

FAMILIES FORWARD, INC.

**Financial Statements
and
Independent Auditor's Report
For the Years Ended
September 30, 2017 and 2016
and
Single Audit Report
For the Year Ended September 30, 2017**

Families Forward, Inc.
Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 16
Schedule of Expenditures of Federal Awards.....	17
Notes to Schedule of Expenditures of Federal Awards	18
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 <i>Government Auditing Standards</i>	19 - 20
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	21 - 22
Summary Schedule of Prior Audit Findings	23
Schedule of Findings and Questioned Costs.....	24

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, 2017 and 2016, 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, 2017 and 2016, 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* (CFR) 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 December 8, 2017, 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.

HBLA Certified Public Accountants, Inc.

December 8, 2017

Families Forward, Inc.
Statements of Financial Position
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 941,267	\$ 800,814
Grants receivable	364,626	510,481
Prepaid expenses and other current assets	92,788	107,767
Investments	<u>1,378,140</u>	<u>1,278,785</u>
Total current assets	<u>2,776,821</u>	<u>2,697,847</u>
Property and Equipment, net	<u>8,027,942</u>	<u>7,361,780</u>
Other Assets		
Assets held in charitable remainder trust	412,016	390,841
Contributions receivable	-	62,000
Restricted investments	<u>109,270</u>	<u>52,563</u>
Total other assets	<u>521,286</u>	<u>505,404</u>
Total assets	<u>\$ 11,326,049</u>	<u>\$ 10,565,031</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 29,862	\$ 28,183
Accrued expenses	170,492	121,566
Clients' deposits	<u>14,303</u>	<u>10,979</u>
Total current liabilities	<u>214,657</u>	<u>160,728</u>
Long-Term Debt		
Liability to annuity beneficiary of charitable remainder trust	198,097	204,431
Note payable	<u>36,161</u>	<u>36,161</u>
Total long-term debt	<u>234,258</u>	<u>240,592</u>
Total liabilities	<u>448,915</u>	<u>401,320</u>
Net Assets		
Unrestricted	9,491,610	9,553,041
Temporarily restricted	1,285,524	510,670
Permanently restricted	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>10,877,134</u>	<u>10,163,711</u>
Total liabilities and net assets	<u>\$ 11,326,049</u>	<u>\$ 10,565,031</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, 2017
(with comparative totals for the year ended September 30, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Contributions	\$ 1,754,786	\$ 161,500	\$ -	\$ 1,916,286	\$ 2,014,019
Special events, net of direct benefit expenses of \$95,075	489,162	-	-	489,162	483,348
Grants from government agencies - program	879,789	-	-	879,789	743,307
Grants from government agencies - capital	-	820,000	-	820,000	328,297
Investment income	99,903	-	-	99,903	87,287
Rental and other income	175,861	-	-	175,861	135,723
Gain on sale of real property	-	-	-	-	330,893
Loss on disposal of property and equipment	(607)	-	-	(607)	-
Donated goods and services	1,063,387	-	-	1,063,387	1,232,116
Changes in assets and liabilities held in charitable remainder trust	-	27,510	-	27,510	(6,282)
Total support and revenue	4,462,281	1,009,010	-	5,471,291	5,348,708
Net assets released from restrictions	234,156	(234,156)	-	-	-
Total support, revenue, and satisfaction of restrictions	4,696,437	774,854	-	5,471,291	5,348,708
Expenses					
Housing and other programs	4,251,638	-	-	4,251,638	3,956,037
Administration	250,419	-	-	250,419	215,398
Fundraising	255,811	-	-	255,811	231,376
Total expenses	4,757,868	-	-	4,757,868	4,402,811
Increase (decrease) in net assets	(61,431)	774,854	-	713,423	945,897
Net assets, beginning of year	9,553,041	510,670	100,000	10,163,711	9,217,814
Net assets, end of year	\$ 9,491,610	\$ 1,285,524	\$ 100,000	\$ 10,877,134	\$ 10,163,711

