

FAMILIES FORWARD, INC.

**Financial Statements
and
Independent Auditor's Report
For the Years Ended
September 30, 2020 and 2019
and
Single Audit Report
For the Year Ended September 30 2020**

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, 2020 and 2019, 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, 2020 and 2019, 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 September 20, 2021, 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&LA Certified Public Accountants, Inc.

September 20, 2021

Families Forward, Inc.
Statements of Financial Position
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,447,981	\$ 1,503,489
Grants and contributions receivable	1,513,461	536,070
Prepaid expenses and other current assets	128,226	127,520
Investments	1,458,987	1,488,041
Restricted cash (Note 11)	-	590,000
Total current assets	<u>4,548,655</u>	<u>4,245,120</u>
Property and Equipment, net	<u>11,340,775</u>	<u>10,624,717</u>
Other Assets		
Assets held in charitable remainder trust	383,693	396,760
Restricted investments	138,112	117,619
Total other assets	<u>521,805</u>	<u>514,379</u>
Total assets	<u>\$ 16,411,235</u>	<u>\$ 15,384,216</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 80,473	\$ 54,377
Accrued expenses	169,033	229,357
Clients' deposits	45,495	27,638
Unearned revenue	-	12,500
Notes payable, current portion	67,954	64,916
Funds held for claims administration (Note 11)	-	590,000
Total current liabilities	<u>362,955</u>	<u>978,788</u>
Long-Term Debt		
Liability to annuity beneficiary of charitable remainder trust	174,942	183,231
PPP loan	588,100	-
Notes payable, net of current portion	1,877,462	1,941,797
Total long-term debt	<u>2,640,504</u>	<u>2,125,028</u>
Total liabilities	<u>3,003,459</u>	<u>3,103,816</u>
Net Assets		
Net assets without donor restrictions	12,194,203	10,785,430
Net assets with donor restrictions	1,213,573	1,494,970
Total net assets	<u>13,407,776</u>	<u>12,280,400</u>
Total liabilities and net assets	<u>\$ 16,411,235</u>	<u>\$ 15,384,216</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, 2020
(with comparative totals for the year ended September 30, 2019)

	2020			2019
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Total
Support and revenue				
Contributions	\$ 3,008,543	\$ 48,186	\$ 3,056,729	\$ 2,320,018
Special events, net of direct benefit expenses of \$27,837	418,809	-	418,809	600,144
Grants from government agencies - program	3,056,043	-	3,056,043	1,761,819
Grants from government agencies - capital	394,260	-	394,260	152,102
Investment income	69,980	-	69,980	53,559
Rental and other income	481,007	-	481,007	374,059
Gain on disposal of real property	-	-	-	378,165
Donated goods and services	1,148,801	-	1,148,801	808,091
Changes in assets and liabilities held in charitable remainder trust	-	(4,777)	(4,777)	(11,736)
Total support and revenue	8,577,443	43,409	8,620,852	6,436,221
Net assets released from restrictions	324,806	(324,806)	-	-
Total support, revenue, and satisfaction of restrictions	8,902,249	(281,397)	8,620,852	6,436,221
Expenses				
Housing and other programs	6,799,281	-	6,799,281	5,446,182
Administration	326,337	-	326,337	295,270
Fundraising	367,858	-	367,858	330,909
Total expenses	7,493,476	-	7,493,476	6,072,361
Increase (decrease) in net assets	1,408,773	(281,397)	1,127,376	363,860
Net assets, beginning of year	10,785,430	1,494,970	12,280,400	11,916,540
Net assets, end of year	\$ 12,194,203	\$ 1,213,573	\$ 13,407,776	\$ 12,280,400

