder trust	396,760	414,809
Restricted investments	<u>117,619</u>	<u>115,599</u>
Total other assets	<u>514,379</u>	<u>530,408</u>
Total assets	<u>\$ 15,384,216</u>	<u>\$ 13,004,649</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 54,377	\$ 46,186
Accrued expenses	229,357	181,980
Clients' deposits	27,638	21,738
Unearned revenue	12,500	12,500
Notes payable, current portion	64,916	-
Funds held for claims administration (Note 10)	<u>590,000</u>	<u>600,000</u>
Total current liabilities	<u>978,788</u>	<u>862,404</u>
Long-Term Debt		
Liability to annuity beneficiary of charitable remainder trust	183,231	189,544
Notes payable, net of current portion	<u>1,941,797</u>	<u>36,161</u>
Total long-term debt	<u>2,125,028</u>	<u>225,705</u>
Total liabilities	<u>3,103,816</u>	<u>1,088,109</u>
Net Assets		
Without donor restrictions	10,785,430	10,591,327
With donor restrictions	<u>1,494,970</u>	<u>1,325,213</u>
Total net assets	<u>12,280,400</u>	<u>11,916,540</u>
Total liabilities and net assets	<u>\$ 15,384,216</u>	<u>\$ 13,004,649</u>

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, 2019
(with comparative totals for the year ended September 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Contributions	\$ 2,004,369	\$ 315,649	\$ 2,320,018	\$ 2,415,166
Special events, net of direct benefit expenses of \$138,471	600,144	-	600,144	502,225
Grants from government agencies - program	1,761,819	-	1,761,819	1,127,036
Grants from government agencies - capital	152,102	-	152,102	9,584
Investment income	53,559	-	53,559	63,384
Rental and other income	374,059	-	374,059	209,713
Gain on disposal of real property	378,165	-	378,165	832,573
Donated goods and services	808,091	-	808,091	934,000
Changes in assets and liabilities held in charitable remainder trust	-	(11,736)	(11,736)	11,345
Total support and revenue	6,132,308	303,913	6,436,221	6,105,026
Net assets released from restrictions	134,156	(134,156)	-	-
Total support, revenue, and satisfaction of restrictions	6,266,464	169,757	6,436,221	6,105,026
Expenses				
Housing and other programs	5,446,182	-	5,446,182	4,528,901
Administration	295,270	-	295,270	261,570
Fundraising	330,909	-	330,909	275,149
Total expenses	6,072,361	-	6,072,361	5,065,620
Increase (decrease) in net assets	194,103	169,757	363,860	1,039,406
Net assets, beginning of year	10,591,327	1,325,213	11,916,540	10,877,134
Net assets, end of year	\$ 10,785,430	\$ 1,494,970	\$ 12,280,400	\$ 11,916,540

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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 2,290,166	\$ 125,000	\$ 2,415,166
Special events, net of direct benefit expenses of \$99,774	502,225	-	502,225
Grants from government agencies - program	1,127,036	-	1,127,036
Grants from government agencies - capital	9,584	-	9,584
Investment income	63,384	-	63,384
Rental and other income	209,713	-	209,713
Gain on disposal of real property	832,573	-	832,573
Donated goods and services	934,000	-	934,000
Changes in assets and liabilities held in charitable remainder trust	-	11,345	11,345
Total support and revenue	5,968,681	136,345	6,105,026
Net assets released from restrictions	196,656	(196,656)	-
Total support, revenue, and satisfaction of restrictions	6,165,337	(60,311)	6,105,026
Expenses			
Housing and other programs	4,528,901	-	4,528,901
Administration	261,570	-	261,570
Fundraising	275,149	-	275,149
Total expenses	5,065,620	-	5,065,620
Increase in net assets	1,099,717	(60,311)	1,039,406
Net assets, beginning of year	9,491,610	1,385,524	10,877,134
Net assets, end of year	\$ 10,591,327	\$ 1,325,213	\$ 11,916,540

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

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2019
(with comparative totals for the year ended September 30, 2018)

