

FAMILIES FORWARD, INC.

**Financial Statements
and
Independent Auditor's Report
For the Years Ended
September 30, 2021 and 2020
and
Single Audit Report
For the Year Ended September 30, 2021**

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, 2021 and 2020, 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, 2021 and 2020, 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 25, 2022, 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.

March 25, 2022

Families Forward, Inc.
Statements of Financial Position
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,585,100	\$ 1,447,981
Grants and contributions receivable	2,394,596	1,513,461
Prepaid expenses and other current assets	276,109	128,226
Investments	<u>3,226,908</u>	<u>1,458,987</u>
Total current assets	<u>7,482,713</u>	<u>4,548,655</u>
Property and Equipment, net	<u>19,026,629</u>	<u>11,340,775</u>
Other Assets		
Assets held in charitable remainder trust	445,289	383,693
Restricted investments	<u>148,251</u>	<u>138,112</u>
Total other assets	<u>593,540</u>	<u>521,805</u>
Total assets	<u>\$ 27,102,882</u>	<u>\$ 16,411,235</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 190,877	\$ 80,473
Accrued expenses	246,319	169,033
Clients' deposits	55,095	45,495
Funds held for others	572,450	-
Notes payable, current portion	<u>71,429</u>	<u>67,954</u>
Total current liabilities	<u>1,136,170</u>	<u>362,955</u>
Long-Term Debt		
Liability to annuity beneficiary of charitable remainder trust	169,211	174,942
PPP loan	588,100	588,100
Notes payable, net of current portion	<u>1,794,278</u>	<u>1,877,462</u>
Total long-term debt	<u>2,551,589</u>	<u>2,640,504</u>
Total liabilities	<u>3,687,759</u>	<u>3,003,459</u>
Net Assets		
Net assets without donor restrictions	21,621,875	12,194,203
Net assets with donor restrictions	<u>1,793,248</u>	<u>1,213,573</u>
Total net assets	<u>23,415,123</u>	<u>13,407,776</u>
Total liabilities and net assets	<u>\$ 27,102,882</u>	<u>\$ 16,411,235</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, 2021
(with comparative totals for the year ended September 30, 2020)

	2021			2020
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Total
Support and revenue				
Contributions	\$ 5,067,615	\$ 45,000	\$ 5,112,615	\$ 3,056,729
Special events, net of direct benefit expenses of \$23,178	347,264	-	347,264	418,809
Grants from government agencies - program	5,446,567	-	5,446,567	3,056,043
Grants from government agencies - capital	555,453	524,690	1,080,143	394,260
Investment income	181,690	-	181,690	69,980
Rental and other income	601,663	-	601,663	481,007
In-kind contributions	1,852,625	-	1,852,625	1,148,801
Assets received from distribution	5,525,577	-	5,525,577	-
Changes in assets and liabilities held in charitable remainder trust	-	67,326	67,326	(4,777)
Total support and revenue	19,578,454	637,016	20,215,470	8,620,852
Net assets released from restrictions	57,341	(57,341)	-	-
Total support, revenue, and satisfaction of restrictions	19,635,795	579,675	20,215,470	8,620,852
Expenses				
Housing and other programs	9,260,352	-	9,260,352	6,799,281
Administration	480,482	-	480,482	326,337
Fundraising	467,289	-	467,289	367,858
Total expenses	10,208,123	-	10,208,123	7,493,476
Increase in net assets	9,427,672	579,675	10,007,347	1,127,376
Net assets, beginning of year	12,194,203	1,213,573	13,407,776	12,280,400
Net assets, end of year	\$ 21,621,875	\$ 1,793,248	\$ 23,415,123	\$ 13,407,776

