

FAMILIES FORWARD

**Financial Statements and
Independent Auditors' Report
For the Years Ended
September 30, 2011 and 2010
and
Single Audit Reports
For the Year Ended September 30, 2011**

FAMILIES FORWARD

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Families Forward (a California nonprofit organization) as of September 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Families Forward's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Families Forward as of September 30, 2010 were audited by other auditors whose report dated December 13, 2010 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Families Forward as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, on our consideration of Families Forward's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic 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 basic financial statements as a whole.

H&A Certified Public Accountants, Inc.

December 20, 2011

FAMILIES FORWARD

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	1,397,804	\$ 567,594
Grants receivable	183,178	192,227
Prepaid expenses and other current assets	56,561	46,120
Investments	<u>963,319</u>	<u>1,787,358</u>
TOTAL CURRENT ASSETS	2,600,862	2,593,299
PROPERTY AND EQUIPMENT - NET	4,302,213	4,340,728
OTHER ASSETS		
Assets held in charitable remainder trust	<u>349,864</u>	<u>376,110</u>
TOTAL ASSETS	<u>\$ 7,252,939</u>	<u>\$ 7,310,137</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 35,459	\$ 46,371
Accrued expenses	72,755	66,263
Clients' deposits	<u>9,653</u>	<u>21,794</u>
TOTAL CURRENT LIABILITIES	117,867	134,428
LONG-TERM DEBT		
Liability for amounts held for others	<u>216,453</u>	<u>222,352</u>
TOTAL LIABILITIES	<u>334,320</u>	<u>356,780</u>
NET ASSETS		
Unrestricted net assets	6,666,168	6,621,402
Temporarily restricted net assets	<u>252,451</u>	<u>331,955</u>
TOTAL NET ASSETS	<u>6,918,619</u>	<u>6,953,357</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,252,939</u>	<u>\$ 7,310,137</u>

See accompanying notes to financial statements.

FAMILIES FORWARDSTATEMENTS OF ACTIVITIESFOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	\$ 1,033,775	\$ 855,798
Special events, net of direct benefit expenses of \$98,726 and \$132,746, respectively	276,409	220,517
Grants from government agencies	738,489	1,102,123
Investment (loss) income	(1,114)	22,208
Rental and other income	119,512	113,178
Donated goods and services	881,465	932,638
TOTAL SUPPORT AND REVENUE	3,048,536	3,246,462
Net assets released from restrictions	59,157	9,157
TOTAL SUPPORT, REVENUE, AND SATISFACTION OF RESTRICTIONS	3,107,693	3,255,619
EXPENSES		
Temporary housing and programs	2,686,893	2,873,181
Administration	178,017	187,188
Fundraising	198,017	189,922
TOTAL EXPENSES	3,062,927	3,250,291
INCREASE IN UNRESTRICTED NET ASSETS	44,766	5,328
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	50,000
Unrealized (loss) gain on assets and liabilities held in charitable remainder trust	(20,347)	6,482
Net assets released from restrictions	(59,157)	(9,157)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(79,504)	47,325
TOTAL (DECREASE) INCREASE IN NET ASSETS	(34,738)	52,653
NET ASSETS, BEGINNING OF YEAR	6,953,357	6,900,704
NET ASSETS, END OF YEAR	<u>\$ 6,918,619</u>	<u>\$ 6,953,357</u>

See accompanying notes to financial statements.