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

Families Forward, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Contributions	\$ 1,775,019	\$ 239,000	\$ -	\$ 2,014,019
Special events, net of direct benefit expenses of \$103,759	483,348	-	-	483,348
Grants from government agencies - program	743,307	-	-	743,307
Grants from government agencies - capital	328,297	-	-	328,297
Investment income	87,287	-	-	87,287
Rental and other income	135,723	-	-	135,723
Gain on sale of real property	330,893	-	-	330,893
Donated goods and services	1,232,116	-	-	1,232,116
Changes in assets and liabilities held in charitable remainder trust	-	(6,282)	-	(6,282)
Total support and revenue	5,115,990	232,718	-	5,348,708
Net assets released from restrictions	133,906	(133,906)	-	-
Total support, revenue, and satisfaction of restrictions	5,249,896	98,812	-	5,348,708
Expenses				
Housing and other programs	3,956,037	-	-	3,956,037
Administration	215,398	-	-	215,398
Fundraising	231,376	-	-	231,376
Total expenses	4,402,811	-	-	4,402,811
Increase in net assets	847,085	98,812	-	945,897
Net assets, beginning of year	8,705,956	411,858	100,000	9,217,814
Net assets, end of year	<u>\$ 9,553,041</u>	<u>\$ 510,670</u>	<u>\$ 100,000</u>	<u>\$ 10,163,711</u>

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

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2017
(with comparative totals for the year ended September 30, 2016)

	2017				2016
	Housing and Other Programs	Administration	Fundraising	Total	Total
Association dues	\$ 116,793	\$ -	\$ -	\$ 116,793	\$ 114,965
Auto mileage	11,948	548	889	13,385	12,084
Bank charges	-	15,569	-	15,569	14,170
Closing and commission fees	-	-	-	-	15,783
Community education	3,695	-	144	3,839	5,658
Computer expenses	51,888	5,184	6,183	63,255	58,512
Consultants	-	-	-	-	576
Depreciation	217,057	19,126	17,019	253,202	242,999
Donated materials and services	1,082,486	-	-	1,082,486	1,108,368
Dues and subscriptions	3,014	593	148	3,755	1,831
Employee benefits	171,770	14,676	16,811	203,257	168,777
Fund development	-	-	5,350	5,350	8,047
Insurance	24,556	1,355	1,179	27,090	21,897
Maintenance and rent	59,729	1,171	1,293	62,193	59,025
Newsletter and printing	12,962	1,290	12,066	26,318	26,764
Office expense	24,151	1,397	6,039	31,587	29,809
Payroll	1,690,611	144,446	165,456	2,000,513	1,736,747
Payroll service fees	5,159	441	504	6,104	9,135
Payroll taxes	132,568	11,326	12,974	156,868	145,080
Postage	1,389	323	3,069	4,781	5,749
Prevention program expenses	434,698	-	-	434,698	379,804
Professional fees	1,871	26,441	-	28,312	17,403
Property tax	10,065	114	129	10,308	10,449
Telephone	27,643	3,540	3,396	34,579	30,991
Transitional housing expenses	70,809	-	-	70,809	81,534
Truck expenses	8,231	-	-	8,231	10,246
Utilities	68,381	1,157	1,189	70,727	65,610
Workers compensation	20,164	1,722	1,973	23,859	20,798
Total functional expenses	\$ 4,251,638	\$ 250,419	\$ 255,811	\$ 4,757,868	\$ 4,402,811

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

Families Forward, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2016

	Housing and Other Programs	Administration	Fundraising	Total
Association dues	\$ 114,965	\$ -	\$ -	\$ 114,965
Auto mileage	10,786	495	803	12,084
Bank charges	-	14,170	-	14,170
Closing costs and relocation expense	15,783	-	-	15,783
Community education	5,364	82	212	5,658
Computer expenses	47,998	4,795	5,719	58,512
Consultants	576	-	-	576
Depreciation	208,311	18,355	16,333	242,999
Donated materials and services	1,108,368	-	-	1,108,368
Dues and subscriptions	1,470	289	72	1,831
Employee benefits	142,632	12,186	13,959	168,777
Fund development	-	-	8,047	8,047
Insurance	19,849	1,095	953	21,897
Maintenance and rent	56,687	1,111	1,227	59,025
Newsletter and printing	13,182	1,312	12,270	26,764
Office expense	22,792	1,318	5,699	29,809
Payroll	1,467,705	125,401	143,641	1,736,747
Payroll service fees	7,721	660	754	9,135
Payroll taxes	122,606	10,475	11,999	145,080
Postage	1,671	388	3,690	5,749
Prevention program expenses	379,804	-	-	379,804
Professional fees	-	17,403	-	17,403
Property tax	10,202	116	131	10,449
Telephone	24,774	3,173	3,044	30,991
Transitional housing expenses	81,534	-	-	81,534
Truck expenses	10,246	-	-	10,246
Utilities	63,434	1,073	1,103	65,610
Workers compensation	17,577	1,501	1,720	20,798
Total functional expenses	<u>\$ 3,956,037</u>	<u>\$ 215,398</u>	<u>\$ 231,376</u>	<u>\$ 4,402,811</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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase (decrease) in unrestricted net assets	\$ (61,431)	\$ 847,085
Increase in temporarily restricted net assets	774,854	98,812
Total increase in net assets	713,423	945,897
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	253,202	242,999
Donated property and equipment	-	(119,650)
Grant loans from government agency	(820,000)	-
Gain on sale of real property	-	(330,893)
Loss on disposal of property and equipment	607	-
Unrealized gain on investments	(73,730)	(62,620)
Decrease (increase) in assets and liabilities held in charitable remainder trust	(27,509)	6,282
Decrease (increase) in grants receivable	145,855	(189,668)
Decrease in contributions receivable	62,000	31,000
Decrease (increase) in prepaid expenses and other current assets	14,979	(22,951)
Increase in accounts payable	1,679	3,651
Increase in accrued expenses	48,926	18,371
Increase in clients' deposits	3,324	9,693
Total adjustments	(390,667)	(413,786)
Net cash provided by operating activities	322,756	532,111
Cash Flows from Investing Activities		
Purchases of property and equipment	(99,971)	(421,746)
Sale of property and equipment	-	441,907
Purchases of investments	(82,332)	(366,852)
Net cash used by investing activities	(182,303)	(346,691)
Net increase in cash and cash equivalents	140,453	185,420
Cash and cash equivalents, beginning of year	800,814	615,394
Cash and cash equivalents, end of year	\$ 941,267	\$ 800,814