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 3,008,543	\$ 48,186	\$ 3,056,729
Special events, net of direct benefit expenses of \$27,837	418,809	-	418,809
Grants from government agencies - program	3,056,043	-	3,056,043
Grants from government agencies - capital	394,260	-	394,260
Investment income	69,980	-	69,980
Rental and other income	481,007	-	481,007
In-kind contributions	1,148,801	-	1,148,801
Changes in assets and liabilities held in charitable remainder trust	-	(4,777)	(4,777)
Total support and revenue	8,577,443	43,409	8,620,852
Net assets released from restrictions	324,806	(324,806)	-
Total support, revenue, and satisfaction of restrictions	8,902,249	(281,397)	8,620,852
Expenses			
Housing and other programs	6,799,281	-	6,799,281
Administration	326,337	-	326,337
Fundraising	367,858	-	367,858
Total expenses	7,493,476	-	7,493,476
Increase (decrease) in net assets	1,408,773	(281,397)	1,127,376
Net assets, beginning of year	10,785,430	1,494,970	12,280,400
Net assets, end of year	\$ 12,194,203	\$ 1,213,573	\$ 13,407,776

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

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2021
(with comparative totals for the year ended September 30, 2020)

	2021				2020
	Housing and Other Programs	Administration	Fundraising	Total	Total
Auto mileage	\$ 9,420	\$ 98	\$ 295	\$ 9,813	\$ 23,556
Bank charges	18,309	1,006	805	20,120	16,574
Computer expenses	99,419	8,494	9,730	117,643	152,987
Depreciation	220,089	17,708	15,179	252,976	241,082
Direct program expenses	3,451,377	-	-	3,451,377	1,836,248
Donated materials and services	767,556	-	-	767,556	745,399
Dues and subscriptions	3,941	325	370	4,636	6,010
Employee benefits	343,492	29,347	33,616	406,455	279,215
Fund development	-	-	23,121	23,121	9,991
Homeowner association fees	143,771	-	-	143,771	116,118
Insurance	42,767	2,359	2,054	47,180	40,742
Interest expense	74,346	-	-	74,346	92,758
Maintenance	213,982	2,183	2,183	218,348	211,794
Office expense	42,652	2,469	10,665	55,786	47,195
Payroll	3,269,011	279,305	319,931	3,868,247	3,110,902
Payroll service fees	7,673	656	749	9,078	8,343
Payroll taxes	248,109	21,195	24,278	293,582	238,126
Postage	2,223	516	4,908	7,647	4,480
Professional fees	41,912	97,795	-	139,707	88,492
Property tax	(26,924)	(306)	(346)	(27,576)	47,016
Staff development and meetings	70,456	5,802	6,631	82,889	21,652
Telephone	103,239	8,821	10,104	122,164	56,939
Truck expenses	29,295	-	-	29,295	9,497
Utilities	59,631	608	608	60,847	51,268
Workers compensation	24,606	2,101	2,408	29,115	37,092
Total functional expenses	\$ 9,260,352	\$ 480,482	\$ 467,289	\$ 10,208,123	\$ 7,493,476