FAMILIES FORWARDSTATEMENT OF FUNCTIONAL EXPENSESFOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>TEMPORARY HOUSING AND PROGRAMS</u>	<u>ADMINISTRATION</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Accounting and audit	\$ 5,297	\$ 21,289	\$ -	\$ 26,586
Association dues	115,387	850	387	116,624
Auto mileage	6,785	279	273	7,337
Bank charges	-	6,537	-	6,537
Community education	1,544	-	-	1,544
Computer expenses	27,632	4,053	4,227	35,912
Consultants	4,613	-	14,336	18,949
Depreciation	109,297	5,223	5,372	119,892
Donated materials and services	877,821	-	15,000	892,821
Dues and subscriptions	2,087	161	254	2,502
Employee benefits	94,961	10,423	10,423	115,807
Fund development	-	-	5,225	5,225
Insurance	14,847	1,872	1,406	18,125
Maintenance and rent	48,499	4,299	2,555	55,353
Newsletter and printing	7,910	128	14,857	22,895
Office expense	12,669	2,347	2,340	17,356
Payroll	908,201	105,643	105,643	1,119,487
Payroll service fees	4,635	713	595	5,943
Payroll taxes	74,294	8,154	8,154	90,602
Postage	2,900	428	1,618	4,946
Prevention program expenses	197,593	-	-	197,593
Property tax	4,283	22	10	4,315
Telephone	15,882	2,443	3,206	21,531
Transitional housing expenses	77,209	-	-	77,209
Truck expenses	12,581	-	-	12,581
Utilities	48,221	1,864	847	50,932
Workers compensation	11,745	1,289	1,289	14,323
Total functional expenses	<u>\$ 2,686,893</u>	<u>\$ 178,017</u>	<u>\$ 198,017</u>	<u>\$ 3,062,927</u>

See accompanying notes to financial statements.

FAMILIES FORWARDSTATEMENT OF FUNCTIONAL EXPENSESFOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>TEMPORARY HOUSING AND PROGRAMS</u>	<u>ADMINISTRATION</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Accounting and audit	\$ 2,153	\$ 21,420	\$ -	\$ 23,573
Association dues	108,710	835	380	109,925
Auto mileage	5,900	40	415	6,355
Bank charges	-	5,519	-	5,519
Community education	1,029	-	-	1,029
Computer expenses	27,404	4,032	6,192	37,628
Consultants	18,612	-	5,200	23,812
Depreciation	87,363	4,510	4,659	96,532
Donated materials and services	944,038	-	10,000	954,038
Dues and subscriptions	2,650	427	523	3,600
Employee benefits	87,950	12,462	11,337	111,749
Fund development	-	-	1,004	1,004
Insurance	10,211	1,214	1,013	12,438
Maintenance and rent	38,551	2,400	1,332	42,283
Newsletter and printing	7,451	415	12,720	20,586
Office expense	16,854	1,136	3,276	21,266
Payroll	874,985	117,060	115,350	1,107,395
Payroll service fees	2,650	421	416	3,487
Payroll taxes	69,969	9,864	8,981	88,814
Postage	2,410	381	2,535	5,326
Prevention program expenses	393,164	-	-	393,164
Property tax	4,106	22	10	4,138
Telephone	14,778	2,281	2,866	19,925
Transitional housing expenses	91,043	-	-	91,043
Truck expenses	11,453	-	-	11,453
Utilities	42,593	1,737	789	45,119
Workers compensation	7,154	1,012	924	9,090
Total functional expenses	<u>\$ 2,873,181</u>	<u>\$ 187,188</u>	<u>\$ 189,922</u>	<u>\$ 3,250,291</u>

See accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (34,738)	\$ 52,653
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation expense	119,892	96,532
Unrealized gain (loss) in investments	14,424	(4,201)
Unrealized (gain) loss on assets and liabilities held in charitable remainder trust	20,347	(6,482)
(Increase) decrease in grants receivable	9,049	(34,864)
(Increase) decrease in prepaid expenses	(10,441)	689
(Decrease) increase in accounts payable	(10,912)	21,334
Increase in accrued expenses	6,492	14,644
Increase (decrease) in clients' deposits	(12,141)	5,668
Total adjustments	<u>136,710</u>	<u>93,320</u>
NET CASH PROVIDED BY OPERATIONS	<u>101,972</u>	<u>145,973</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(81,377)	(147,908)
Proceeds from sales of investments	1,372,591	2,395,745
Purchases of investments	(562,976)	(2,166,061)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>728,238</u>	<u>81,776</u>
NET INCREASE IN CASH AND EQUIVALENTS	830,210	227,749
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>567,594</u>	<u>339,845</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 1,397,804</u>	<u>\$ 567,594</u>

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE A – ORGANIZATION

Families Forward (the Organization) is a not-for-profit agency dedicated to helping low income and homeless families in need. Families Forward 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, and serves families throughout Orange County, California.

NOTE B – 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. There were no permanently restricted net assets at September 30, 2011 and 2010.

Support and Revenue

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 statement 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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants were received from various governmental agencies and private foundations. The majority of grant funds were used for program related purposes and improvements to facilities owned by the Organization and were treated as current period expenditures.

