

Upward Bound House

**Financial Statements and
Independent Auditor's Report, Schedule of
Expenditures of Federal Awards and Independent
Auditor's Reports Required by the Uniform Guidance**

December 31, 2021

Upward Bound House

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Independent Auditor's Report

To the Board of Directors
Upward Bound House

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Upward Bound House (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Upward Bound House as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Upward Bound House and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Upward Bound House's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Upward Bound House's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Upward Bound House's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Upward Bound House's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial

statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022, on our consideration of Upward Bound House's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Upward Bound House's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Upward Bound House's internal control over financial reporting and compliance.

CohnReznick LLP

Los Angeles, California
September 23, 2022

Upward Bound House
Statement of Financial Position
December 31, 2021
With Summarized Totals at December 31, 2020

	<u>Assets</u>	
	2021	2020
Current assets		
Cash and cash equivalents	\$ 5,340,568	\$ 4,638,898
Certificates of deposit	154,337	154,191
Grants receivable, net	1,371,955	1,560,770
Due from affiliate	89,211	143,022
Investments	121,405	84,558
Prepaid expenses	75,715	103,116
Total current assets	7,153,191	6,684,555
Other assets		
Lease acquisition costs, net	143,418	145,278
Operating and replacement reserves	263,528	263,469
Client savings accounts	58,373	33,084
Deposits and other	7,068	6,936
Total other assets	472,387	448,767
Property and equipment, net	4,742,312	4,792,884
Total assets	\$ 12,367,890	\$ 11,926,206
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 158,159	\$ 109,864
Accrued liabilities	122,428	133,756
Client savings accounts	23,105	26,561
Tenant security deposits	7,674	6,522
Total current liabilities	311,366	276,703
Paycheck Protection Program loan	-	364,987
Notes payable	1,390,000	1,390,000
Accrued interest payable	394,638	394,638
Total liabilities	2,096,004	2,426,328
Contingencies		
Net assets		
Without donor restrictions	8,587,785	7,556,358
With donor restrictions	1,684,101	1,943,520
Total net assets	10,271,886	9,499,878
Total liabilities and net assets	\$ 12,367,890	\$ 11,926,206

See Notes to Financial Statements.

Upward Bound House

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2021
With Summarized Totals for the Year Ended December 31, 2020**

	2021			2020
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, support and gains				
Government contracts and grants	\$ 4,942,875	\$ -	\$ 4,942,875	\$ 4,830,630
Contributions	1,088,519	165,322	1,253,841	1,741,088
Long-term debt converted to contribution	-	-	-	1,200,000
PPP loan forgiveness	364,987	-	364,987	-
Special events	153,111	-	153,111	67,565
Management fee revenue	63,109	-	63,109	60,666
Other income	62,222	-	62,222	16,717
Investment income, net	21,831	-	21,831	32,870
Net assets released from restrictions				
Satisfaction of program restrictions	424,741	(424,741)	-	-
Total revenue, support and gains	<u>7,121,395</u>	<u>(259,419)</u>	<u>6,861,976</u>	<u>7,949,536</u>
Functional expenses				
Program services	5,400,577	-	5,400,577	5,107,297
General and administrative	279,136	-	279,136	341,409
Fundraising	410,255	-	410,255	347,029
Total functional expenses	<u>6,089,968</u>	<u>-</u>	<u>6,089,968</u>	<u>5,795,735</u>
Change in net assets	1,031,427	(259,419)	772,008	2,153,801
Net assets, beginning	<u>7,556,358</u>	<u>1,943,520</u>	<u>9,499,878</u>	<u>7,346,077</u>
Net assets, end	<u>\$ 8,587,785</u>	<u>\$ 1,684,101</u>	<u>\$ 10,271,886</u>	<u>\$ 9,499,878</u>

See Notes to Financial Statements.

