



Certified Public Accountants, LLP

EXTRAORDINARY FAMILIES

FINANCIAL STATEMENTS and ADDITIONAL INFORMATION

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Extraordinary Families

Report on the Financial Statements

We have audited the accompanying financial statements of Extraordinary Families (a nonprofit corporation), which comprise the Statement of Financial Position as of December 31, 2017, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditors' 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 Extraordinary Families as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited Extraordinary Families' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of Extraordinary Families' 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 Extraordinary Families' 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 Extraordinary Families' internal control over financial reporting and compliance.

Harrington Group

Pasadena, California

June 28, 2018

EXTRAORDINARY FAMILIES

STATEMENT OF FINANCIAL POSITION

December 31, 2017

With comparative totals at December 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,192,092	\$ 1,750,140
Contract and fees receivable	210,657	246,111
Contributions receivable	766	150,000
Prepaid expenses	117,981	71,789
Beneficial interest in funds held by others (Note 3)	119,034	103,536
Investments (Note 4)	673,123	515,147
Property and equipment (Note 5)	<u>37,733</u>	<u>32,823</u>
TOTAL ASSETS	<u><u>\$ 2,351,386</u></u>	<u><u>\$ 2,869,546</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 90,488	\$ 86,660
Accrued liabilities (Note 6)	53,318	50,670
Contract advances	<u>98,416</u>	<u>6,477</u>
TOTAL LIABILITIES	<u>242,222</u>	<u>143,807</u>
NET ASSETS		
Unrestricted	1,658,976	1,646,722
Temporarily restricted (Note 10)	<u>450,188</u>	<u>1,079,017</u>
TOTAL NET ASSETS	<u>2,109,164</u>	<u>2,725,739</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,351,386</u></u>	<u><u>\$ 2,869,546</u></u>

The accompanying notes are an integral part of these financial statements.

EXTRAORDINARY FAMILIES

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	2017	2016
REVENUE AND SUPPORT				
Governmental service contracts	\$ 2,294,369	\$ -	\$ 2,294,369	\$ 2,490,309
Contributions and grants	159,304	175,000	334,304	613,598
Special events, net of expenses of \$170,155	197,316		197,316	154,139
Investment income	80,130		80,130	40,727
Fee for service	6,276		6,276	13,150
Other income	6,810		6,810	4,527
Net assets released from purpose restriction	803,829	(803,829)	-	-
TOTAL REVENUE AND SUPPORT	3,548,034	(628,829)	2,919,205	3,316,450
EXPENSES				
Program services	2,920,656		2,920,656	2,950,513
Management and general	250,611		250,611	208,314
Fundraising	364,513		364,513	297,382
TOTAL EXPENSES	3,535,780	-	3,535,780	3,456,209
CHANGE IN NET ASSETS	12,254	(628,829)	(616,575)	(139,759)
NET ASSETS, BEGINNING OF YEAR	1,646,722	1,079,017	2,725,739	2,865,498
NET ASSETS, END OF YEAR	\$ 1,658,976	\$ 450,188	\$ 2,109,164	\$ 2,725,739

The accompanying notes are an integral part of these financial statements.