Rental income consists of rents paid by participants in the transitional housing program. 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, 2011 and 2010 were fully collectible; therefore, no allowance for doubtful accounts was recorded.

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

Donations of property and equipment are recorded as support at their estimated fair value. 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. Purchased property and equipment are stated at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

The Organization's long-lived assets include property and equipment. In accordance with ASC 360, *Property, Plant, 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, 2011 and 2010, 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.

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 a charitable remainder trust are reported at fair market value and consist of mutual funds, certificates of deposit, 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.

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Under the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program, bank deposits up to \$250,000 per depositor are covered by FDIC insurance through December 31, 2013. Effective December 31, 2010, under the Wall Street Reform and Consumer Protection Act, all non-interest-bearing transaction accounts are fully insured at all FDIC-insured institutions through December 31, 2012. As of September 30, 2011, the Organization's cash and cash equivalents were fully insured.

Donated Goods and Services

Donated goods and services are recorded at their estimated market values at 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. At September 30, 2011 and 2010, donated goods and services received by the Organization meeting the above criteria were valued at \$881,465 and \$932,638, respectively, most of which related to rent for the transitional housing program participants, food donated to the food pantry, and other household furnishings.

NOTE C – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization determines the fair market values of its investments based on the fair value hierarchy established in ASC Section 820, *Fair Value Measurements*, which requires an entity to maximize the use of unobservable inputs when measuring fair value. The statement requires fair value measurements to be classified and disclosed in one of the following three categories.

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

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

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

Mutual funds, bond funds, and equity funds are valued at the closing price reported on the active market on which the individual securities are traded. The fair value of certificates of deposit are values of certificates of deposit are estimated using third-party quotations.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE C – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2011:

	<u>Total Fair Value</u>	<u>Quoted Prices Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Investments:				
Certificates of deposit	\$ 673,849	\$ 673,849	\$ -	\$ -
Mutual funds	<u>289,470</u>	<u>289,470</u>	<u>-</u>	<u>-</u>
Total investments	<u>963,319</u>	<u>963,319</u>	<u>-</u>	<u>-</u>
Asset held in charitable remainder trust:				
Money market funds	9,754	9,754	-	-
Bond funds	151,555	151,555	-	-
Equity funds	<u>188,555</u>	<u>188,555</u>	<u>-</u>	<u>-</u>
Total assets held in charitable remainder trust:	<u>349,864</u>	<u>349,864</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,313,183</u>	<u>\$ 1,313,183</u>	<u>\$ -</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE C – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2010:

	<u>Total Fair Value</u>	<u>Quoted Prices Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Investments:				
Certificates of deposit	\$ 1,546,173	\$ 1,546,173	\$ -	\$ -
Mutual funds	<u>241,185</u>	<u>241,185</u>	<u>-</u>	<u>-</u>
Total investments	<u>1,787,358</u>	<u>1,787,358</u>	<u>-</u>	<u>-</u>
Asset held in charitable remainder trust:				
Money market funds	22,139	22,139	-	-
Bond funds	133,915	133,915	-	-
Equity funds	<u>220,056</u>	<u>220,056</u>	<u>-</u>	<u>-</u>
Total assets held in charitable remainder trust:	<u>376,110</u>	<u>376,110</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 2,163,468</u></u>	<u><u>\$ 2,163,468</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at September 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 2,288,341	\$ 2,288,341
Building and improvement	2,605,893	2,524,517
Furniture and equipment	129,768	147,240
Autos and trucks	<u>34,552</u>	<u>34,552</u>
Total property and equipment	5,058,554	4,994,650
Accumulated depreciation	<u>(756,341)</u>	<u>(653,922)</u>
Total property and equipment, net	<u>\$ 4,302,213</u>	<u>\$ 4,340,728</u>

Depreciation on property and equipment was \$119,892 and \$96,532 for the years ended September 30, 2011 and 2010, respectively.

