



EXTRAORDINARY FAMILIES

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2019

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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, 2019, 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, 2019, 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' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 July 31, 2020, 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

July 31, 2020

EXTRAORDINARY FAMILIES

STATEMENT OF FINANCIAL POSITION

December 31, 2019

With comparative totals at December 31, 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,064,510	\$ 1,333,464
Contract and fees receivable	254,467	245,470
Contributions receivable, net of allowance of \$8,000	25,000	-
Prepaid expenses	83,045	81,813
Beneficial interest in funds held by others (Note 4)	131,505	112,766
Investments (Note 5)	634,599	537,614
Property and equipment (Note 6)	<u>8,406</u>	<u>21,491</u>
TOTAL ASSETS	<u>\$ 2,201,532</u>	<u>\$ 2,332,618</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 91,700	\$ 148,627
Accrued liabilities (Note 7)	51,806	54,026
Contract advances	<u>69,477</u>	<u>56,277</u>
TOTAL LIABILITIES	<u>212,983</u>	<u>258,930</u>
NET ASSETS		
Without donor restrictions	1,538,301	1,760,097
With donor restrictions (Note 11)	<u>450,248</u>	<u>313,591</u>
TOTAL NET ASSETS	<u>1,988,549</u>	<u>2,073,688</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,201,532</u>	<u>\$ 2,332,618</u>

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

EXTRAORDINARY FAMILIES

STATEMENT OF ACTIVITIES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
REVENUE AND SUPPORT				
Governmental service contracts	\$ -	\$ 2,758,295	\$ 2,758,295	\$ 2,518,354
Contributions and grants	116,091	329,500	445,591	910,370
Special events, net of expense of \$77,372	117,432		117,432	142,586
Investment income (loss)	123,580		123,580	(28,699)
Fee for service	4,410		4,410	2,600
Other income	4,714		4,714	2,992
Net assets released from restrictions (Note 11)	2,951,138	(2,951,138)	-	-
TOTAL REVENUE AND SUPPORT	3,317,365	136,657	3,454,022	3,548,203
EXPENSES				
Program services	3,036,244		3,036,244	2,922,826
Management and general	195,912		195,912	304,093
Fundraising	307,005		307,005	303,360
TOTAL EXPENSES	3,539,161	-	3,539,161	3,530,279
OTHER CHANGES				
Loss from theft (email hack)			-	53,400
TOTAL OTHER CHANGES	-	-	-	53,400
CHANGE IN NET ASSETS	(221,796)	136,657	(85,139)	(35,476)
NET ASSETS, BEGINNING OF YEAR (NOTE 12)	1,760,097	313,591	2,073,688	2,109,164
NET ASSETS, END OF YEAR	\$ 1,538,301	\$ 450,248	\$ 1,988,549	\$ 2,073,688