EXTRAORDINARY FAMILIES

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	Program Services	Support Services		Total Expenses	
		Management and General	Fundraising	2017	2016
Salaries	\$ 1,189,631	\$ 141,370	\$ 184,241	\$ 1,515,242	\$ 1,582,493
Employee benefits	171,799	17,445	21,336	210,580	199,933
Payroll taxes	98,665	9,081	14,018	121,764	128,427
Total personnel costs	1,460,095	167,896	219,595	1,847,586	1,910,853
Foster parent expenses	855,611			855,611	924,389
Rent	174,350	32,776	10,465	217,591	95,923
Repairs and maintenance	111,670	12,626	45,762	170,058	5,125
Professional fees	75,121	5,764	57,652	138,537	103,477
Insurance	66,588	2,837	3,626	73,051	75,130
Telephone	28,903	2,140	1,376	32,419	12,714
Office expense	22,930	5,356	1,058	29,344	54,926
Travel	21,870	989	579	23,438	44,822
Other	19,021	2,789		21,810	15,251
Training	14,009	3,644	1,690	19,343	47,201
Child related costs	9,601	409	9,306	19,316	1,547
Equipment rental	15,316	914	681	16,911	22,993
Depreciation	13,382	1,440	780	15,602	11,138
Home study reimbursement	14,150			14,150	29,750
Bank charges	0	8,792	3,432	12,224	7,445
Licenses and permits	10,013	192	65	10,270	6,561
Memberships	5,666	1,496	535	7,697	8,817
Public relations	292		7,228	7,520	31,467
Postage	1,730	551	591	2,872	2,927
Conferences and meetings	338		92	430	12,153
Bad debt expense				-	31,600
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 2,920,656	\$ 250,611	\$ 364,513	\$ 3,535,780	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 2,950,513	\$ 208,314	\$ 297,382		\$ 3,456,209

The accompanying notes are an integral part of these financial statements.

EXTRAORDINARY FAMILIES

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	2017	2016
CASH FLOWS (TO) FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (616,575)	\$ (139,759)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	15,602	11,138
Bad debt expense	-	31,600
(Gain) on investments	(55,362)	(19,440)
Change in value of funds held by others	(15,498)	(6,762)
Donated stocks	(102,614)	-
(Increase) decrease in operating assets:		
Contracts and fees receivable	35,454	62,410
Contributions receivable	149,234	355,000
Deposits and prepaid expenses	(46,192)	(41,233)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	3,828	(7,613)
Accrued payroll and related liabilities	2,648	(18,174)
Contract advances	91,939	6,042
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(537,536)	233,209
CASH FLOWS (TO) INVESTING ACTIVITIES:		
Reinvested interest and dividends	-	(12,997)
Proceeds from sale of investments	-	4,929
Purchase of investments	-	(100,000)
Purchase of property and equipment	(20,512)	(2,587)
NET CASH (USED) BY INVESTING ACTIVITIES	(20,512)	(110,655)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(558,048)	122,554
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,750,140	1,627,586
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,192,092	\$ 1,750,140

The accompanying notes are an integral part of these financial statements.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

1. Organization

Extraordinary Families is a non-profit corporation incorporated in the State of California to improve the daily lives of children and families in the child welfare system with innovative strategies and visionary policy reforms. It has been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(3) and California Franchise Tax Board under Section 23701(d). Extraordinary Families services include direct services to children and families in the recruitment of foster homes and supervision of children's care in its foster homes, the recruitment of adoptive families for foster children, the mentoring of older foster youth, and connecting foster youth with employment training and jobs – with an emphasis on high-risk children. In addition, Extraordinary Families works to identify critical changes in public policy and practice to improve outcomes for both the children and families whom it serves directly and for children and families across the child welfare system. Extraordinary Families is both publicly and privately funded, having program contracts with the County of Los Angeles, the State of California and funds from private donations and foundation.

In October 2017, the Secretary of the State of California approved the organization's certificate of amendment of articles of incorporation to change the company name from Southern California Foster Family Agency to Extraordinary Families.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Extraordinary Families are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Extraordinary Families reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from purpose restrictions.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Permanently Restricted. These net assets are restricted by donors who stipulate that the resources are to be maintained permanently, but permit Extraordinary Families to expend all of the income (or other economic benefits) derived from the donated assets. Extraordinary Families has no permanently restricted net assets at December 31, 2017.

Cash and Cash Equivalents

Extraordinary Families has defined cash and cash equivalents as cash in banks and all highly liquid investments with maturities of three months or less when purchased.

Receivables

Receivables consist of contracts and fees, and contributions and are stated at the amount management expects to collect from outstanding balances. Receivables are primarily unsecured amounts due on cost reimbursement or performance contracts. Extraordinary Families uses the allowance method of account for receivables determined to be potentially uncollectible.