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 2,004,369	\$ 315,649	\$ 2,320,018
Special events, net of direct benefit expenses of \$138,471	600,144	-	600,144
Grants from government agencies - program	1,761,819	-	1,761,819
Grants from government agencies - capital	152,102	-	152,102
Investment income	53,559	-	53,559
Rental and other income	374,059	-	374,059
Gain on disposal of real property	378,165	-	378,165
Donated goods and services	808,091	-	808,091
Changes in assets and liabilities held in charitable remainder trust	-	(11,736)	(11,736)
Total support and revenue	6,132,308	303,913	6,436,221
Net assets released from restrictions	134,156	(134,156)	-
Total support, revenue, and satisfaction of restrictions	6,266,464	169,757	6,436,221
Expenses			
Housing and other programs	5,446,182	-	5,446,182
Administration	295,270	-	295,270
Fundraising	330,909	-	330,909
Total expenses	6,072,361	-	6,072,361
Increase in net assets	194,103	169,757	363,860
Net assets, beginning of year	10,591,327	1,325,213	11,916,540
Net assets, end of year	\$ 10,785,430	\$ 1,494,970	\$ 12,280,400

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

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2020
(with comparative totals for the year ended September 30, 2019)

	2020				2019
	Housing and Other Programs	Administration	Fundraising	Total	Total
Auto mileage	\$ 22,613	\$ 236	\$ 707	\$ 23,556	\$ 36,487
Bank charges	-	16,574	-	16,574	14,244
Closing and commission fees	-	-	-	-	16,187
Community education	-	-	-	-	14,274
Computer expenses	129,288	11,046	12,653	152,987	118,082
Depreciation	209,741	16,876	14,465	241,082	292,898
Direct program expenses	1,836,248	-	-	1,836,248	909,259
Donated materials and services	745,399	-	-	745,399	817,232
Dues and subscriptions	4,825	949	236	6,010	5,314
Employee benefits	235,962	20,160	23,093	279,215	237,660
Fund development	-	-	9,991	9,991	9,575
Homeowner association fees	116,118	-	-	116,118	122,387
Insurance	36,932	2,037	1,773	40,742	31,859
Interest expense	92,758	-	-	92,758	47,579
Maintenance	203,405	3,986	4,403	211,794	91,715
Newsletter and printing	-	-	-	-	15,292
Office expense	36,085	2,087	9,023	47,195	37,289
Payroll	2,628,988	224,621	257,293	3,110,902	2,768,565
Payroll service fees	7,051	603	689	8,343	7,319
Payroll taxes	201,239	17,193	19,694	238,126	217,356
Postage	1,302	302	2,876	4,480	4,509
Professional fees	88,492	-	-	88,492	86,675
Property tax	45,905	522	589	47,016	13,937
Staff development and meetings	18,404	1,516	1,732	21,652	26,662
Telephone	48,119	4,111	4,709	56,939	43,047
Truck expenses	9,497	-	-	9,497	14,429
Utilities	49,563	840	865	51,268	50,072
Workers compensation	31,347	2,678	3,067	37,092	22,457
Total functional expenses	\$ 6,799,281	\$ 326,337	\$ 367,858	\$ 7,493,476	\$ 6,072,361