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

EXTRAORDINARY FAMILIES

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	Program Services			Total Program Services	Support Services		Total Support Services	Total Expenses	
	Foster Family	Adoption	Other		Management and General	Fundraising		2019	2018
Salaries	\$ 715,131	\$ 282,273	\$ 204,979	\$ 1,202,383	\$ 89,649	\$ 211,301	\$ 300,950	\$ 1,503,333	\$ 1,556,747
Employee benefits	101,054	28,661	27,303	157,018	14,331	27,836	42,167	199,185	211,207
Payroll taxes	58,708	23,975	17,683	100,366	6,944	16,758	23,702	124,068	126,273
Total personnel costs	874,893	334,909	249,965	1,459,767	110,924	255,895	366,819	1,826,586	1,894,227
Program expenses	1,102,052	1,814	890	1,104,756		76	76	1,104,832	956,085
Rent	120,987	32,072	26,076	179,135	24,168	10,023	34,191	213,326	183,827
Insurance	53,565	9,755	7,333	70,653	7,317	3,049	10,366	81,019	85,285
Repairs and maintenance	34,675	12,484	7,323	54,482	9,485	10,000	19,485	73,967	87,985
Professional fees	30,711	9,043	6,790	46,544	6,664	9,042	15,706	62,250	107,865
Office expense	15,968	4,118	3,953	24,039	4,312	2,533	6,845	30,884	46,253
Travel	17,738	3,308	959	22,005	960	434	1,394	23,399	20,754
Telephone	10,542	3,099	2,352	15,993	1,885	1,021	2,906	18,899	24,758
Other	9,125	1,623	1,041	11,789	4,625	811	5,436	17,225	24,022
Equipment rental	8,667	2,520	1,886	13,073	1,890	788	2,678	15,751	15,140
Memberships	7,603	2,136	1,641	11,380	2,252	668	2,920	14,300	11,405
Bank charges				-	8,823	5,078	13,901	13,901	13,954
Depreciation	7,228	2,043	1,327	10,598	1,532	638	2,170	12,768	16,242
Training	4,618	338	1,248	6,204	3,361	554	3,915	10,119	5,728
Bad debt expense				-	8,323		8,323	8,323	3,766
Public relations						5,206	5,206	5,206	4,578
Postage	920	331	155	1,406	496	1,178	1,674	3,080	2,307
Home study reimbursement		1,750		1,750			-	1,750	14,450
Child related costs	148		558	706			-	706	109
Licenses and permits	241	1,513	29	1,783	(1,260)		(1,260)	523	10,949
Conferences and meetings	118	35	28	181	155	11	166	347	590
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 2,299,799	\$ 422,891	\$ 313,554	\$ 3,036,244	\$ 195,912	\$ 307,005	\$ 502,917	\$ 3,539,161	
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 2,069,171	\$ 478,400	\$ 375,255	\$ 2,922,826	\$ 304,093	\$ 303,360			\$ 3,530,279

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

EXTRAORDINARY FAMILIES

STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	2019	2018
CASH FLOWS (TO) OPERATING ACTIVITIES:		
Change in net assets	\$ (85,139)	\$ (35,476)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	12,768	16,242
(Gain) loss on investments	(75,116)	5,099
Change in value of funds held by others	(18,739)	6,268
Donated stocks	-	(25,239)
Loss on disposal of property and equipment	317	-
(Increase) decrease in operating assets:		
Contracts and fees receivable	(8,997)	(34,813)
Contributions receivable	(25,000)	766
Deposits and prepaid expenses	(1,232)	36,168
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(56,927)	58,139
Accrued payroll and related liabilities	(2,220)	708
Contract advances	13,200	(42,139)
	(247,085)	(14,277)
NET CASH (USED) BY OPERATING ACTIVITIES		
CASH FLOWS (TO) FROM INVESTING ACTIVITIES:		
Reinvested interest and dividends	(21,014)	(13,982)
Proceeds from sale of investments	(855)	169,631
	(21,869)	155,649
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(268,954)	141,372
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,333,464	1,192,092
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,064,510	\$ 1,333,464

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.

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.

Revenue and Revenue Recognition

Extraordinary Families recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. As of December 31, 2019, Extraordinary Families did not have any contributions categorized as conditional.

A portion of Extraordinary Families' revenue is derived from cost-reimbursable federal, state, and local contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Extraordinary Families has incurred expenditures in compliance with specific contract or grant provisions.

If amounts are received prior to incurring qualifying expenditures, such amounts are reported as refundable advances in the statement of financial position. Extraordinary Families received cost-reimbursable grants that were earned as expenses were incurred and are reported in the Statement of Activities.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncement

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establishes a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. Extraordinary Families has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Extraordinary Families has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. The ASU has been applied retrospectively to all periods presented which increased beginning net assets with donor restrictions by \$55,002 from \$258,589 and decreased beginning net assets without donor restrictions by (\$55,002) resulting from the implementation of ASU 2018-08 (see Note 12).

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Extraordinary Families' management and the board of directors.

With Donor Restrictions. Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Extraordinary Families or by the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Receivables

Receivables consist of amounts earned under contracts and fee-for-service agreements, and contributions. Receivables 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 to 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, 2019 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 80% of Extraordinary Families' total revenue and support is derived from government service 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.

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.

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 five 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.

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.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2018, from which the summarized information was derived.

Reclassification

Certain accounts from the December 31, 2018 financial statements have been reclassified for comparative purposes to conform to December 31, 2019 presentation.