Upward Bound House

Statement of Functional Expenses Year Ended December 31, 2021 With Summarized Totals for the Year Ended December 31, 2020

	2021						2020	
	Program services			Supporting			Total expenses	Total expenses
	Health & Wellness	Interim Housing	Permanent Housing	Total	General and administrative	Fundraising		
Salaries, payroll taxes and benefits	\$ 27,644	\$ 1,297,527	\$ 560,280	\$ 1,885,451	\$ 193,390	\$ 284,857	\$ 2,363,698	\$ 2,374,777
Temporary help	7	217,982	104,990	322,979	7,663	221	330,863	191,547
Client and program expense	5,150	116,652	1,697,248	1,819,050	1,638	-	1,820,688	1,595,348
Utilities and occupancy	4,454	177,004	12,647	194,105	3,986	6,759	204,850	194,902
Repairs and maintenance	4,540	195,504	7,978	208,022	568	929	209,519	194,585
Rent expense	3	451,696	15,072	466,771	109	166	467,046	456,601
Information technology	309	20,351	7,901	28,561	1,813	3,075	33,449	24,043
Professional services	20,541	66,810	27,261	114,612	17,930	52,557	185,099	322,599
Marketing	-	-	-	-	-	19,925	19,925	30,896
Special events	-	-	-	-	676	9,007	9,683	16,885
Travel, meals and transportation	272	10,045	2,761	13,078	3,394	125	16,597	30,014
Human resources	52	5,938	2,067	8,057	-	819	8,876	20,693
Conference and training	8	321	171	500	24,040	257	24,797	-
Supplies and office	212	25,689	3,978	29,879	3,025	5,377	38,281	24,407
Insurance expense	546	44,718	9,225	54,489	3,204	5,346	63,039	45,442
Taxes and licenses	13,784	11,076	20	24,880	79	10	24,969	31,279
Other expense	111	5,125	2,282	7,518	5,773	3,629	16,920	12,549
Service fees	10	418	188	616	1,156	17,196	18,968	25,226
Bad debt expense	-	45,249	6,816	52,065	-	-	52,065	23,306
Expenses before depreciation and amortization	77,643	2,692,105	2,460,885	5,230,633	268,444	410,255	5,909,332	5,615,099
Depreciation and amortization	-	169,944	-	169,944	10,692	-	180,636	180,636
	<u>\$ 77,643</u>	<u>\$ 2,862,049</u>	<u>\$ 2,460,885</u>	<u>\$ 5,400,577</u>	<u>\$ 279,136</u>	<u>\$ 410,255</u>	<u>\$ 6,089,968</u>	<u>\$ 5,795,735</u>

See Notes to Financial Statements.

Upward Bound House
Statement of Cash Flows
Year Ended December 31, 2021
With Summarized Totals for the Year Ended December 31, 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 772,008	\$ 2,153,801
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Long-term debt converted to contribution	-	(1,200,000)
Forgiveness of Paycheck Protection Program loan	(364,987)	-
Depreciation and amortization	180,636	180,636
Unrealized gain on investments	(36,847)	(11,868)
Bad debts	52,065	23,306
Changes in operating assets and liabilities		
Grants receivable	136,750	756,363
Due from affiliate	53,811	(270)
Prepaid expenses	27,401	121,608
Client savings accounts	(25,289)	-
Deposits and other	(132)	-
Accounts payable	48,295	(55,172)
Accrued liabilities	(11,328)	(7,008)
Client savings accounts	21,833	82
Tenant security deposits	1,284	1,277
Deferred revenue	-	(61,090)
	<u>855,500</u>	<u>1,901,665</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(128,204)	-
Purchases of certificates of deposit	(146)	(254)
	<u>(128,350)</u>	<u>(254)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Borrowings on Paycheck Protection Program loan	-	364,987
	<u>-</u>	<u>364,987</u>
Net cash provided by investing activities		
Net increase in cash, cash equivalents and restricted cash	727,150	2,266,398
Cash, cash equivalents and restricted cash, beginning	<u>4,942,387</u>	<u>2,675,989</u>
Cash, cash equivalents and restricted cash, end	<u>\$ 5,669,537</u>	<u>\$ 4,942,387</u>

See Notes to Financial Statements.

Upward Bound House
Notes to Financial Statements
December 31, 2021

Note 1 - Organization

Business activity

Incorporated in 1990, Upward Bound House's (the "Organization") mission is to eliminate homelessness among families with children in Los Angeles by providing housing, supportive services, and advocacy. The Organization offers homeless families short-term and medium-term crisis housing as well as rapid re-housing services that help them move into permanent housing as quickly as possible.