	2019				2018
	Housing and Other Programs	Administration	Fundraising	Total	Total
Auto mileage	\$ 35,028	\$ 364	\$ 1,095	\$ 36,487	\$ 20,413
Bank charges	-	14,244	-	14,244	12,207
Closing and commission fees	16,187	-	-	16,187	44,630
Community education	14,274	-	-	14,274	26,377
Computer expenses	99,790	8,526	9,766	118,082	130,509
Depreciation	263,127	15,896	13,875	292,898	237,988
Direct program expenses	909,259	-	-	909,259	550,311
Donated materials and services	817,232	-	-	817,232	934,008
Dues and subscriptions	4,266	839	209	5,314	4,142
Employee benefits	200,844	17,160	19,656	237,660	208,506
Fund development	-	-	9,575	9,575	3,130
Homeowner association fees	122,387	-	-	122,387	121,867
Insurance	28,879	1,593	1,387	31,859	27,211
Interest expense	47,579	-	-	47,579	-
Maintenance	88,051	1,741	1,923	91,715	100,028
Newsletter and printing	7,532	749	7,011	15,292	17,517
Office expense	28,511	1,650	7,128	37,289	24,209
Payroll	2,339,326	200,069	229,170	2,768,565	2,240,477
Payroll service fees	6,186	529	604	7,319	6,318
Payroll taxes	183,686	15,693	17,977	217,356	172,463
Postage	1,311	304	2,894	4,509	6,255
Professional fees	78,390	8,285	-	86,675	25,308
Property tax	13,608	154	175	13,937	7,519
Staff development and meetings	22,532	1,925	2,205	26,662	17,046
Telephone	36,379	3,108	3,560	43,047	33,607
Truck expenses	14,429	-	-	14,429	10,645
Utilities	48,410	820	842	50,072	66,313
Workers compensation	18,979	1,621	1,857	22,457	16,616
Total functional expenses	\$ 5,446,182	\$ 295,270	\$ 330,909	\$ 6,072,361	\$ 5,065,620

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

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2018

	<u>Housing and Other Programs</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Auto mileage	\$ 19,597	\$ 204	\$ 612	\$ 20,413
Bank charges	-	12,207	-	12,207
Closing and commission fees	44,630	-	-	44,630
Community education	25,694	-	683	26,377
Computer expenses	110,292	9,423	10,794	130,509
Depreciation	208,217	15,896	13,875	237,988
Direct program expenses	550,311	-	-	550,311
Donated materials and services	934,008	-	-	934,008
Dues and subscriptions	3,325	654	163	4,142
Employee benefits	176,206	15,055	17,245	208,506
Fund development	-	-	3,130	3,130
Homeowner association fees	121,867	-	-	121,867
Insurance	24,666	1,361	1,184	27,211
Maintenance	96,066	1,883	2,079	100,028
Newsletter and printing	8,627	859	8,031	17,517
Office expense	17,055	631	6,523	24,209
Payroll	1,893,401	161,773	185,303	2,240,477
Payroll service fees	5,341	456	521	6,318
Payroll taxes	145,747	12,452	14,264	172,463
Postage	1,818	422	4,015	6,255
Professional fees	3,000	22,308	-	25,308
Property tax	7,342	83	94	7,519
Staff development and meetings	14,489	1,193	1,364	17,046
Telephone	28,400	2,427	2,780	33,607
Truck expenses	10,645	-	-	10,645
Utilities	64,114	1,084	1,115	66,313
Workers compensation	14,043	1,199	1,374	16,616
	<u>4,528,901</u>	<u>261,570</u>	<u>275,149</u>	<u>5,065,620</u>
Total functional expenses	<u>\$ 4,528,901</u>	<u>\$ 261,570</u>	<u>\$ 275,149</u>	<u>\$ 5,065,620</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, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets without donor restrictions	\$ 194,103	\$ 1,099,717
Increase (decrease) in net assets with donor restrictions	169,757	(60,311)
Total increase in net assets	363,860	1,039,406
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	292,898	237,988
Gain on sale of real property	(378,165)	(832,573)
Unrealized gain on investments	(1,578)	(32,291)
Decrease (increase) in assets and liabilities held in charitable remainder trust	11,736	(11,346)
Decrease (increase) in grants and contributions receivable	235,431	(406,875)
Increase in prepaid expenses and other current assets	(24,283)	(10,449)
Increase in accounts payable	8,191	16,324
Increase in accrued expenses	47,377	11,488
Increase in unearned revenue	-	12,500
Increase in clients' deposits	5,900	7,435
Total adjustments	197,507	(1,007,799)
Net cash provided by operating activities	561,367	31,607
Cash Flows from Investing Activities		
Purchases of property and equipment	(3,368,876)	(71,925)
Sale of property and equipment	485,389	1,038,489
Purchases of investments	(87,500)	(1,541,580)
Sale of investments	40,334	1,504,365
Investment in restricted cash	-	(600,000)
Net cash provided (used) by investing activities	(2,930,653)	329,349
Cash Flows from Financing Activities		
Cash received and held for claims administration	-	600,000
Borrowings on promissory notes	2,000,000	-
Payments on promissory notes	(29,448)	-
Net cash provided by financing activities	1,970,552	600,000
Net increase (decrease) in cash and cash equivalents	(398,734)	960,956
Cash and cash equivalents at beginning of year	1,902,223	941,267
Cash and cash equivalents at end of year	\$ 1,503,489	\$ 1,902,223
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 47,579	-