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

1. Organization

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

2. Summary of Significant Accounting Policies

Net Asset Classifications

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

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

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

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

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

Support and Revenue

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

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

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

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

Grants Receivable

Grants receivable are recorded when an obligation from a granting agency is committed in writing and when qualifying expenditures are made in connection with grants that provide for reimbursement of such expenditures. Management believes that all grants receivable as of September 30, 2017 and 2016 were fully collectible; therefore, no allowance for doubtful accounts was recorded.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

2. Summary of Significant Accounting Policies (Continued)

Promises to Give

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

Property and Equipment

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

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, 2017 and 2016, the Organization did not identify any material impairment of its long-lived assets.

Functional Allocation of Expenses

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

Cash and Cash Equivalents

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

Investments

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

Income Taxes

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

2. Summary of Significant Accounting Policies (Continued)

The Organization evaluates its tax provisions for any potential uncertain tax positions. The Organization does not believe its financial statements include any uncertain tax positions which are not deemed more likely than not to be sustained if challenged. The Organization's federal income tax and informational returns for the fiscal years ended September 30, 2014, 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, 2013, and subsequent.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 \$1,063,387 and \$1,232,116 for 2017 and 2016, respectively, most of which related to rent for the housing program participants, rehabilitation costs for housing units, food donated to the food pantry, and other household furnishings.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU will simplify the face of the financial statements by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions, while at the same time enhancing the footnote disclosures to provide financial statement readers with more useful information about an entity's resources and changes in those resources. This ASU will be effective for fiscal years beginning after December 15, 2017. Management is evaluating the impact of adopting this new ASU on the financial statements.

Subsequent Events

Management has evaluated subsequent events through December 8, 2017, the date the financial statements were available to be issued.

3. Fair Value of Financial Instruments

The Organization determines the fair values of its investments based on the fair value hierarchy. The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The statement requires fair value measurements to be classified and disclosed in one of the following three categories.

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

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

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

3. Fair Value of Financial Instruments (Continued)

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

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

The investment funds are valued at the closing price reported on the active market on which the individual securities are traded. The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30:

	2017	2016
	Quoted Prices (Level 1)	Quoted Prices (Level 1)
Investments:		
Money market funds	\$ 25,753	\$ 1,468
Bond funds	826,057	786,030
Equity funds	<u>635,600</u>	<u>543,850</u>
 Total investments	 <u>\$ 1,487,410</u>	 <u>\$ 1,331,348</u>
Assets held in charitable remainder trust:		
Money market funds	\$ 5,498	\$ 2,153
Bond funds	157,056	146,798
Equity funds	<u>249,462</u>	<u>241,890</u>
 Total assets held in charitable remainder trust	 <u>\$ 412,016</u>	 <u>\$ 390,841</u>

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

4. Property and Equipment

Property and equipment is summarized as follows at September 30:

	2017	2016
Land	\$ 3,441,564	\$ 2,848,212
Buildings and improvements	5,768,315	5,444,220
Furniture and equipment	342,273	341,149
Autos and trucks	<u>45,000</u>	<u>45,000</u>
 Total property and equipment	 9,597,152	 8,678,581
Accumulated depreciation	<u>(1,569,210)</u>	<u>(1,316,801)</u>
 Total property and equipment, net	 <u>\$ 8,027,942</u>	 <u>\$ 7,361,780</u>

As of September 30, 2017, the accounts above include the properties acquired with the grant loans described in Note 5.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

5. Restricted Net Assets

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 temporarily restricted net assets, 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 temporarily restricted contribution, as management considers the likelihood of default of the provisions of the grant loan to be remote, and is being released from restriction over the 20 years at \$9,156 per year. At September 30, 2017, the unreleased portion of the grant was \$64,104. 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, 2017.