Westside Housing Stability Program - The program consists of Family Place (Santa Monica), a transitional housing facility (21 one-bedroom apartments) offering psychosocial and mental health services to homeless families for up to 9 months, and Family Shelter (Culver City), an emergency shelter (18 studio units) offering comprehensive services to families for up to 4 - 5 months. Through its strategic partnership with St. Joseph's Center and the SPA 5 Family Solutions Center, the Organization accepts referrals of homeless families for shelter and provides these housing stability services to them free of charge.

South Los Angeles Housing Stability Program - The program consists of emergency shelter (four facilities in South LA) and rapid re-housing ("RRH") services for homeless families. The Organization operates its RRH services from offices located within the Compton Unified School District and the First United Methodist Church of Compton. The four emergency shelters offer 24-hour crisis housing, and wraparound services, for up to 4-5 months per family. RRH moves homeless families from shelters into permanent housing as quickly as possible by providing proactive landlord outreach and housing search assistance, coupled with individualized financial assistance (e.g., security deposits, short-term rent subsidies). Once in housing, families participate in time-limited, intensive, in-home services designed to address parent, child and family barriers to school stability, economic security and overall well-being. The Organization closely collaborates with the SPA 6 Family Solutions Center operated by SSG/HOPICS to accept referrals and coordinate services.

Wellness and Farm Program - The farm program, located in Santa Monica, provides an environment for parents and children to learn how to grow and prepare their own food through fun, interactive workshops and hands-on instruction, with the goal of increasing food security and promoting healthy eating habits.

Healthy Living Program - The program uses an urban farm (owned by the Organization) as a therapeutic outlet to teach life skills, provide job training, and build client confidence and self-esteem. Parents and their child(ren), depending on age, participate in the selection, planting, care and cultivation of crops as well as classes in nutrition, cooking and healthy living.

Transitional Age Youth ("TAY") Program - The program is a comprehensive residential program that serves pregnant and/or parenting TAY between the ages of 18 and 24 and their children for up to 36 months. The program, operated out of two program sites in South L.A., supports and facilitates parenting skills, child development, education, employment and permanent housing goals among all participants.

In 2021, the Organization served 412 families (483 adults and 642 children). Of the 366 families who exited the Organization's programs, 82% moved to permanent housing and 46% increased their income through employment.

Upward Bound House

Notes to Financial Statements December 31, 2021

In addition, the Organization manages and operates Upward Bound Senior Villa, Inc. ("Senior Villa"), a 70-unit facility for low-income seniors. Senior Villa is a separate nonprofit California corporation with common board members and is not included in the Organization's financial statements.

Note 2 - Summary of significant accounting policies

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. They are described as follows:

Net assets without donor restrictions - Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve through a board-designated endowment.

Net assets with donor restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose or other events specified by the donor. 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 resources was restricted has been fulfilled, or both.

Cash and cash equivalents

Cash and cash equivalents include demand deposits and all highly-liquid investments with initial maturities of three months or less that are available for current use.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of any donor restrictions. Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as net assets without donor restrictions.

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 substantially met. Federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at December 31, 2021, conditional contributions of \$539,322 for which no amounts had been received in advance, have not been recognized in the accompanying financial statements.

Upward Bound House

Notes to Financial Statements December 31, 2021

Donated goods and services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated goods and services are reflected as contributions at their estimated fair value at date of receipt. There were no donated goods and services contributed during the year ended December 31, 2021.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation if purchased or fair value on the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ranging from 5 to 30 years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Minor repairs and maintenance costs are charged to expense as incurred. The Organization maintains a capitalization policy for expenditures in excess of \$5,000.

Lease acquisition costs

Lease acquisition costs are being amortized over 99 years at \$1,860 per year.

Grants receivable

The Organization receives substantial funding from government agencies. The Organization recognizes income from these grants as revenue and support to the extent that expenditures have been made for the purposes specified by the grant agreement. Amounts received in excess of expenditures incurred are recorded as deferred revenue.

Reimbursements recorded under these grants are subject to government audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Grants receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on receivables using the allowance method. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectable grants receivable when management determines the receivable will not be collected. At December 31, 2021, the allowance for disallowed costs is approximately \$38,000.

Investments

Investments are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the statement of activities and changes in net assets as investment income, net.

Fair value measurements

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described as follows:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Upward Bound House

Notes to Financial Statements December 31, 2021

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Functional allocation of expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the percentage of time spent by the Organization. Direct costs on specific programs have been allocated in its entirety.