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

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 contributions and support received in its statement of financial position and statement of activities and changes in net assets according to two classes of net assets based upon the existence or absence of donor-imposed restrictions:

Net Assets without Donor Restrictions – Contributions that are considered to be available for unrestricted use.

Net Assets with Donor Restrictions – Contributions received that are restricted by donors for a specific time period or purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Income earned on these assets may or may not be restricted, depending upon the donor-imposed restrictions.

When donor restrictions on contributions are satisfied in the same period as the receipt of the contribution, the Organization reports both the revenue and the related expense in the net asset without donor restrictions category.

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 net assets with donor restrictions. When a restriction has been satisfied, the related restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as "net assets released from restrictions."

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 and Contributions 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.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Contributions receivable are reported at fair value at the date an unconditional promise to give is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management believes that all grants and contributions receivable as of September 30, 2019 and 2018 were fully collectible; therefore, no allowance for doubtful accounts was recorded.

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 net assets with donor restrictions to net assets without donor restrictions 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.

Impairment of Long-Lived Assets

The Organization's long-lived assets include land, buildings, and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. As of September 30, 2019 and 2018, the Organization did not identify any impairment of its long-lived assets.

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, 2016, 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, 2015, and subsequent.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the 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. Payroll and payroll related costs are allocated based upon time spent by employees on the various program, administrative, and fundraising activities. Occupancy costs, including depreciation and maintenance, are allocated based upon the square footage utilized by each cost center.

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.

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 \$808,091 and \$934,000 for 2019 and 2018, respectively, most of which related to school supplies and holiday gifts for local families in need, food donated to the food pantry, and other household goods.

Recently Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU is intended to simplify the face of the financial statements by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions, while at the same time enhancing the footnote disclosures to provide financial statement readers with more useful information about an entity's resources and changes in those resources. The Organization adopted this ASU in the year ended September 30, 2019 and has adjusted the presentation of the financial statements accordingly.

Recent Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU is intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by non-for-profit organizations. The ASU will address how to characterize grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions), as well as distinguish between conditional and unconditional contributions. This ASU will be effective for fiscal years beginning after December 15, 2018. Management is evaluating the impact of adopting this new ASU on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This ASU is intended to provide specific guidance on the classification and presentation of changes in restricted cash or restricted cash equivalents, particularly from transfers between cash, cash equivalents, and restricted cash or restricted cash equivalents, in the statement of cash flows. This ASU will be effective for fiscal years beginning after December 15, 2018. Management is evaluating the impact of adopting this new ASU on the financial statements.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain amounts in the prior year comparative information have been reclassified to conform to the current year financial statement presentation. These reclassifications have no effect on previously reported net assets.

Subsequent Events

Management has evaluated subsequent events through March 6, 2020, the date the financial statements were available to be issued. See Note 10 for distribution of restricted cash.

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.

The Organization invests in instruments that, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and the statements of activities and changes in net assets.