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

	Housing and Other Programs	Administration	Fundraising	Total
Auto mileage	\$ 22,613	\$ 236	\$ 707	\$ 23,556
Bank charges	-	16,574	-	16,574
Computer expenses	129,288	11,046	12,653	152,987
Depreciation	209,741	16,876	14,465	241,082
Direct program expenses	1,836,248	-	-	1,836,248
Donated materials and services	745,399	-	-	745,399
Dues and subscriptions	4,825	949	236	6,010
Employee benefits	235,962	20,160	23,093	279,215
Fund development	-	-	9,991	9,991
Homeowner association fees	116,118	-	-	116,118
Insurance	36,932	2,037	1,773	40,742
Interest expense	92,758	-	-	92,758
Maintenance	203,405	3,986	4,403	211,794
Office expense	36,085	2,087	9,023	47,195
Payroll	2,628,988	224,621	257,293	3,110,902
Payroll service fees	7,051	603	689	8,343
Payroll taxes	201,239	17,193	19,694	238,126
Postage	1,302	302	2,876	4,480
Professional fees	88,492	-	-	88,492
Property tax	45,905	522	589	47,016
Staff development and meetings	18,404	1,516	1,732	21,652
Telephone	48,119	4,111	4,709	56,939
Truck expenses	9,497	-	-	9,497
Utilities	49,563	840	865	51,268
Workers compensation	31,347	2,678	3,067	37,092
Total functional expenses	<u>\$ 6,799,281</u>	<u>\$ 326,337</u>	<u>\$ 367,858</u>	<u>\$ 7,493,476</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, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase in net assets without donor restrictions	\$ 9,427,672	\$ 1,408,773
Increase (decrease) in net assets with donor restrictions	579,675	(281,397)
Total increase in net assets	10,007,347	1,127,376
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation expense	252,976	241,082
Donated property and equipment	-	(414,699)
Assets received from distribution, net of cash	(5,171,336)	-
Unrealized gain on investments	(141,811)	(37,753)
Decrease (increase) in assets and liabilities held in charitable remainder trust	(67,326)	4,778
Increase in grants and contributions receivable	(881,135)	(977,391)
Increase in prepaid expenses and other current assets	(147,883)	(706)
Increase in accounts payable	110,404	26,096
Increase (decrease) in accrued expenses	77,286	(60,324)
Increase in funds held for others	572,450	-
Decrease in unearned revenue	-	(12,500)
Increase in clients' deposits	9,600	17,857
Total adjustments	(5,386,775)	(1,213,560)
Net cash provided (used) by operating activities	4,620,572	(86,184)
Cash Flows from Investing Activities		
Purchases of property and equipment	(4,302,830)	(542,441)
Purchases of investments	(146,236)	(795,622)
Sales of investments	45,322	841,936
Net cash used by investing activities	(4,403,744)	(496,127)
Cash Flows from Financing Activities		
Proceeds from PPP loan	-	588,100
Payments on promissory notes	(79,709)	(61,297)
Payments on funds held for claims administration	-	(590,000)
Net cash used by financing activities	(79,709)	(63,197)
Net increase (decrease) in cash and cash equivalents	137,119	(645,508)
Cash and cash equivalents, beginning of year	1,447,981	2,093,489
Cash and cash equivalents, end of year	\$ 1,585,100	\$ 1,447,981
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 74,346	\$ 92,758

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

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, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Management believes that all grants and contributions receivable as of September 30, 2021 and 2020 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, 2021 and 2020, 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 in the statements of financial position and consist of mutual funds and money market funds. Donated investments are recorded at fair value on the date of donation and are included in contributions in the statements of activities and changes in net assets. 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 and changes in net assets.

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, 2021 and 2020

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, 2018, 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, 2017, 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 (in-kind contributions) 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.

PPP Loan

The Organization has accounted for the Payroll Protection Program loan proceeds (Note 9) 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. The full loan amount was forgiven on February 2, 2022.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Funds Held for Others

The Organization is the fiscal sponsor and administrator of the Family Solutions Collaborative (FSC), a coalition of family homeless service providers in Orange County, California. Grant funds received by the Organization in excess of direct and administrative costs related to specific shelter placement program expenses will be distributed to other FSC agencies and are included in funds held for others in the statement of financial position as of September 30, 2021.

Recently Issued Accounting Pronouncement

In September of 2020, the FASB issued Accounting Standards Update (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.

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:

	2021 Quoted Prices (Level 1)	2020 Quoted Prices (Level 1)
Investments:		
Money market funds	\$ 2,213	\$ 1,765
Bond funds	1,054,298	940,833
Equity funds	2,318,648	654,501
	<u>\$ 3,375,159</u>	<u>\$ 1,597,099</u>
Assets held in charitable remainder trust:		
Money market funds	\$ 9,297	\$ 36,567
Bond funds	161,533	141,864
Equity funds	274,459	205,262
	<u>\$ 445,289</u>	<u>\$ 383,693</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.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

4. Property and Equipment

Property and equipment are summarized as follows at September 30:

	2021	2020
	<u> </u>	<u> </u>
Land	\$ 7,445,645	\$ 6,216,901
Buildings and improvements	7,302,937	6,900,461
Furniture and equipment	417,469	373,758
Autos and trucks	45,000	45,000
Real estate held for sale	906,000	-
Real estate not placed in service	<u>5,362,899</u>	<u>5,000</u>
Total property and equipment	21,479,950	13,541,120
Accumulated depreciation	<u>(2,453,321)</u>	<u>(2,200,345)</u>
Total property and equipment, net	<u>\$ 19,026,629</u>	<u>\$ 11,340,775</u>

The accounts above include the properties acquired with the grant loans described in Note 6.