3. Liquidity and Availability of Resources

As part of Extraordinary Families' liquidity management, it has an inherent policy to structure most of its financial assets to be available before its general expenditures, liabilities, and other obligations come due. In addition, Extraordinary Families has a Board-mandated Operating Reserve Fund policy which requires an annual transfer from savings or checking (whichever is more able to accommodate the transaction) of at least \$100,000 to the Operating Reserve Fund (which consists of assets in California Community Foundation, and First Republic Bank at December 31, 2019). The goal is to achieve a minimum of three months' worth of budgeted operating costs. Extraordinary Families has, at December 31, 2019, no lines of credit nor any endowments with lock-up provisions that would reduce the total investments which could be made available, if needed.

Extraordinary Families' funds consist of cash for operational use for each of its programs. Revenues are generated through two government contracts: one with the Los Angeles County Department of Children and Family Services ("DCFS") for Foster Family Agency ("FFA") work; the other with the State of California for Adoption Services. Income is also generated by foundation and/or corporation grant awards, fundraising events, appeals, interest and dividends from its investment accounts, and from individual donations. Income is both restricted and unrestricted, with the large bulk of restricted income belonging to the FFA program (LA County). Some foundation awards are restricted, but many are—nearly 99% of all individual donations and fundraising event revenues—unrestricted, that is, they are for general operating support. This ability to secure a large portion of its cash flow and reserves enables Extraordinary Families to accommodate its operating costs without complex and delayed acquisition of funds.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources, continued

1) Quantitative Disclosure

Financial assets available to meet general expenditures within one year of December 31, 2019 are as follows:

Cash and cash equivalents	\$1,064,510
Investments (operating reserve fund)	766,104
Accounts receivable (FFA and adoption)	<u>279,467</u>
Financial assets available to meet general expenditures within one year	<u>\$2,110,081</u>

2) Qualitative Disclosure

Static statement of financial position analysis (existing)

Overnight cash ratio ¹	66%
One-year liquidity ratio ²	94%

Forecasted cash flow analysis and stress test³

12-month net forecasted cash flow ⁴		
Likely scenario	\$3,103,600	10% risk
Moderate stress	\$2,931,178	15% risk
Severe stress	\$2,724,272	21% risk

Acceptable and Unacceptable Risk Percentages for 2020

1. Overnight cash ratio minimum acceptable range equal to or greater than 54%⁵
2. One-year liquidity ratio acceptable range equal to or greater than 64%⁶

3) Recommended Liquidity Risk Guideline – 2020

The Risk Guideline for 2020 is established in order to optimize and manage Extraordinary Families' exposure to funding and liquidity risk for the upcoming fiscal year. It is intended to be a guideline and from time to time may be exceeded on a temporary basis. Ongoing testing resulting in forecasted exposures outside the established guideline should be considered serious by the Board, and corrective action should be taken.

¹ Overnight cash ratio equals overnight cash and deposits divided by total assets, to give a percentage expectation of ready cash to accommodate operational costs.

² One-year liquidity ratio is overnight cash plus investments maturing within one year or less divided by total assets to give a percentage expectation of ready cash to accommodate operational costs.

³ Stress level is measured by the difference between revenue expected to be received and what is budgeted.

⁴ Cash flow projected for 2020 as per the Board-approved budget. Total revenue budgeted for is \$3,448,445.

⁵ Percentage should equal 2x the Severe Stress ratio.

⁶ Percentage should equal 3x the Severe Stress ratio.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

4. Beneficial Interest in Funds Held by Others

The beneficial interest in funds held by others balance at December 31, 2019 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, 2019 was \$131,505.

5. Investments

Investments at December 31, 2019 consist of the following:

Mutual funds	\$623,766
Cash equivalents	9,365
Equities	<u>1,468</u>
	<u>\$634,599</u>

6. Property and Equipment

Property and equipment at December 31, 2019 consist of the following:

Equipment	\$ 104,209
Vehicles	17,648
Furniture and fixtures	<u>5,307</u>
	127,164
Less: accumulated depreciation	<u>(118,758)</u>
	<u>\$ 8,406</u>

Depreciation expense for the year ended December 31, 2019 was \$12,768.