NOTE E – RESTRICTED NET ASSETS

On November 17, 2004, the Organization received a Community Housing Development Organization (CHDO) grant loan from the City of Irvine in the amount of \$183,139 to partially fund the purchase of real property. The property is to be used for transitional housing rentals for homeless families for a period of 20 years. The purchase price of the property was approximately \$382,000. The remaining funds were provided through a bank loan, which was paid in full during 2007. If, after the 20 year period, the Organization is not in default of the provisions of the grant loan, as defined in the agreement, the grant loan will expire and be of no force or effect on the Organization. In the event the Organization is in default, a pro rata portion of the grant loan plus accrued interest at 10% per annum will become immediately due and payable. The pro rata amount shall be determined by multiplying \$183,139 times the percentage obtained by dividing the number of months remaining on the 20 year term by 240. The grant loan will be released from restriction over the 20 years at \$9,157 per year. 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, 2011.

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 market 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

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE E – RESTRICTED NET ASSETS (Continued)

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 fair market value of Assets Held in Charitable Remainder Trust at September 30, 2011 and 2010 was \$349,864 and \$376,110, respectively, the Liability for Amounts Held for Others was \$216,453 and \$222,352, respectively, and the Unrealized Gain (Loss) on Assets Held in Charitable Remainder Trust was (\$20,347) and \$6,482, respectively. The Unrealized Gain (Loss) on Assets Held in Charitable Remainder Trust was comprised of the following for the years ending September 30:

	<u>2011</u>	<u>2010</u>
Investment (loss) income	\$ (5,510)	\$ 26,997
Payments to beneficiary from trust	(20,736)	(20,736)
Amortized interest on payments to beneficiary	<u>5,899</u>	<u>221</u>
Unrealized (loss) gain on assets and liabilities held in charitable remainder trust	<u>\$ (20,347)</u>	<u>\$ 6,482</u>

The present value of the expected future annuity payments discounted at a rate of 5% was recognized as a liability to amount held for others.

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

	<u>2011</u>	<u>2010</u>
Temporarily restricted:		
CHDO grant	\$ 119,040	\$ 128,197
Timing restrictions	-	50,000
Charitable remainder trust	<u>133,411</u>	<u>153,758</u>
Total temporarily restricted net assets	<u>\$ 252,451</u>	<u>\$ 331,955</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE E – RESTRICTED NET ASSETS (Continued)

Net assets released from restriction consisted of the following at September 30:

	<u>2011</u>	<u>2010</u>
Satisfaction of restrictions:		
CHDO grant	\$ 9,157	\$ 9,157
Weingart grant	<u>50,000</u>	<u>-</u>
Total net assets released from restriction	<u>\$ 59,157</u>	<u>\$ 9,157</u>

NOTE F – UNRESTRICTED NET ASSETS

Management designated unrestricted net assets for the following purposes as of September 30:

	<u>2011</u>	<u>2010</u>
Invested in capital assets	\$ 4,183,170	\$ 4,212,531
Reserves for operations	882,998	600,000
Reserves for facility	1,300,000	1,300,000
Legacy fund	300,000	300,000
Undesignated	<u>-</u>	<u>208,871</u>
Total unrestricted net assets	<u>\$ 6,666,168</u>	<u>\$ 6,621,402</u>

NOTE G – CONTINGENCIES

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

The Organization received notice from the County of Orange that it and another organization, as tenants in common, would receive a conveyance of real property (Building 360) owned by the Navy and located on the former Marine Corps Air Station El Toro. The property will be conveyed to the Organization pending the satisfaction of certain conditions. Pending these conditions and final disposition of the property, the Navy agreed to lease the property to the Organization at no cost. Pursuant to the lease, dated December 22, 2005, in furtherance of

NOTES TO FINANCIAL STATEMENTSFOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE G – CONTINGENCIES (Continued)

conveyance the lease shall be for the lesser of 50 years or the effective date of the conveyance by quitclaim deed. During October of 2010, the Organization, as well as the tenant in common, received a proposed title for the property from the Navy. As of December 20, 2011, the final disposition of the property has not occurred. The Organization obtained a temporary use permit for the property to be utilized as a warehouse to store furniture for the transitional homes.

NOTE H – RETIREMENT PLAN

In May 1997, the Organization established a tax sheltered annuity retirement plan for qualified employees under Section 403 (b) of the Internal Revenue Code. Under the provisions of the plan, employees may make voluntary contributions and the Organization contributes up to 10% of the employees' salaries. The Organization's contributions, charged to expense, for the years ended September 30, 2011 and 2010 were \$70,402 and \$76,022, 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.