Charitable Remainder Trust

The Organization has been named trustee and remainder beneficiary of an irrevocable charitable remainder annuity trust, which was created in September 2008. In each taxable year of the trust, during the annuity period, the trustee shall pay the annuity beneficiary an annuity amount equal to 5.76% of the initial fair value of the trust assets. Upon the death of the beneficiary, the remaining trust assets will be distributed to the Organization. The Organization is restricted by the trust agreement to utilize the assets for programs. A noncurrent asset for the charitable remainder trust was recognized at the appraised value of \$360,000 as of September 30, 2008. The present value of the expected future annuity payments discounted at a rate of 5% was recognized as a Liability to Annuity Beneficiary of Charitable Remainder Trust. The components of the charitable remainder trust were as follows at September 30:

	<u>2017</u>	<u>2016</u>
Assets held in charitable remainder trust	\$ 412,016	\$ 390,841
Liability to annuity beneficiary	<u>198,097</u>	<u>204,431</u>
Net residual in temporarily restricted net assets	<u><u>\$ 213,919</u></u>	<u><u>\$ 186,410</u></u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

5. Restricted Net Assets (Continued)

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

	<u>2017</u>	<u>2016</u>
Investment gain	\$ 40,391	\$ 6,599
Payments to beneficiary from trust	(20,736)	(20,736)
Amortized interest on payments to beneficiary	<u>7,855</u>	<u>7,855</u>
Change in assets and liabilities held in charitable remainder trust	<u>\$ 27,510</u>	<u>\$ (6,282)</u>

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

	<u>2017</u>	<u>2016</u>
Temporarily restricted:		
CHDO grant loan	\$ 64,105	\$ 73,260
CDBG grant loans	820,000	-
Charitable remainder trust	213,919	186,410
Contributions for endowment distributions	6,000	12,000
Contributions with time restrictions	106,500	164,000
Orange County United Way FACE 2024 Housing Grant	<u>75,000</u>	<u>75,000</u>
Total temporarily restricted net assets	<u>\$ 1,285,524</u>	<u>\$ 510,670</u>

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

	<u>2017</u>	<u>2016</u>
Satisfaction of restrictions:		
CHDO grant loan	\$ 9,156	\$ 9,156
FACE 2024 - Phase I Housing Grant	75,000	118,750
Time restrictions	144,000	-
Endowment distribution	<u>6,000</u>	<u>6,000</u>
Total net assets released from restrictions	<u>\$ 234,156</u>	<u>\$ 133,906</u>

Endowment

Pursuant to a gift agreement dated December 10, 2014, the donors committed to fund an endowment (The Nancy Fund) of \$100,000. The first two \$25,000 endowment installments were received in 2016 and 2015 and the final two \$25,000 installments were received during the year ended September 30, 2017. The donors had also committed to contribute \$6,000 annually, as funds immediately available for use as endowment distributions, until the \$100,000 endowment was fully funded, after which time income from the endowment investments would finance the distributions. The first two \$6,000 contributions were received in February and November 2015, the third contribution was received in December 2016, and the final contribution was received in April 2017. The promise-to-give of \$62,000 that was remaining as of September 30, 2016 was recorded as contributions receivable in the statement of financial position. Additionally, investments restricted for permanent endowment of \$109,270 and \$52,563 are included in noncurrent assets in the statements of financial position at September 30, 2017 and 2016, respectively.