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.

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

In March 2021, the Organization purchased a property in Costa Mesa, California for approximately \$2,550,000. The acquisition was partially financed with contributions from two private donors and a bank loan (Note 14).

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

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 distributed upon Gateway's dissolution included cash on hand, investments, and eight housing units (subject to restrictions on use as affordable housing). The fair values of the distributed cash, investments, and real property were \$354,241, \$1,535,336, and \$3,636,000, respectively. The total fair value of \$5,525,577 is included in assets received from distribution in the statement of activities and changes in net assets for the year ended September 30, 2021. Two of the housing units were sold in November 2021 and January 2022 for a total consideration of \$906,000.

In May 2021, the Organization received a bequest of real property in Tustin, California, pursuant to an irrevocable trust. The \$1,065,000 fair value of the in-kind contribution is included in grants and contributions receivable as of September 30, 2021, as title was not transferred to the Organization until December 2021. The property was sold in December 2021 and no gain or loss was recognized upon sale.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

5. In-Kind Contributions

The estimated fair values of in-kind contributions recognized in the statements of activities and changes in net assets are as follows for the years ended September 30:

	<u>2021</u>	<u>2020</u>
Real estate (bequest)	\$ 1,065,000	\$ -
Real estate improvements	-	414,699
Food	314,350	328,927
Legal services	56,502	41,908
Adopt a Family / Back to School supplies	331,305	214,590
Gift cards	56,209	52,594
Other miscellaneous	29,259	96,083
	<u>\$ 1,852,625</u>	<u>\$ 1,148,801</u>

6. Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Donor restricted:		
CHDO grant loan	\$ 27,480	\$ 36,636
CDBG grant loans	1,344,690	820,000
Charitable remainder trust	276,078	208,751
Contributions with time restrictions	45,000	48,186
Nancy Fund endowment	100,000	100,000
	<u>\$ 1,793,248</u>	<u>\$ 1,213,573</u>

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

	<u>2021</u>	<u>2020</u>
Satisfaction of restrictions:		
CHDO grant loan	\$ 9,156	\$ 9,156
Time restrictions	48,185	315,650
	<u>\$ 57,341</u>	<u>\$ 324,806</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

6. Net Assets with Donor Restrictions (Continued)

Grant Loans

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, 2021, the unreleased portion of the grant was \$27,480. 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, 2021.

In February 2017 and July 2020, the Organization received Community Development Block Grant (CDBG) loans from the City of Mission Viejo totaling \$820,000 and \$524,690, respectively, 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.

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>2021</u>	<u>2020</u>
Assets held in charitable remainder trust	\$ 445,289	\$ 383,693
Liability to annuity beneficiary	<u>169,211</u>	<u>174,942</u>
Net residual in net assets with donor restrictions	<u>\$ 276,078</u>	<u>\$ 208,751</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

6. Net Assets with Donor Restrictions (Continued)

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

	<u>2021</u>	<u>2020</u>
Investment gain	\$ 82,331	\$ 7,668
Payments to beneficiary from trust	(20,736)	(20,736)
Amortized interest on payments to beneficiary	<u>5,731</u>	<u>8,290</u>
Change in assets and liabilities held in charitable remainder trust	<u>\$ 67,326</u>	<u>\$ (4,778)</u>

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 \$148,251 and \$138,112 are included in noncurrent assets in the statements of financial position at September 30, 2021 and 2020, 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, 2021, 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, 2019	\$ 117,619
Dividends and interest earned	3,259
Change in value of investments	<u>17,234</u>
Endowment fund balance, September 30, 2020	138,112
Dividends and interest earned	13,428
Change in value of investments	<u>(3,289)</u>
Endowment fund balance, September 30, 2021	<u>\$ 148,251</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

7. Net Assets without Donor Restrictions

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

	2021	2020
Undesignated, including investment in property and equipment, net of debt	\$ 16,139,300	\$ 8,538,724
Board designated for:		
Reserves for operations	4,593,795	2,917,738
Legacy fund	888,780	737,741
Total net assets without donor restrictions	\$ 21,621,875	\$ 12,194,203

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.

