

EXTRAORDINARY FAMILIES

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2020

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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, 2020, 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, 2020, 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' 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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 August 30, 2021, 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

August 30, 2021

EXTRAORDINARY FAMILIES

STATEMENT OF FINANCIAL POSITION

December 31, 2020

With comparative totals at December 31, 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,329,210	\$ 1,064,510
Contract and fees receivable	406,749	254,467
Contributions receivable	-	25,000
Prepaid expenses	86,927	83,045
Beneficial interest in funds held by others (Note 4)	144,616	131,505
Investments (Note 5)	689,012	634,599
Property and equipment (Note 6)	4,296	8,406
TOTAL ASSETS	<u>\$ 2,660,810</u>	<u>\$ 2,201,532</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 109,865	\$ 91,700
Accrued liabilities (Note 7)	86,194	51,806
Contract advances	6,938	69,477
TOTAL LIABILITIES	<u>202,997</u>	<u>212,983</u>
NET ASSETS		
Without donor restrictions	2,027,091	1,538,301
With donor restrictions (Note 11)	430,722	450,248
TOTAL NET ASSETS	<u>2,457,813</u>	<u>1,988,549</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,660,810</u>	<u>\$ 2,201,532</u>

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

EXTRAORDINARY FAMILIES

STATEMENT OF ACTIVITIES

For the year ended December 31, 2020

With comparative totals for the year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2020	2019
REVENUE AND SUPPORT				
Governmental service contracts	\$ -	\$ 2,748,777	\$ 2,748,777	\$ 2,758,295
Contributions and grants	531,912	363,000	894,912	445,591
Investment income	81,105		81,105	123,580
Other income	8,936		8,936	4,714
Fee for service	4,680		4,680	4,410
Special events, net of expense of \$7,349	4,354		4,354	117,432
Net assets released from restrictions (Note 11)	3,131,303	(3,131,303)	-	-
TOTAL REVENUE AND SUPPORT	<u>3,762,290</u>	<u>(19,526)</u>	<u>3,742,764</u>	<u>3,454,022</u>
EXPENSES				
Program services	2,831,461		2,831,461	3,036,244
Management and general	178,529		178,529	195,912
Fundraising	263,510		263,510	307,005
TOTAL EXPENSES	<u>3,273,500</u>	<u>-</u>	<u>3,273,500</u>	<u>3,539,161</u>
CHANGE IN NET ASSETS	488,790	(19,526)	469,264	(85,139)
NET ASSETS, BEGINNING OF YEAR	<u>1,538,301</u>	<u>450,248</u>	<u>1,988,549</u>	<u>2,073,688</u>
NET ASSETS, END OF YEAR	<u>\$ 2,027,091</u>	<u>\$ 430,722</u>	<u>\$ 2,457,813</u>	<u>\$ 1,988,549</u>