7. Accrued Liabilities

Accrued liabilities at December 31, 2019 consist of the following:

Accrued vacation	\$47,372
Other accruals	<u>4,434</u>
	<u>\$51,806</u>

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

8. 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 ending December 31,</u>	
2020	\$183,199
2021	210,443
2022	234,382
2023	238,698
2024	<u>82,589</u>
	<u>\$949,311</u>

Equipment rent expense under operating leases for the year ended December 31, 2019 was \$229,077.

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.

9. 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, 2019, Extraordinary Families' matching contributions of up to 3% of an employee's annual earnings were \$69,339, which are included in employee benefits in the statement of functional expenses.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

10. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2019 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond	\$286,759	\$ -	\$ -	\$286,759
Value	146,703			146,703
Growth	160,899			160,899
Blend	13,243			13,243
Commodities	10,950			10,950
Government money fund	<u>5,212</u>			<u>5,212</u>
	623,766			623,766
Common stock	<u>1,468</u>	-	-	<u>1,468</u>
	<u>\$625,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$625,234</u>

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

11. Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2019 consist of the following:

Core operating – time restricted	\$228,415
Foster family program	182,248
Youth in transition program	<u>39,585</u>
	<u>\$450,248</u>

For the year ended December 31, 2019, net assets released from purpose restrictions were \$2,951,138.

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

12. Changes In Net Assets As of Result of Adopting ASU 2018-08

During the current year, Extraordinary Families applied retrospectively ASU 2018-08 to all periods presented. Beginning net assets as of December 31, 2019 have been restated to record \$55,002 in With Donor Restrictions Net Assets that were previously recorded as Without Donor Restrictions Net Assets. The comparative totals for December 31, 2018 presented in the financial statements have been restated to reflect the adoption of ASU 2018-08 as follows:

	<u>As previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
<u>Statement of Activities:</u>			
Without Donor Restrictions - ending December 31, 2018	\$1,815,099	(\$55,002)	\$1,760,097
With Donor Restrictions, ending December 31, 2018	\$258,589	\$55,002	\$313,591

13. Subsequent Events

Extraordinary Families has been significantly impacted by COVID-19, both in terms of finance as well as infrastructure. When the governor's stay at home declaration was made in March 2020, it sounded the immediate dismissal of several fundraising capabilities. As of this report's publication, our signature Gala fundraiser, which accounts for the largest percentage of our private annual revenue, was postponed and then cancelled. Children's Court has been closed (except for limited exceptions), prohibiting adoption signings and finalizations, resulting in a projected loss of State funding estimated at \$250,000.

In addition, our ability to receive children placed in care has also been impacted by the stay-at-home order. According to the L.A. County Department of Child and Family Services, calls regarding potential child abuse and neglect are down by at least 50 percent – an alarming trend. We attribute this primarily to the fact that schools and other social activities for children are not in session (teachers, relatives, and the like are some of the most common mandated reporters). To that end, we are experiencing a decrease in children entering the system which in turn results in a loss of County funding.

Extraordinary Families' operating reserves, which includes investment portfolios with California Community Foundation and First Republic Bank, were also affected by the downed economy outside of the agency's control. As of this report's publication, we have seen losses totaling \$110,000 since January 2020.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

13. Subsequent Events, continued

In spite of the financial hardships described above, Extraordinary Families has maintained operations continuously, yet cautiously, at a high level of performance, professionalism, and dignity. As of this report's publication, 90% of staff are working remotely with periodic schedules in the office, practicing social distancing and wearing face masks, using hand sanitization, and daily wiping down counter spaces and machinery. Although in-person visits between birth parents and their children, together with foster parents, have been reduced to teleconferencing mode, they are nevertheless still happening, and in-person is expected to begin once stay-at-home orders are eased. As an agency feels it is imperative to sustain contact between parent and child as court-ordered yet uphold safety regimes to limit exposure and possible contamination.

Additionally, Extraordinary Families has been the recipient of COVID-19 relief grants of \$10,000 and \$20,000 from two of its partnering foundations, as well as \$350,700 from the SBA through the CARES Act (PPP) to help. Further, efforts have been made to reduce costs while maintaining the highest levels of service delivery, from weekly virtual home inspections to online staff meetings to increased fundraising and grant writing efforts to fulfilling our commitment and compliance with financial regulation and best practices.

ADDITONAL 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 (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2019, 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 July 31, 2020.

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
July 31, 2020