8. 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 \$58,130 and \$57,847 as of September 30, 2021 and 2020, respectively.

In connection with the purchase of an eight-bedroom apartment complex in Costa Mesa in February 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 index rate of California Bank & Trust (the Bank) (4.51% at September 30, 2021 and 2020). The second note was 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 was 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. The second promissory note was refinanced on February 23, 2022 (Note 14).

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

8. Notes Payable (Continued)

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

2022	\$ 71,429
2023	74,770
2024	78,269
2025	81,930
2026	948,494
Thereafter	<u>610,815</u>
Total	<u>\$ 1,865,707</u>

9. PPP Loan

The Organization received a \$588,100 loan from the Bank 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, bore interest at 1.0%, and had an original maturity date of April 2021. Funds from the loan could 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 could be forgiven if used for qualifying expenses as described in the CARES Act. The full loan amount was forgiven on February 2, 2022.

10. 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, 2021 and 2020, 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 County of Orange and Gateway together accounted for approximately 41% of the Organization's total support and revenue during the year ended September 30, 2021. The County of Orange and the United States Department of Housing and Urban Development together accounted for approximately 19% of the Organization's total support and revenue during the year ended September 30, 2020.

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.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

11. 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 \$214,659 and \$174,633 for 2021 and 2020, 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.

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>2021</u>	<u>2020</u>
Financial assets, at September 30:*	\$ 7,800,144	\$ 4,942,234
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(1,748,248)	(1,165,387)
Board designations:		
Legacy fund	<u>(888,780)</u>	<u>(737,741)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,163,116</u>	<u>\$ 3,039,106</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

In March 2020, the World Health Organization declared novel corona virus (COVID-19) a pandemic. 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 9), the full impact of COVID-19 on the Organization's operations and finances is uncertain and will depend on the duration and depth of the pandemic.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2021 and 2020

14. Subsequent Events

Management has evaluated subsequent events through March 25, 2022, the date the financial statements were available to be issued.

Promissory Note

The Organization executed a \$900,000 promissory note dated October 6, 2021, in connection with the March 2021 purchase of the Costa Mesa property described in Note 4. The note is secured by the deed of trust on the property and is payable in 59 monthly payments of principal and interest of \$3,905, with a final payment of approximately \$807,000 in October 2026. Interest is calculated at 2.20% above the Bank's index rate, resulting in an initial rate of 3.18%. The loan agreement contains various financial and nonfinancial covenants and conditions.

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

2022	\$ 16,945
2023	19,057
2024	19,672
2025	20,306
2026	20,962
2027	<u>803,058</u>
Total	<u>\$ 900,000</u>

Loan Refinance

On February 23, 2022, the Organization refinanced the second promissory note on the Costa Mesa apartment complex described in Note 8. The note is secured by a deed of trust on the property and is payable in 12 monthly payments of \$3,494, including interest at 0.9%, followed by 107 monthly payments of \$4,420, including interest at 2.99%, followed by a final payment of \$642,981, including interest at 2.99%, on February 23, 2032.

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

2022	\$ 19,586
2023	29,349
2024	26,850
2025	27,664
2026	28,503
Thereafter	<u>805,048</u>
Total	<u>\$ 937,000</u>

Board Designation

On March 22, 2022, the Board of Directors designated \$2,400,000 for the purchase of a multi-family property to be used for affordable housing. A property has not yet been identified.