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

	Housing and Other Programs	Administration	Fundraising	Total
Auto mileage	\$ 35,028	\$ 364	\$ 1,095	\$ 36,487
Bank charges	-	14,244	-	14,244
Closing and commission fees	16,187	-	-	16,187
Community education	14,274	-	-	14,274
Computer expenses	99,790	8,526	9,766	118,082
Depreciation	263,127	15,896	13,875	292,898
Direct program expenses	909,259	-	-	909,259
Donated materials and services	817,232	-	-	817,232
Dues and subscriptions	4,266	839	209	5,314
Employee benefits	200,844	17,160	19,656	237,660
Fund development	-	-	9,575	9,575
Homeowner association fees	122,387	-	-	122,387
Insurance	28,879	1,593	1,387	31,859
Interest expense	47,579	-	-	47,579
Maintenance	88,051	1,741	1,923	91,715
Newsletter and printing	7,532	749	7,011	15,292
Office expense	28,511	1,650	7,128	37,289
Payroll	2,339,326	200,069	229,170	2,768,565
Payroll service fees	6,186	529	604	7,319
Payroll taxes	183,686	15,693	17,977	217,356
Postage	1,311	304	2,894	4,509
Professional fees	78,390	8,285	-	86,675
Property tax	13,608	154	175	13,937
Staff development and meetings	22,532	1,925	2,205	26,662
Telephone	36,379	3,108	3,560	43,047
Truck expenses	14,429	-	-	14,429
Utilities	48,410	820	842	50,072
Workers compensation	18,979	1,621	1,857	22,457
Total functional expenses	<u>\$ 5,446,182</u>	<u>\$ 295,270</u>	<u>\$ 330,909</u>	<u>\$ 6,072,361</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, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Increase in net assets without donor restrictions	\$ 1,408,773	\$ 194,103
Increase (decrease) in net assets with donor restrictions	(281,397)	169,757
Total increase in net assets	1,127,376	363,860
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation expense	241,082	292,898
Donated property and equipment	(414,699)	-
Gain on sale of real property	-	(378,165)
Unrealized gain on investments	(37,753)	(1,578)
Decrease in assets and liabilities held in charitable remainder trust	4,778	11,736
Decrease (increase) in grants and contributions receivable	(977,391)	235,431
Increase in prepaid expenses and other current assets	(706)	(24,283)
Increase in accounts payable	26,096	8,191
Increase (decrease) in accrued expenses	(60,324)	47,377
Decrease in unearned revenue	(12,500)	-
Increase in clients' deposits	17,857	5,900
Total adjustments	(1,213,560)	197,507
Net cash provided (used) by operating activities	(86,184)	561,367
Cash Flows from Investing Activities		
Purchases of property and equipment	(542,441)	(3,368,876)
Sale of property and equipment	-	485,389
Purchases of investments	(795,622)	(87,500)
Sales of investments	841,936	40,334
Net cash used by investing activities	(496,127)	(2,930,653)
Cash Flows from Financing Activities		
Borrowings on promissory notes	-	2,000,000
Proceeds from PPP loan	588,100	-
Payments on promissory notes	(61,297)	(29,448)
Payments on funds held for claims administration	(590,000)	(10,000)
Net cash provided (used) by financing activities	(63,197)	1,960,552
Net decrease in cash and cash equivalents and restricted cash	(645,508)	(408,734)
Cash and cash equivalents and restricted cash at beginning of year	2,093,489	2,502,223
Cash and cash equivalents and restricted cash at end of year	\$ 1,447,981	\$ 2,093,489

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

Families Forward, Inc.
Statements of Cash Flows (Continued)
For the Years Ended September 30, 2020 and 2019

The following table provides a reconciliation of cash and cash equivalents reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows as of September 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,447,981	\$ 1,503,489
Restricted cash	<u>-</u>	<u>590,000</u>
	<u>\$ 1,447,981</u>	<u>\$ 2,093,489</u>
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 92,758</u>	<u>\$ 47,579</u>

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

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

Unconditional contributions/promises-to-give are reported at fair value at the date the contribution/promise is received. Conditional contributions/promises-to-give are recognized when the conditions on which they depend are substantially met. A condition must have both a barrier that must be overcome before the organization is entitled to the assets transferred or promised and a right of return. Government grants that are subject to the Uniform Guidance are considered conditional, as there is limited discretion by the organization on the conduct of the activity due to the specific compliance requirements of the Uniform Guidance. Assets received in a conditional contribution are accounted for as refundable advances in the accompanying financial statements until the conditions have been substantially met.

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, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Management believes that all grants and contributions receivable as of September 30, 2020 and 2019 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, 2020 and 2019, 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. Sales and purchases of securities are recorded on a trade-date basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis. Realized and unrealized gains and losses are included in the statements of activities.

Fair Value of Financial Instruments

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

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

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.

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, 2017, 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, 2016, and subsequent.

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 \$1,148,801 and \$808,091 for 2020 and 2019, respectively, most of which related to construction and rehabilitation of real estate, school supplies and holiday gifts for local families in need, food donated to the food pantry, and other household goods.