Advertising cost

Advertising costs are expensed as incurred. For the year ended December 31, 2021, advertising costs were \$19,924.

Income taxes

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and is exempt from California franchise taxes under Section 23701(d) of the State Revenue and Taxation Code.

The Organization has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax-exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended December 31, 2021. Due to its tax-exempt status, the Organization is not subject to income taxes. The Organization is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Organization has no other tax positions that must be considered for disclosure. The Organization does not believe their financial statements include any uncertain tax positions. The Organization's federal and state income tax returns prior to fiscal years 2018 and 2017, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Organization recognizes interest and penalties associated with tax matters as part of general and administrative expense and included accrued interest and penalties with the related accrued liability in the statement of financial position.

Use of estimates

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

Upward Bound House

Notes to Financial Statements December 31, 2021

Comparative totals

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Subsequent events

The Organization has evaluated the impact of subsequent events through September 23, 2022, which is the date the financial statements were available to be issued.

Note 3 - Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$	5,340,568
Grants receivable, net		1,371,955
Due from affiliate		89,211
Certificates of deposit		154,337
Investments		<u>121,405</u>
		7,077,476
Less assets with donor restrictions		<u>1,684,101</u>
	\$	<u><u>5,393,375</u></u>

Financial assets of the Organization are intended to be sufficient to meet its general expenditures, liabilities and other obligations as they become due.

Note 4 - Operating and replacement reserves

The Organization has entered into a Regulatory Agreement with the City of Santa Monica ("the City") that requires the Organization to establish separate operating reserve and replacement reserve accounts related to Family Place. The City requires the Organization to fund, as necessary, the operating reserve and replacement reserve per the terms of the regulatory agreement. Activity in the reserve accounts for the year ended December 31, 2021 is as follows:

	Operating reserve	Replacement reserve	Total
Balance - January 1, 2021	\$ 79,232	\$ 184,237	\$ 263,469
Deposits	-	-	-
Interest	37	22	59
Withdrawals and transfers	-	-	-
Balance - December 31, 2021	<u>\$ 79,269</u>	<u>\$ 184,259</u>	<u>\$ 263,528</u>

Upward Bound House
Notes to Financial Statements
December 31, 2021

Note 5 - Property and equipment

At December 31, 2021, property and equipment consist of the following:

Land	\$	2,504,109
Buildings and improvements		5,146,170
Furniture and equipment		195,407
Vehicles		<u>97,241</u>
		7,942,927
Accumulated depreciation		<u>(3,200,615)</u>
	\$	<u><u>4,742,312</u></u>

Depreciation expense for the year ended December 31, 2021 was \$178,776.

Note 6 - Investments and fair value measurements

Investments carried at fair value as of December 31, 2021 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 154,337	\$ -	\$ 154,337
Common and preferred stock	17,324	-	-	17,324
Mutual funds	<u>104,081</u>	<u>-</u>	<u>-</u>	<u>104,081</u>
	<u>\$ 121,405</u>	<u>\$ 154,337</u>	<u>\$ -</u>	<u>\$ 275,742</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets and are valued on a recurring basis. Mutual funds and common stocks are valued at the daily closing price as reported by the fund or stock. Mutual funds held by the Organization are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds and stocks held by the Organization are deemed to be actively traded. Investments valued using Level 2 inputs consist of short-term investments and certificates of deposit valued based on amortized cost, which approximates fair value, and money market funds valued based on investment yield. During the year ended December 31, 2021, there were no changes in the valuation techniques.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Upward Bound House
Notes to Financial Statements
December 31, 2021

Note 7 - Notes payable

As of December 31, 2021, long-term debt consists of the following:

Note payable to City of Santa Monica, secured by building, land leasehold trust deed, and assignment of rents, bearing interest at 8.27% per annum through maturity, with annual principal and interest payments from Residual Receipts, as defined, to begin in August 2026 through maturity; initial maturity occurs in August 2046 with a one-time extension available to the borrower for an additional 25 years or other mutually agreed upon extended maturity date; at the end of the extension period, any remaining principal and interest is to be forgiven provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan. \$ 990,000

Note payable to City of Santa Monica, secured by land and building, bearing interest at 5.75% per annum with principal payments due from Residual Receipts, as defined, through maturity; initial maturity occurs 55 years from commencement of operations, which was April 19, 2010, with a one-time extension available to the borrower for an additional 25 years; at the end of the extension period, any remaining principal and interest is to be forgiven provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan. 400,000

Total \$ 1,390,000

As of December 31, 2021, the Organization has a contingent interest liability of \$2,533,537 relating to its outstanding notes payable, of which \$394,638 has been accrued. Management believes that this accrual is sufficient to cover any interest liability. In accordance with the loan agreements, all interest related to this loan will be forgiven provided the Organization remains in compliance with its regulatory agreement. It is the intent of the Organization to fully comply with all agreements.