Families Forward, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

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 Grants/Entitlement Grants:</u>			
	14.218		
City of Costa Mesa		B-20-MC-06-0503	\$ 32,282
City of Costa Mesa		B-21-MC-06-0503	8,384
City of Huntington Beach		B-21-MC06-0506	16,435
City of Irvine		11318	3,089
City of Irvine		11120	30,699
City of Irvine		B-20-MC-06-0557	555,453
City of Lake Forest		B-20-MC-06-0584	37,287
City of Lake Forest		B-21-MC-06-0584	12,525
City of Mission Viejo		B-20-MC-06-0585	8,748
City of Mission Viejo		B-21-MC-06-0585	3,077
City of Mission Viejo - Loans		Contract # A17-05	820,000
City of Mission Viejo - Loans		4831-1733-8811v5/200347-0011	524,690
City of Newport Beach		8482-4C	10,615
City of Rancho Santa Margarita		B-20-MC-06-0598	10,963
City of Tustin		Contract No. FY 2020-2021	10,889
		Contract No. FY 2021-2022	3,394
<u>COVID-19 - Community Development Block Grants/Entitlement Grants:</u>			
	14.218		
City of Irvine - CARES Act		11112	63,691
City of Lake Forest - CARES Act		B-20-MW-06-0584	45,138
City of Mission Viejo - CARES Act		B-20-MW-06-0585	23,421
City of Tustin - CARES Act		Contract No. FY 19/20-21/22	185,059
City of Rancho Santa Margarita - CARES Act		B-20-MW-06-0598	14,616
Subtotal	14.218		2,420,455
<u>Emergency Solutions Grant Program:*</u>			
	14.231		
City of Irvine		11020	80,433
<u>COVID-19 - Emergency Solutions Grant Program:*</u>			
	14.231		
City of Anaheim - CARES Act		AGR-12086	31,888
City of Garden Grove - CARES Act		City Grant 2020-2022	31,552
City of Irvine - CARES Act		11105	160,945
City of Irvine - CARES Act		11232	428,516
FSC - CARES Act		MA-042-21011205	633,315
County of Orange - CARES Act		ASP Program	201,620
Subtotal	14.231		1,568,269

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, 2021

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		CA1350L9D021905	\$ 526,814
U.S. Department of Housing and Urban Development		CA1350L9D022006	66,696
Pathways of Hope		CA1231L9D021805	21,223
Pathways of Hope		CA1231L9D021906	140,708
County of Orange		MA-042-20010795	366,913
Subtotal	14.267		1,122,354
<u>HOME Investment Partnerships Program</u>	14.239		
City of Huntington Beach		5/19-204082	218,526
City of Huntington Beach		FY2021-2022	15,589
City of Costa Mesa		M-20-MC-06-0507	18,276
Subtotal	14.239		252,391
United States Department of Treasury			
<u>COVID-19 - Emergency Rental Assistance Program*</u>	21.023		
City of Santa Ana - CARES Act		A-2021-021-03	172,907
City of Santa Ana - CARES Act		FY2021-2022	37,529
State of California - CARES Act		52524-0001	55,726
Subtotal	21.023		266,162
<u>COVID-19 - Coronavirus Relief Fund</u>	21.019		
County of Orange - CARES Act		ASP County Grant	340,560
United States Department of Justice			
<u>Crime Victim Assistance</u>	16.575		
Human Options		XH20031192	41,717
Human Options		XD20031192	159,401
Subtotal	16.575		201,118
United States Department of Homeland Security			
<u>Emergency Food and Shelter National Board Program</u>	97.024		
County of Orange		078600-053 - Phase 37	10,449
County of Orange		078600-053 - Phase 38	10,000
<u>COVID-19 - Emergency Food and Shelter National Board Program</u>	97.024		
County of Orange		078600-053 - Phase CARES	10,000
Subtotal	97.024		30,449
Total Expenditures of Federal Awards			\$ 6,201,758

*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, 2021

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 totaled \$1,344,690, of which \$820,000 and \$524,690 was disbursed during the years ended September 30, 2021 and 2017, respectively.

3. Indirect Cost Rate

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