PPP Loan

The Organization has accounted for the Payroll Protection Program (PPP) loan proceeds (Note 8) in accordance with FASB ASC 470, *Debt*. The proceeds from the loan will remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the Organization has been "legally released" or (2) the Organization pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, the Organization will reduce the liability by the amount forgiven and record a gain on extinguishment. Management believes that the entire loan amount has been used for qualifying expenses and the loan will be forgiven in full.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

In November 2016, the FASB issued Accounting Standards Update (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. The Organization adopted this ASU during the year ended September 30, 2020, and reclassifications have been made to the prior year's statement of cash flows to conform to current year presentation. These reclassifications have no effect on the previously reported net assets or change in net assets.

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 addresses how to characterize grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions), as well as distinguishes between conditional and unconditional contributions. The Organization adopted this ASU during the year ended September 30, 2020 and has adjusted the presentation of the financial statements accordingly.

Recently Issued Accounting Pronouncement

In September of 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requiring entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets an entity has received. This ASU will be effective for fiscal years beginning after June 15, 2021. Management is evaluating the impact of adopting this new ASU on the financial statements.

Subsequent Events

Management has evaluated subsequent events through September 20, 2021, the date the financial statements were available to be issued.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

3. Fair Value Measurements

Investments 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:

	<u>2020</u>	<u>2019</u>
	Quoted Prices (Level 1)	Quoted Prices (Level 1)
Investments:		
Money market funds	\$ 1,765	\$ 1,406
Bond funds	940,833	954,974
Equity funds	<u>654,501</u>	<u>649,280</u>
Total investments	<u>\$ 1,597,099</u>	<u>\$ 1,605,660</u>
Assets held in charitable remainder trust:		
Money market funds	\$ 36,567	\$ 6,117
Bond funds	141,864	157,465
Equity funds	<u>205,262</u>	<u>233,178</u>
Total assets held in charitable remainder trust	<u>\$ 383,693</u>	<u>\$ 396,760</u>

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 fair value of donated services, construction and rehabilitation of real estate, 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>2020</u>	<u>2019</u>
Land	\$ 6,216,901	\$ 5,815,098
Buildings and improvements	6,900,461	6,353,116
Furniture and equipment	373,758	352,805
Autos and trucks	45,000	45,000
Construction in progress	<u>5,000</u>	<u>17,960</u>
Total property and equipment	13,541,120	12,583,979
Accumulated depreciation	<u>(2,200,345)</u>	<u>(1,959,262)</u>
Total property and equipment, net	<u>\$ 11,340,775</u>	<u>\$ 10,624,717</u>

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

4. Property and Equipment (Continued)

On September 26, 2017, the Board of Directors authorized 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.

On April 8, 2020, the Organization purchased real estate in Irvine, California for approximately \$492,000. The acquisition was partially financed with a \$400,000 grant from the City of Irvine to purchase a property for use as affordable housing.

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.

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, 2020, the unreleased portion of the grant was \$36,636. 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, 2020.

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

5. Net Assets with Donor Restrictions (Continued)

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>2020</u>	<u>2019</u>
Assets held in charitable remainder trust	\$ 383,693	\$ 396,760
Liability to annuity beneficiary	<u>174,942</u>	<u>183,231</u>
Net residual in net assets with donor restrictions	<u>\$ 208,751</u>	<u>\$ 213,529</u>

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

	<u>2020</u>	<u>2019</u>
Investment gain	\$ 7,668	\$ 2,687
Payments to beneficiary from trust	(20,736)	(20,736)
Amortized interest on payments to beneficiary	<u>8,290</u>	<u>6,313</u>
Change in assets and liabilities held in charitable remainder trust	<u>\$ (4,778)</u>	<u>\$ (11,736)</u>

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

	<u>2020</u>	<u>2019</u>
Donor restricted:		
CHDO grant loan	\$ 36,636	\$ 45,792
CDBG grant loans	820,000	820,000
Charitable remainder trust	208,751	213,529
Contributions with time restrictions	48,186	315,649
Nancy Fund endowment	<u>100,000</u>	<u>100,000</u>
Total net assets with donor restrictions	<u>\$ 1,213,573</u>	<u>\$ 1,494,970</u>