The following is a maturity schedule of the Organization's notes payable:

<u>Year ending December 31,</u>	
2022	\$ -
2023	-
2024	-
2025	-
2026	-
Thereafter	<u>1,390,000</u>
Total	<u><u>\$ 1,390,000</u></u>

On August 4, 2020, the Organization obtained a loan under the Small Business Administration's Paycheck Protection Program ("PPP") for a total of \$364,987. The entire loan was forgiven and recognized as PPP loan forgiveness in revenue during the year ended December 31, 2021.

Upward Bound House

Notes to Financial Statements December 31, 2021

Note 8 - Net assets with donor restrictions

At December 31, 2021, net assets with donor restrictions consist of the following:

Stability Program	\$ 1,362,281
Farm Place	6,300
Family Shelter	34,784
Bright Futures	14,000
Rapid Rehousing	73,980
Davis Garden Endowment Fund	76,326
Specific Purpose	<u>116,430</u>
	<u>\$ 1,684,101</u>

Note 9 - Leasehold interest in land

On July 1, 1996, the Board of Trustees of the First United Methodist Church of Santa Monica transferred a 99-year leasehold interest in the land and air rights for property located at 1020 - 12th Street, Santa Monica, California (known as Family Place) to the Organization. This leasehold interest has been independently valued at \$700,000. The deed restrictions recognize that the property must be used as transitional family housing for not less than 10 years and must remain as affordable housing for up to 55 years. Additionally, \$184,558 of lease acquisition costs were acquired at that time. These costs are amortized over a period of 99 years. As of December 31, 2021, \$41,140 has been amortized, and the net value of the lease acquisition costs is \$143,418.

Note 10 - Concentration of credit risk

The Organization maintains cash with various financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each financial institution. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances at December 31, 2021.

As of December 31, 2021, 63% of the Organization's grants receivable were due from two grantors.

For the year ended December 31, 2021, 16% of the Organization's contributions were from one donor.

For the year ended December 31, 2021, 55% of the Organization's grant revenues were received from two grantors.

Note 11 - Contingencies

Grants and contracts

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The potential exists for disallowance of previously funded program costs or approval of income due to funding shifts. Liabilities, if any, which may result from governmental audits cannot be reasonably estimated. The Organization reserves approximately 2% for disallowed program costs.

Upward Bound House

Notes to Financial Statements December 31, 2021

Litigation, claims, and contingencies

The Organization is subject to certain claims that arise out of the normal operations of the Organization. In the opinion of management, the Organization has sufficient liability insurance to cover any such claims, and these matters will not have a material effect on the financial position of the Organization if disposed of unfavorably.

Coronavirus

In March 2020, the coronavirus that causes COVID-19 was declared a global pandemic by the World Health Organization, which has caused business disruption domestically in the United States, the area in which the Organization primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while this matter may negatively impact the Organization's financial condition, statement of activities or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time. As of December 31, 2021, the global pandemic is still ongoing. Management continues to monitor the results of operations to evaluate the economic impact of the pandemic on the Organization.

Note 12 - Related party transactions

The Organization provides management services for Senior Villa at a rate of 12.2% of rental revenue collected. In connection with this agreement, the Organization earned property management fees of \$63,109 for the year ended December 31, 2021, of which \$63,109 is receivable.

The Organization gets reimbursed for various expenses that it pays on behalf of Senior Villa. During the year ended December 31, 2021, the Organization paid \$26,102 of reimbursable expenses, of which \$26,102 is receivable.

Note 13 - Statement of cash flows

The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total of the same such amounts in the statement of cash flows:

Cash and cash equivalents	\$	5,340,568
Operating and replacement reserves		263,528
Client savings accounts		58,373
Deposits and other		<u>7,068</u>
	\$	<u>5,669,537</u>

Amounts included in restricted cash are composed of security deposits held in trust for the future benefits of tenants upon moving out of the property, client savings accounts, and operating reserves as required by regulatory authority and the regulatory agreement.