NOTE I – SPECIAL EVENT ACTIVITIES

The Organization conducted the following special events for fundraising purposes during the years ended September 30:

<u>2011</u>	<u>Proceeds</u>	<u>Direct Expenses</u>	<u>Net</u>
Annual Dinner	\$ 375,135	\$ 98,726	\$ 276,409

<u>2010</u>	<u>Proceeds</u>	<u>Direct Expenses</u>	<u>Net</u>
Annual Dinner	\$ 346,667	\$ 129,719	\$ 216,948
Community event	6,596	3,027	3,569
Total	\$ 353,263	\$ 132,746	\$ 220,517

FAMILIES FORWARD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE J – SUBSEQUENT EVENTS

In October and December 2011 the Organization received \$47,500 under the Emergency Food and Shelter National Board Program, for a total grant award of \$95,000 through December 2011.

Management has evaluated subsequent events through December 20, 2011, the date the financial statements were available to be issued.

FAMILIES FORWARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
United States Department of Housing and Urban Development <u>Community Development Block Grants/Entitlement Grants:</u>	14.218		
City of Irvine		6812	\$ 31,256
City of Irvine		6874	90,211
City of Laguna Niguel		2010-05	4,620
City of Newport Beach		4362	8,406
City of Lake Forest		B-10-MC06-0584-10-01	7,886
City of Lake Forest		B-10-MC06-0584-11-01	1,945
City of Mission Viejo		2010-04	5,109
City of Rancho Santa Margarita		2010-07	<u>5,871</u>
Subtotal	14.218		<u>155,304</u>
<u>HOME Investment Partnership Program: *</u>	14.239		
City of Irvine – Loan balance		4915	<u>119,040</u>
<u>Supportive Housing Program:</u>	14.235		
U.S. Department of Housing and Urban Development		CA0590B9D020802	23,042
U.S. Department of Housing and Urban Development		CA0589B9D020802	110,789
U.S. Department of Housing and Urban Development		CA0590B9D021003	49,210
U.S. Department of Housing and Urban Development		CA0589B9D021003	22,158
Fullerton Interfaith Emergency Services		CA0570B9D020802	<u>19,758</u>
Subtotal	14.235		<u>224,957</u>

FAMILIES FORWARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Homeless Prevention and Rapid Rehousing - ARRA: *</u>	14.257		
County of Orange		KP90002	83,624
City of Irvine		6312	<u>43,031</u>
Subtotal	14.257		<u>126,655</u>
 <u>United States Department of Education</u>			
<u>Education for Homeless Children and Youth – ARRA</u>	84.387		
Irvine Unified School District		14332	\$ <u>24,622</u>
Total Expenditures of Federal Awards			\$ <u>650,578</u>

* MAJOR PROGRAM

See accompanying notes to schedule of expenditures of federal awards.

FAMILIES FORWARD

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

NOTE A – BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Families Forward and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Independent Auditors' 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
Irvine, California

We have audited the financial statements of Families Forward as of and for the year ended September 30, 2011, and have issued our report thereon dated December 20, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Families Forward's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Families Forward's financial statements are free of 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*.

We noted certain other matters that we reported to management of Families Forward in a separate letter dated December 20, 2011.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

HBLA Certified Public Accountants, Inc.

December 20, 2011

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited Families Forward's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Families Forward's major federal programs for the year ended September 30, 2011. Families Forward's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Families Forward's management. Our responsibility is to express an opinion on Families Forward's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Families Forward'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. Our audit does not provide a legal determination of Families Forward's compliance with those requirements.

In our opinion, Families Forward complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of Families Forward is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Families Forward's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Families Forward'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Families Forward's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Families Forward's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HBKA Certified Public Accountants, Inc.

December 20, 2011

FAMILIES FORWARD

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

FAMILIES FORWARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified
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 auditors’ report issued on compliance
for major programs: Unqualified
Any audit findings disclosed that are required to
be reported in accordance with section 510(a) of
Circular A-133? ___ yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.257	Homeless Prevention and Rapid Rehousing - ARRA
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

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

FAMILIES FORWARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT

There are no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no major federal award program findings required to be reported by Section 510(a) of OMB Circular A-133.