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

	<u>2020</u>	<u>2019</u>
Satisfaction of restrictions:		
CHDO grant loan	\$ 9,156	\$ 9,156
FACE 2024 - Phase I Housing Grant	-	75,000
Time restrictions	<u>315,650</u>	<u>50,000</u>
Total net assets released from restrictions	<u>\$ 324,806</u>	<u>\$ 134,156</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

5. Net Assets with Donor Restrictions (Continued)

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 \$138,112 and \$117,619 are included in noncurrent assets in the statements of financial position at September 30, 2020 and 2019, 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, 2020, 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, 2018	\$	115,599
Dividends and interest earned		3,116
Change in value of investments		<u>(1,096)</u>
Endowment fund balance, September 30, 2019		117,619
Dividends and interest earned		3,259
Change in value of investments		<u>17,234</u>
Endowment fund balance, September 30, 2020	\$	<u><u>138,112</u></u>

6. Net Assets without Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Investment in property and equipment, net of debt	\$ 8,538,724	\$ 7,752,213
Board designated for:		
Reserves for operations	2,917,738	2,314,335
Legacy fund	<u>737,741</u>	<u>718,882</u>
Total net assets without donor restrictions	<u><u>\$ 12,194,203</u></u>	<u><u>\$ 10,785,430</u></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.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

6. Net Assets without Donor Restrictions (Continued)

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 \$58,000 and \$64,000 as of September 30, 2020 and 2019, respectively.

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 (4.53% and 4.51% at September 30, 2020 and 2019, respectively). 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.

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

2021	\$ 67,954
2022	71,416
2023	74,758
2024	78,256
2025	81,918
Thereafter	<u>1,571,114</u>
Total	<u>\$ 1,945,416</u>

8. PPP Loan

The Organization received a \$588,100 loan from California Bank & Trust pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted on March 27, 2020. The note, dated April 13, 2020, bears interest at 1.0% and matures in April 2022. The note may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for qualifying expenses, including payroll costs, mortgage interest payments, lease payments, rent utilities, and interest on other debt obligations incurred. Under the terms of the PPP, certain amounts of the loan may be forgiven if used for qualifying expenses as described in the CARES Act. Management believes the loan proceeds have been used for qualifying expenses and expects the full loan amount to be forgiven.

Under the original terms of the loan, 18 monthly payments of principal and interest at 1.0% were payable commencing in October 2020 (a deferral period of six months). In October 2020, the Paycheck Protection Program Flexibility Act of 2020 extended the deferral period for payments of principal, interest, and fees on all PPP loans to the date that the US Small Business Administration (SBA) remits the borrower's loan forgiveness amount to the lender (or, if any part of the loan is not forgiven, 10 months after the end of the borrower's loan forgiveness covered period). The extension of the deferral period automatically applies to all PPP loans and the SBA does not require a formal modification to the promissory note. The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or paid in full and to provide that documentation to the SBA upon request.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

9. 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, 2020 and 2019, 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 United States Department of Housing and Urban Development and the County of Orange together accounted for approximately 19% and 13% of the Organization's total support and revenue during the years ended September 30, 2020 and 2019, respectively.

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.

10. 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 \$174,633 and \$152,417 for 2020 and 2019, 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.

11. 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 during the year ended September 30, 2020.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2020 and 2019

12. Availability of Financial Assets and Liquidity

Financial assets available within one year of the statements of financial position dates to meet cash needs for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Financial assets, at September 30:*	\$ 4,942,234	\$ 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	(1,165,387)	(1,179,321)
Board designations:		
Legacy fund	<u>(737,741)</u>	<u>(718,882)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,039,106</u>	<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.

13. COVID-19

The U.S., including California, where the Organization is located, is experiencing the effects of the COVID-19 pandemic. During the year ended September 30, 2020, the COVID-19 pandemic resulted in federal, state and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay-at-home orders and advisories and quarantining of people who may have been exposed to the virus. Although management is continuing to monitor and assess the effects of the pandemic on the Organization and has implemented plans to mitigate some risks arising from the impact of COVID-19, including the PPP loan (Note 8), the ultimate impact of the outbreak or a similar health epidemic on the Organization's operations and finances is highly uncertain and subject to change.