The investment 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 and restricted investments at fair value as of September 30:

	2019	2018
	Quoted Prices (Level 1)	Quoted Prices (Level 1)
Investments:		
Money market funds	\$ 1,406	\$ 1,305
Bond funds	954,974	910,381
Equity funds	649,280	645,230
Total investments	<u>\$ 1,605,660</u>	<u>\$ 1,556,916</u>
Assets held in charitable remainder trust:		
Money market funds	\$ 6,117	\$ 5,512
Bond funds	157,465	153,158
Equity funds	233,178	256,139
Total assets held in charitable remainder trust	<u>\$ 396,760</u>	<u>\$ 414,809</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

3. Fair Value of Financial Instruments (Continued)

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 are summarized as follows at September 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 5,815,098	\$ 3,308,751
Buildings and improvements	6,353,116	5,624,403
Furniture and equipment	352,805	347,363
Autos and trucks	45,000	45,000
Construction in progress	<u>17,960</u>	<u>49,705</u>
Total property and equipment	12,583,979	9,375,222
Accumulated depreciation	<u>(1,959,262)</u>	<u>(1,719,259)</u>
Total property and equipment, net	<u><u>\$ 10,624,717</u></u>	<u><u>\$ 7,655,963</u></u>

The accounts above include the properties acquired with the grant loans described in Note 5.

As part of the Organization's strategic plan, the Board of Directors authorized on September 26, 2017 the sale of three condominium units which had expired regulatory agreements. During the year ended September 30, 2018, the Organization sold two condominium units in Irvine, California for an aggregate of \$1,038,000, resulting in a total gain on sale of \$832,573. The Board of Directors designated the proceeds to acquire a multi-unit complex to increase much needed access to affordable housing units for families. In November 2018, the remaining condominium unit was sold for \$504,000, resulting in a gain on sale of \$378,165. On February 28, 2019, the Organization purchased an eight-bedroom apartment complex in Costa Mesa, California for \$3,175,000. The Organization financed the acquisition with bank loans (see Note 7) and the proceeds from the condominium sales.

The Organization was awarded a capital grant to replace the HVAC units at the Irvine office headquarters. The project was completed in December 2018. The total cost of the project was \$202,107, of which the Organization was reimbursed \$161,686 from the grant.

5. Net Assets with Donor Restrictions

Grant Loans

On February 28, 2017, the Organization received two Community Development Block Grant (CDBG) loans from the City of Mission Viejo totaling \$820,000 to fund the purchase of real property to be used for affordable housing rentals for low income and homeless families for a period of 55 years. If, after the 55 year period, the Organization is not in default of the provisions of the grant loans, as defined in the agreements, the grant loans will expire and be of no force or effect on the Organization. In the event the Organization is in default, the total amount of the principal and interest, accrued at 3% per annum, will become immediately due and payable. The CDBG loans are secured by deeds of trust on the properties acquired. The face values of the promissory notes are reported as net assets with donor restrictions, as management considers the likelihood of default and repayment to be remote.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

5. Net Assets with Donor Restrictions (Continued)

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 to be used for transitional housing rentals for homeless families for a period of 20 years. 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 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, 2019, the unreleased portion of the grant was \$45,792. 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, 2019.

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 annuity 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 to Annuity Beneficiary of Charitable Remainder Trust. The components of the charitable remainder trust were as follows at September 30:

	<u>2019</u>	<u>2018</u>
Assets held in charitable remainder trust	\$ 396,760	\$ 414,809
Liability to annuity beneficiary	<u>183,231</u>	<u>189,544</u>
Net residual in net assets with donor restrictions	<u>\$ 213,529</u>	<u>\$ 225,265</u>

The change in assets and liabilities held in charitable remainder trust was comprised of the following for the years ending September 30:

	<u>2019</u>	<u>2018</u>
Investment gain	\$ 2,687	\$ 23,530
Payments to beneficiary from trust	(20,736)	(20,736)
Amortized interest on payments to beneficiary	<u>6,313</u>	<u>8,552</u>
Change in assets and liabilities held in charitable remainder trust	<u>\$ (11,736)</u>	<u>\$ 11,346</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

5. Net Assets with Donor Restrictions (Continued)

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

	2019	2018
Donor restricted:		
CHDO grant loan	\$ 45,792	\$ 54,948
CDBG grant loans	820,000	820,000
Charitable remainder trust	213,529	225,265
Contributions with time restrictions	315,649	50,000
Nancy Fund endowment	100,000	100,000
Orange County United Way FACE 2024 Housing Grant	-	75,000
	\$ 1,494,970	\$ 1,325,213

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

	2019	2018
Satisfaction of restrictions:		
CHDO grant loan	\$ 9,156	\$ 9,156
FACE 2024 - Phase I Housing Grant	75,000	75,000
Time restrictions	50,000	106,500
Endowment distribution	-	6,000
	\$ 134,156	\$ 196,656

Endowment

Pursuant to a gift agreement dated December 10, 2014, the donors funded an endowment (The Nancy Fund) of \$100,000. The investments restricted for permanent endowment of \$117,619 and \$115,599 are included in noncurrent assets in the statements of financial position at September 30, 2019 and 2018, respectively. The endowment will distribute an annual amount of up to but not more than 5% of its three-year average value 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, 2019, 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.