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

EXTRAORDINARY FAMILIES

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2020

With comparative totals for the year ended December 31, 2019

	Program Services			Total Program Services	Support Services		Total Support Services	Total Expenses	
	Foster Family	Adoption	Other		Management and General	Fundraising		2020	2019
Salaries	\$ 784,711	\$ 238,413	\$ 107,320	\$ 1,130,444	\$ 92,236	\$ 176,245	\$ 268,481	\$ 1,398,925	\$ 1,503,333
Employee benefits	101,315	22,389	12,596	136,300	12,741	15,402	28,143	164,443	199,185
Payroll taxes	58,239	19,274	7,499	85,012	6,263	17,137	23,400	108,412	124,068
Total personnel costs	944,265	280,076	127,415	1,351,756	111,240	208,784	320,024	1,671,780	1,826,586
Program expenses	1,091,828	1,523	286	1,093,637				1,093,637	1,104,832
Rent	92,901	22,610	11,389	126,900	16,957	7,066	24,023	150,923	213,326
Professional fees	36,219	9,160	3,951	49,330	6,808	21,749	28,557	77,887	62,250
Insurance	53,378	8,857	3,875	66,110	6,643	2,768	9,411	75,521	81,019
Repairs and maintenance	39,900	10,152	4,401	54,453	13,739	5,311	19,050	73,503	73,967
Office expense	10,572	2,274	1,059	13,905	3,874	3,552	7,426	21,331	30,884
Telephone	12,164	2,801	1,548	16,513	1,718	1,377	3,095	19,608	18,899
Bank charges					9,111	8,317	17,428	17,428	13,901
Equipment rental	9,473	2,526	1,105	13,104	1,895	790	2,685	15,789	15,751
Memberships	7,795	2,079	909	10,783	2,771	798	3,569	14,352	14,300
Child related costs	1,339		7,854	9,193				9,193	706
Travel	7,551	709	272	8,532	119	276	395	8,927	23,399
Other	3,646	807	258	4,711	2,033	1,988	4,021	8,732	17,225
Licenses and permits	4,671	1,513	30	6,214	145		145	6,359	523
Depreciation	2,466	714	344	3,524	362	224	586	4,110	12,768
Training	1,244	166	73	1,483	389	408	797	2,280	10,119
Postage	665	389	72	1,126	603	91	694	1,820	3,080
Conferences and meetings	135	36	16	187	122	11	133	320	347
Public relations								-	5,206
Bad debt expense								-	8,323
Home study reimbursement								-	1,750
TOTAL 2020 FUNCTIONAL EXPENSES	\$ 2,320,212	\$ 346,392	\$ 164,857	\$ 2,831,461	\$ 178,529	\$ 263,510	\$ 442,039	\$ 3,273,500	
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 2,299,799	\$ 422,891	\$ 313,554	\$ 3,036,244	\$ 195,912	\$ 307,005			\$ 3,539,161

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

EXTRAORDINARY FAMILIES

STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

With comparative totals for the year ended December 31, 2019

	2020	2019
CASH FLOWS (TO) OPERATING ACTIVITIES:		
Change in net assets	\$ 469,264	\$ (85,139)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	4,110	12,768
(Gain) on investments	(40,428)	(75,116)
Change in value of funds held by others	(13,110)	(18,739)
Donated stocks	(26,110)	-
Loss on disposal of property and equipment	-	317
(Increase) decrease in operating assets:		
Contracts and fees receivable	(152,282)	(8,997)
Contributions receivable	25,000	(25,000)
Deposits and prepaid expenses	(3,882)	(1,232)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	18,165	(56,927)
Accrued payroll and related liabilities	34,388	(2,220)
Contract advances	(62,539)	13,200
	252,576	(247,085)
NET CASH (USED) BY OPERATING ACTIVITIES		
CASH FLOWS (TO) FROM INVESTING ACTIVITIES:		
Reinvested interest and dividends	(22,031)	(21,014)
Proceeds from sale of investments	34,155	(855)
	12,124	(21,869)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	264,700	(268,954)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,064,510	1,333,464
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,329,210	\$ 1,064,510

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

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Extraordinary Families is a nonprofit corporation incorporated in the State of California whose mission is to help children and youth in foster care to have the childhoods and futures they rightfully deserve. 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 foundations.

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

In April 2020, Extraordinary Families received a loan from the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loan, as provided by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The amount of the loan was \$350,700 and bears an interest of 1.00% per year. All SBA loan proceeds will be used only for business-related purposes as specified in the loan application and consistent with the PPP regulations. Extraordinary Families accounted for the loan funding as a conditional grant under FASB ASC 958-605. Extraordinary Families believes it substantially met the conditions of the grant and recognized the full amount of the PPP loan of \$350,700. The amount is included in “Contributions and grants” in the Statement of Activities.

Subsequent to fiscal year, Extraordinary Families was notified that their Small Business Association (“SBA”) PPP loan forgiveness application was approved.

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.

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.

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2020, 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 81% of Extraordinary Families' total revenue and support is derived from government service contracts.

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, 2020, 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.

continued

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 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.

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2019, from which the summarized information was derived.

Reclassification

Certain accounts from the December 31, 2019 financial statements have been reclassified for comparative purposes to conform to December 31, 2020 presentation.

Subsequent Events

Subsequent to fiscal year, Extraordinary Families was notified that their Small Business Association ("SBA") PPP loan forgiveness application was approved.