Concentration of Credit Risks

Extraordinary Families places its temporary cash and cash equivalents investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Extraordinary Families has not incurred losses related to these investments.

The primary contract receivable balance outstanding at December 31, 2017 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Extraordinary Families' receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 79% of Extraordinary Families' total revenue and support is derived from government grants and contracts.

Investments

Extraordinary Families values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Extraordinary Families is required to measure certain investments, beneficial interest, and new pledge contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

Income Taxes

Extraordinary Families is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Extraordinary Families in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Extraordinary Families' returns respectfully are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Extraordinary Families' programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Extraordinary Families uses salary dollars to allocate indirect costs.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of 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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Extraordinary Families' financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassification

Certain accounts from the December 31, 2016 financial statements have been reclassified for comparative purposes to conform to the December 31, 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through June 28, 2018, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Beneficial Interest in Funds Held by Others

The balance at December 31, 2017 consists of funds transferred to the California Community Foundation ("CCF") in which Extraordinary Families retains an interest in future distributions and is stated at fair value as a Level 2 classification. CCF maintains separate accountability for the funds and classifies the balance as an Agency Endowment liability in its financial statements. The fair market value at December 31, 2017 was \$119,034.

4. Investments

Investments at December 31, 2017 consist of the following:

Mutual funds	\$553,508
Money market	<u>119,615</u>
	<u>\$673,123</u>

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at December 31, 2017 consist of the following:

Equipment	\$107,203
Vehicles	17,648
Furniture and fixtures	<u>5,307</u>
	130,158
Less: accumulated depreciation	<u>(92,425)</u>
	<u>\$ 37,733</u>

Depreciation expense for the year ended December 31, 2017 was \$15,602.

6. Accrued Liabilities

Accrued liabilities at December 31, 2017 consist of the following:

Accrued vacation	\$51,366
Other accruals	<u>1,952</u>
	<u>\$53,318</u>

7. Commitments and Contingencies

Obligations Under Operating Leases

Extraordinary Families leases various properties under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended December 31,</u>	
2018	\$ 286,963
2019	208,488
2020	214,740
2021	214,740
2022	73,727
Thereafter	<u>2,268</u>
	<u>\$1,000,926</u>

Equipment rent expense under operating leases for the year ended December 31, 2017 was \$234,502.

Contracts

Extraordinary Families' grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Extraordinary Families has no provisions for the possible disallowance of program costs on its financial statements.

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

8. Employee Benefit Plan

Extraordinary Families has a 401(k) profit-sharing plan available to all employees who have completed one year of service and are at least twenty-one years of age, as defined. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. For the year ended December 31, 2017, Extraordinary Families' matching contributions of up to 3% of an employee's annual earnings were \$73,638.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
Bond	\$261,645	\$ -	\$ -	\$261,645
Value	130,668			130,668
Growth	121,403			121,403
Blend	23,457			23,457
Commodities	11,312			11,312
Money Market	5,023			5,023
	<u>\$553,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$553,508</u>

The fair values of mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The table below presents transactions measured at fair value on a non-recurring basis during the year ended December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributions receivable - new	<u>\$ -</u>	<u>\$ -</u>	<u>\$766</u>	<u>\$766</u>

The fair value of new contributions receivable is measured on a non-recurring basis based on the value provided by the donor at the date of contribution (Level 3 inputs).

10. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 consist of the following:

Foster family agency recruitment	\$250,000
Core operating	125,188
Opportunity youth collaborative	75,000
	<u>\$450,188</u>

For the year ended December 31, 2017, net assets released from purpose restrictions were \$803,829.

ADDITIONAL INFORMATION

**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 Board of Directors
Extraordinary Families

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 Extraordinary Families which comprise the Statement of Financial Position as of December 31, 2017, and the related Statements of Activities, 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 June 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Extraordinary Families' 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 Extraordinary Families' internal control. Accordingly, we do not express an opinion on the effectiveness of Extraordinary Families' 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 Extraordinary Families' 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*.

**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***
continued

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California

June 28, 2018