The value of the investments restricted for permanent endowment was accounted for as follows:

Endowment fund balance, September 30, 2017	\$ 109,270
Dividends and interest earned	2,058
Change in value of investments	4,271
	115,599
Endowment fund balance, September 30, 2018	115,599
Dividends and interest earned	3,116
Change in value of investments	(1,096)
	\$ 117,619

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

6. Net Assets without Donor Restrictions

Net assets without donor restrictions consist of the following as of September 30:

	<u>2019</u>	<u>2018</u>
Investment in property and equipment, net of debt	\$ 7,752,213	\$ 6,744,855
Board designated for:		
Reserves for operations	2,314,335	1,924,497
Reserve for capital purchase	-	1,038,200
Legacy fund	718,882	706,636
Undesignated	<u>-</u>	<u>177,139</u>
Total net assets without donor restrictions	<u>\$ 10,785,430</u>	<u>\$ 10,591,327</u>

The Organization's Board of Directors has designated a six-month operating reserve, which is computed by taking half of the projected operating expenses of the next fiscal year's budget. The operating reserve provides the Organization with the resources to protect the Organization's operations.

The Organization's Board of Directors established the Legacy Fund in June 2010 to create a source of sustainable income to support and advance the mission of the Organization and to help secure the long-term financial future of the Organization. The intent in establishing the Legacy Fund is to maintain the principal invested and accumulate earnings to grow the fund to a significant reserve to support future operational needs or funding to seize strategic opportunities.

Both of these reserves are Board-designated and could be changed at any time with an approved Board motion to revise these designations for the benefit of the Organization.

7. Notes Payable

The Organization's \$100,000 note dated September 2015 is secured by a real estate deed of trust, 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, 2019 and 2018.

In connection with the purchase of the apartment complex in Costa Mesa (see Note 4), on February 21, 2019, the Organization executed two promissory notes for \$1,000,000 each, which are secured by certain real estate assets held by the Organization. The first note is payable in 107 monthly payments of principal and interest of \$7,703, with a final payment of approximately \$492,000 in March 2028. Interest is calculated at 1.95% above the Bank's index rate (4.51% at September 30, 2019). The second note is payable in 83 monthly payments of principal and interest of \$5,134, with a final payment of approximately \$879,000 in March 2026. The interest rate is 4.532%. The loan agreements contain various financial and nonfinancial covenants and conditions. Management believes the Organization was in compliance with the covenants and conditions.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

7. Notes Payable (Continued)

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

2020	\$	64,916
2021		68,237
2022		71,427
2023		74,770
2024		78,269
Thereafter		<u>1,649,094</u>
Total	\$	<u>2,006,713</u>

8. Concentrations and Contingencies

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, 2019 and 2018, such deposits were in excess of FDIC insurance limits; however, management does not believe the Organization is exposed to any significant related credit risk.

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.

Governmental agencies that gave grants for the purchase and rehabilitation of the land and buildings on which the Organization operates its housing programs have liens against the various properties that they could enforce should the Organization cease to operate the properties as low income and homeless housing or sell or otherwise dispose of the properties. Management has no intention to cease operating the properties as low income and homeless housing or to sell or otherwise dispose of the properties.

9. Retirement Plans

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, the Organization contributes 3% of the employees' salaries. In addition, employees may make voluntary contributions, for which the Organization will match up to an additional 4% of the employees' salaries. The Organization's contributions, charged to expense, were \$152,417 and \$143,679 for 2019 and 2018, 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. Funds Held for Claims Administration

In July 2018, a settlement in the amount of \$600,000 was awarded to former residents of a motel in Costa Mesa. As part of the settlement and release agreement, the Organization was appointed as the Claims Administrator for distribution of the settlement funds. In July 2018, the Organization received the total \$600,000 to be distributed to the claimants, which was included in restricted cash and funds held for clients in the statement of financial position as of September 30, 2018. The Organization also received \$12,500 in claims administration fees, which were included in unearned revenue as of September 30, 2018 and were amortized to other income during the year ended September 30, 2019. The Organization distributed \$10,000 to claimants during the year ended September 30, 2019. The Organization received an additional \$12,500 in claims administration fees, which were included in unearned revenue as of September 30, 2019. The Organization distributed the remaining \$590,000 to the claimants as of December 31, 2019.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2019 and 2018