Management has evaluated subsequent events through August 30, 2021, the date which the financial statements were available for issue. Other than the event noted, no other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

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, 2020). The goal is to achieve a minimum of three months' worth of budgeted operating costs. Extraordinary Families has, at December 31, 2020, 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, 2020, are as follows:

Cash and cash equivalents	\$1,329,210
Beneficial interest and investments (operating reserve fund)	833,628
Accounts receivable (FFA and adoption)	<u>406,749</u>
Financial assets available to meet general expenditures within one year	<u>\$2,569,587</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 \$3,506,260.

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, 2020 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, 2020, was \$144,616.

5. Investments

Investments at December 31, 2020 consist of the following:

Equities	\$378,846
Fixed income securities	297,333
Cash equivalents	<u>12,833</u>
	<u>\$689,012</u>

6. Property and Equipment

Property and equipment at December 31, 2020 consist of the following:

Equipment	\$ 104,209
Furniture and fixtures	<u>5,307</u>
	109,516
Less: accumulated depreciation	<u>(105,220)</u>
	<u>\$ 4,296</u>

Depreciation expense for the year ended December 31, 2020 was \$4,110.

7. Accrued Liabilities

Accrued liabilities at December 31, 2020 consist of the following:

Accrued vacation	\$64,149
Other accruals	<u>22,045</u>
	<u>\$86,194</u>

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>	
2021	\$144,458
2022	232,734
2023	<u>86,258</u>
	<u>\$463,450</u>

Equipment rent expense under operating leases for the year ended December 31, 2020 was \$15,789.

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.

Impact of COVID-19 Virus

Extraordinary Families was significantly impacted by COVID-19, both in terms of finance as well as infrastructure. When the Governor's declaration was made, it sounded the immediate dismissal of several fundraising capabilities that Extraordinary Families had relied on for some time. Extraordinary Families' GALA 2020 fundraiser, originally scheduled for May, was postponed until October. Then when the lockdown was extended, it was a *fait accompli* to cancel it. The GALA 2020 was to account for \$300,000 in revenue. Other planned or forecasted lesser fundraisers were thereby obviated by Gala 2020's termination.

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies, continued

Extraordinary Families expected a 25% drop in adoptions receivable funds effective July 1 due to the Private Adoption Agency Reimbursement Program (PAARP) cutting its outlays to Foster Family Agencies (FFAs) like ours from the usual \$10,000 per adoption to \$8,000. This cut was exacerbated by the court's COVID-19 influencing decision to suspend hearing adoption cases indefinitely, most likely until February 2021. The resulting expected loss of state funding left Extraordinary Families with an estimated \$250,000 line-item deficit. The budget was amended to reflect a line-item amount of less than half of what it was in the original budget. Through diligent management of resources, and unexpected deliverables on the State's part, Extraordinary Families succeeded in billing adoptions for \$385,000 and received \$250,000.

Extraordinary Families' ability to receive more children to be placed in care was impacted by the stay-at-home environment, because reporting's to the Department of Children and Family Services were down 50% due to quarantining and isolation orders. Fewer reports meant fewer placements to our trained and certified foster parents (resource parents), resulting in still a further estimated loss of FFA program income. The amended budget line-item called for \$2,317,445, and we succeeded in reaching that goal.

Extraordinary Families' Reserve (our investment portfolio with California Community Foundation and First Republic Bank) saw losses totaling \$110,000 at the end of the first quarter of 2020. The combined strength of the Reserve at the end of the first quarter was \$661,677, but rebounded to finish the fiscal year with approximately \$833,628.

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, 2020, Extraordinary Families' matching contributions of up to 3% of an employee's annual earnings were \$21,392, which are included in employee benefits in the statement of functional expenses.

10. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2020 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$378,846	\$ -	\$ -	\$378,846
Fixed income	<u>297,333</u>	<u>-</u>	<u>-</u>	<u>297,333</u>
	<u>\$676,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$676,179</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).

continued

EXTRAORDINARY FAMILIES

NOTES TO FINANCIAL STATEMENTS

11. Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2020 consist of the following:

Foster family program	\$222,389
Core operating – time restricted	158,333
Technology	28,331
Youth in transition program	<u>21,669</u>
	<u>\$430,722</u>

For the year ended December 31, 2020, net assets released from purpose restrictions were \$3,131,303.

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 (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2020, 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 August 30, 2021.

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) as a basis for designing 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 financial statements. 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
August 30, 2021