Note 14 - Endowment fund

The Organization's endowment consists of one donor-restricted endowment gift known as the Davis Garden Endowment Fund ("Fund"). The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the State of California as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted

Upward Bound House

Notes to Financial Statements December 31, 2021

endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the Fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Earnings from the Fund are restricted to fund projects at Upward Bound House selected by the Davis Endowment Committee. Earnings are defined as dividends and interest earned on the Fund. Activity in the endowment related accounts during the year ended December 31, 2021 is as follows:

Endowment net assets, January 1, 2021	\$	-	\$	76,326	\$	76,326
Investment income		-		11,868		11,868
Amounts appropriated for expenditure		-		(11,868)		(11,868)
		<u>-</u>		<u>(11,868)</u>		<u>(11,868)</u>
Endowment net assets, December 31, 2021	\$	<u>-</u>	\$	<u>76,326</u>	\$	<u>76,326</u>

Note 15 - 401(k) profit sharing plan

The Organization maintains a 401(k) profit sharing plan (the "Plan") which is available to substantially all full-time employees who have attained the age of 21 and have completed three months of service. Employees can elect to make contributions up to the maximum allowed by law based on certain tests required by the Plan. The Organization has an option to make a matching and nonelective contribution to the Plan. For the year ended December 31, 2021, the Organization did not contribute any amounts to the Plan.

Upward Bound House

Schedule of Expenditures of Federal Awards Year Ended December 31, 2021

Federal grantor/pass-through grantor/program or cluster title	Federal Assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Office of Community Planning and Development				
Supportive Housing Program	14.235	CA0518L9D001912	\$ -	\$ 124,940
Supportive Housing Program	14.235	CA0518L9D002013	-	142,275
			-	267,215
Passed through: Los Angeles Homeless Services Authority ("LAHSA")				
Continuum of Care	14.267	CA1335L9D001905	-	1,771,847
CDBG-Entitlement Grants Cluster				
Passed through LAHSA: Community Development Block Grant	14.218	2017CESF13	-	108,703
Passed through LAHSA: Community Development Block Grant	14.218	2017CESF13	-	107,613
Total CDBG-Entitlement Grants Cluster			-	216,316
Passed through LAHSA: Measure H Special Funds	14.231	2021CHF16	-	67,017
Passed through LAHSA: Measure H Special Funds	14.231	2021CHF16	-	66,700
			-	133,717
Total U.S. Department of Housing and Urban Development			-	2,389,095
<u>U.S. Department of Health and Human Services</u>				
Bright Futures Maternity Group Home Program	93.550	90CX727003	-	238,152
Bright Futures Maternity Group Home Program	93.550	90YZ001901	-	59,836
Total U.S. Department of Health and Human Services			-	297,988
<u>U.S. Department of Homeland Security</u>				
Passed through: United Way of Los Angeles	97.024	LRO 328	-	58,100
Emergency Food and Shelter National Board Program			-	58,100
Total U.S. Department of Homeland Security			-	58,100
Total Expenditures of Federal Awards			\$ -	\$ 2,745,183

See Notes to Schedule of Expenditures of Federal Awards.

Upward Bound House

Notes to Schedule of Expenditures of Federal Awards December 31, 2021

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Upward Bound House (the "Organization") under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The Organization has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

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

To the Board of Directors
Upward Bound House

We have audited, 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, the financial statements of Upward Bound House (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

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

CohnReznick LLP

Los Angeles, California
September 23, 2022

Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Upward Bound House

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Upward Bound House's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Upward Bound House's major federal programs for the year ended December 31, 2021. Upward Bound House's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Upward Bound House complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Upward Bound House and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Upward Bound House's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Upward Bound House's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Upward Bound House's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Upward Bound House's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Upward Bound House's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Upward Bound House's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Upward Bound House's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material

weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Los Angeles, California
September 23, 2022

Upward Bound House

Schedule of Findings and Questioned Costs December 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

Assistance Listing Number

Name of Federal Program

14.267

Continuum of Care Program

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

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

No matters were reported

Section III - Federal Award Findings and Questioned Costs

No matters were reported



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