11. Availability of Financial Assets and Liquidity

The Organization has approximately \$2,734,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, as follow:

Financial assets, at September 30, 2019*	\$ 4,631,979
Less those unavailable for general expenditures within one year, due to:	
Donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(1,179,321)
Board designations:	
Legacy fund	<u>(718,882)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,733,776</u>

* Total assets, less nonfinancial assets (i.e. property and equipment, prepaid expenses)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has a goal to maintain liquid financial assets on hand to meet six months of normal operating expenses, which are, on average, approximately \$2,473,000.

Families Forward, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
United States Department of Housing and Urban Development			
<u>Community Development Block</u>			
<u>Grants/Entitlement Grants*:</u>			
	14.218		
City of Costa Mesa		B-18-MC-06-0503	\$ 14,727
City of Costa Mesa		B-19-MC-06-0503	7,964
City of Irvine		10362	23,861
City of Irvine		10850	3,522
City of Irvine		9763	152,102
City of Lake Forest		B-18-MC-06-0584	8,193
City of Lake Forest		B-19-MC-06-0584	543
City of Mission Viejo		B-18-MC-06-0585	4,949
		B-19-MC-06-0585	543
City of Mission Viejo - Loans		Contract # A17-05	820,000
City of Newport Beach		City Grant 2018-2019	12,295
City of Newport Beach		8482-4B	3,450
City of Rancho Santa Margarita		B-18-MC-06-0598	5,867
City of Rancho Santa Margarita		B-19-MC-06-0598	427
Subtotal	14.218		<u>1,058,443</u>
<u>Continuum of Care Program:</u>			
	14.267		
U.S. Department of Housing and Urban Development		CA1350L9D021703	317,937
U.S. Department of Housing and Urban Development		CA1350L9D021804	96,148
Pathways of Hope		CA1231L9D021502	10,518
Pathways of Hope		CA1231L9D021704	112,511
County of Orange		18-23-0048-CoC	198,551
County of Orange		19-23-0048-CoC	83,652
Subtotal	14.267		<u>819,317</u>
<u>HOME Investment Partnership Program</u>			
	14.239		
City of Huntington Beach		18-6744/185593/mv	<u>213,334</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,091,094</u></u>

*MAJOR PROGRAM

See accompanying notes to schedule of expenditures of federal awards.

Families Forward, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Families Forward, Inc. and is presented on the accrual basis of accounting. 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*.

2. Loan Balances with Continuing Compliance Requirements

Families Forward, Inc. received governmental loans for the acquisition and rehabilitation of real estate. The outstanding loan balances with continuing compliance requirements were \$820,000, which were disbursed during the year ended September 30, 2017.

3. Indirect Cost Rate

The Organization elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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) (the Organization), which comprise the statement of financial position as of September 30, 2019, 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 March 6, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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.

March 6, 2020

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Families Forward Inc.'s (a California nonprofit organization) (the Organization) 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 September 30, 2019. 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* (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 September 30, 2019.

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 weaknesses 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.

HBKA Certified Public Accountants, Inc.

March 6, 2020

Families Forward, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2019

There were no prior year audit findings or questioned costs relative to federal awards.

Families Forward, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified
Internal control over financial reporting:
Material weakness identified? ___ yes x no
Significant deficiency identified that is
not considered to be a material weakness? ___ yes x no

Noncompliance material to financial statements
noted? ___ yes x no

Federal Awards

Internal control over major programs:
Material weakness identified? ___ yes x no
Significant deficiency identified that is
not considered to be a material weakness? ___ yes x no

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 section 200.515(d)(2)? ___ yes x no

Identification of major programs:

CFDA Number Name of Federal Program

14.218 Community Development Block Grants/Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? x yes ___ no

Section II – Findings – Financial Statement Audit

There were no findings relative to the financial statement audit.

Section III – Federal Award Findings and Questioned Costs

There are no major federal award program findings required to be reported under 2 CFR section 200.516(a).