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

5. Restricted Net Assets (Continued)

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

The Organization's long-term investment policy is that no more than 5% of the investment portfolio shall be placed in any one security or fund, with the exception of a money market fund or a broadly diversified mutual fund or exchange-traded fund. As of September 30, 2017, 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, 2015	\$	23,013
Contribution received for endowment		25,000
Contribution received for distribution		6,000
Distributions made		(6,000)
Dividends and interest earned		753
Change in value of investments		<u>3,797</u>
Endowment fund balance, September 30, 2016		52,563
Contribution received for endowment		50,000
Contribution received for distribution		12,000
Distributions made		(12,000)
Dividends and interest earned		1,283
Change in value of investments		<u>5,424</u>
Endowment fund balance, September 30, 2017	\$	<u><u>109,270</u></u>

6. Unrestricted Net Assets

Unrestricted net assets consist of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Investment in property and equipment, net of debt	\$ 7,143,839	\$ 7,252,359
Board designated for:		
Reserves for operations	1,684,933	1,525,722
Legacy fund	662,838	596,546
Undesignated	-	<u>178,414</u>
Total unrestricted net assets	<u>\$ 9,491,610</u>	<u>\$ 9,553,041</u>

Families Forward, Inc.
Notes to Financial Statements
September 30, 2017 and 2016

7. Note Payable

The \$100,000 note dated September 2015 is secured by a real estate deed of trust, is non-interest bearing, and is payable in 50 annual installments of \$2,000, beginning in 2020. The debt is recorded at the present value of the future payments under the note, discounted using an imputed interest rate of 4.0%. The carrying value of the non-interest bearing note is reported net of unamortized discount of approximately \$64,000 as of September 30, 2017 and 2016.

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

2018	\$	-
2019		-
2020		-
2021		283
2022		294
Thereafter		<u>35,584</u>
Total	<u>\$</u>	<u>36,161</u>

8. Concentrations and Contingencies

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, deposits of up to \$250,000 at FDIC-insured institutions are covered by FDIC insurance. As of September 30, 2017 and 2016, such deposits were in excess of FDIC insurance limits; however, management does not believe the Organization is exposed to any significant related credit risk.

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

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

9. Retirement Plans

In May 1997, the Organization established a tax sheltered annuity retirement plan for qualified employees under Section 403(b) of the Internal Revenue Code. Under the provisions of the plan, the Organization contributes 3% of the employees' salaries. In addition, employees may make voluntary contributions, for which the Organization will match up to an additional 4% of the employees' salaries. The Organization's contributions, charged to expense, were \$123,439 and \$106,984 for 2017 and 2016, 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.

Families Forward, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017

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		FY 2016-2017	\$ 14,500
City of Costa Mesa		FY 2017-2018	3,889
City of Irvine		City Grant 2016-2017	12,612
City of Irvine		City Grant 2017-2018	9,439
City of Lake Forest		B-16-MC-06-0584-16-04	7,248
City of Lake Forest		B-17-MC-06-0584-17-04	2,059
City of Mission Viejo		FY 2016-2017	5,695
City of Mission Viejo		FY 2017-2018	1,723
City of Mission Viejo - Loans		Contract # A17-05	820,000
City of Newport Beach		City Grant 2016-2017	11,273
City of Newport Beach		City Grant 2017-2018	3,088
City of Rancho Santa Margarita		B-16-MC-06-0598	3,269
City of Rancho Santa Margarita		B-17-MC-06-0598	1,671
Subtotal	14.218		<u>896,466</u>
<u>Continuum of Care Program:</u>			
	14.267		
U.S. Department of Housing and Urban Development		CA1350L9D021501	266,911
U.S. Department of Housing and Urban Development		CA1350L9D021602	95,219
Pathways of Hope		CA1231L9D021401	11,905
Pathways of Hope		CA1231L9D021502	119,360
Subtotal	14.267		<u>493,395</u>
<u>Emergency Solutions Grant</u>			
	14.231		
Mercy House Living Centers		FY 2017-2018	4,083
Total Expenditures of Federal Awards			<u><u>\$ 1,393,944</u></u>

*MAJOR PROGRAM

See accompanying notes to schedule of expenditures of federal awards.

Families Forward, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Families Forward, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

2. Loan Balances with Continuing Compliance Requirements

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

3. Indirect Cost Rate

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Families Forward, Inc. (a California nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Families Forward, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Families Forward, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Families Forward, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Families Forward, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

H&K Certified Public Accountants, Inc.

December 8, 2017

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, 2017. 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, 2017.

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&LA Certified Public Accountants, Inc.

December 8, 2017

Families Forward, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2017

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, 2017

Section I – Summary of Auditor’s Results

Financial Statements

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

Noncompliance material to financial statements
noted? ___ yes x no

Federal Awards

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

Type of auditor’s report issued on compliance
for major programs: Unmodified

Any audit findings disclosed that are required to
be reported in accordance with 2 CFR section 200.515(d)(2)? ___ yes x no

Identification of major programs:

CFDA Number Name of Federal Program

14.218 Community Development Block Grants/Entitlement Grants

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

Auditee qualified as low-risk auditee? ___ yes x 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).