14. Subsequent Events

In October and December 2020, the Organization purchased properties in Mission Viejo, California for \$350,000 and \$357,000, respectively. The acquisitions were partially financed with grants from the City of Mission Viejo.

In March and June 2021, the Organization purchased properties in Irvine, California for \$508,500 and \$390,000, respectively. The acquisitions were partially financed with grants from the City of Irvine.

In March 2021, the Organization purchased a property in Costa Mesa, California for \$2,550,000. The acquisition was partially financed with contributions from two private donors.

On November 27, 2020, the Board of Directors of OC Gateway to Housing (Gateway) (a California nonprofit organization) authorized Gateway to wind up and dissolve, and approved the distribution of Gateway's net assets to the Organization. The assets to be distributed upon Gateway's dissolution include real property (subject to restrictions on use as affordable housing) and cash on hand. As of September 20, 2021, eight housing units and approximately \$1,870,000 in cash and investments have been transferred to the Organization.

Families Forward, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020

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-19-MC-06-0503	\$ 6,421
City of Costa Mesa		B-20-MC-06-0503	2,717
City of Irvine		B-19-MC-06-0557	394,260
City of Irvine		10850	18,187
City of Irvine		11120	11,756
City of Lake Forest		B-17-MC-06-0584-17-04	10,013
City of Lake Forest		B-20-MC-06-0584	6,288
City of Mission Viejo		B-20-MC-06-0585	8,978
City of Mission Viejo - Loans		Contract # A17-05	820,000
City of Newport Beach		8482-4C	4,385
City of Newport Beach		8482-4B	11,550
City of Rancho Santa Margarita		B-17-MC-06-0598	7,073
City of Rancho Santa Margarita		B-20-MC-06-0598	4,037
City of Tustin		Contract No. FY 2020-2021	3,260
<u>COVID-19 - Community Development Block</u>			
<u>Grants/Entitlement Grants:</u>			
	14.218		
City of Tustin - CARES Act		Contract No. FY 19/20-21/22	60,464
City of Lake Forest - CARES Act		B-20-MW-06-0584	3,849
Subtotal	14.218		<u>1,373,238</u>
<u>Emergency Solutions Grant Program:</u>			
	14.231		
City of Irvine		11020	46,375
<u>COVID-19 - Emergency Solutions Grant Program:</u>			
	14.231		
City of Anaheim - CARES Act		AGR-12086	18,112
City of Garden Grove - CARES Act		City Grant 2020-2021	3,481
City of Irvine - CARES Act		11105	90,182
Subtotal	14.231		<u>158,150</u>

See accompanying notes to schedule of expenditures of federal awards.

Families Forward, Inc.
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>Continuum of Care Program*:</u>	14.267		
U.S. Department of Housing and Urban Development		CA1350L9D021804	\$ 398,929
U.S. Department of Housing and Urban Development		CA1350L9D021905	217,252
Pathways of Hope		CA1231L9D021704	28,810
Pathways of Hope		CA1231L9D021805	119,455
County of Orange		19-23-0048-CoC	198,736
County of Orange		MA-042-20010795	<u>77,476</u>
Subtotal	14.267		<u>1,040,658</u>
<u>HOME Investment Partnerships Program</u>	14.239		
City of Huntington Beach		18-6744/185593/mv	247,562
City of Huntington Beach		5/19-204082	<u>72,035</u>
Subtotal	14.239		<u>319,597</u>
United States Department of Treasury			
<u>COVID-19 - Coronavirus Relief Fund</u>	21.019		
County of Orange		ASP County Grant	<u>163,760</u>
Total Expenditures of Federal Awards			<u>\$ 3,055,403</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, 2020

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Families Forward, Inc. (the Organization) 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* (Uniform Guidance).

2. Loan Balances with Continuing Compliance Requirements

The Organization 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, 2020, 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 September 20, 2021.

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&LA Certified Public Accountants, Inc.

September 20, 2021

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, 2020. 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, 2020.

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.

H&A Certified Public Accountants, Inc.

September 20, 2021

Families Forward, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2020

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, 2020

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

14.267 Continuum of Care Program

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).