

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, 2019

Upward Bound House

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Independent Auditor's Report

To the Board of Directors
Upward Bound House

Report on the Financial Statements

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, 2019, 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.

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.

Auditor's 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 auditor's 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 Upward Bound House as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other 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 October 7, 2020 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.



Los Angeles, California
October 7, 2020

Upward Bound House
Statement of Financial Position
December 31, 2019
With Summarized Totals at December 31, 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 2,370,686	\$ 2,299,381
Certificates of deposit	153,937	153,116
Grants receivable, net	2,340,439	940,111
Due from affiliate	142,752	47,341
Investments	72,690	60,686
Prepaid expenses	224,724	45,436
Total current assets	<u>5,305,228</u>	<u>3,546,071</u>
Other assets		
Lease acquisition costs, net	147,138	148,998
Operating and replacement reserves	270,675	269,975
Client savings accounts	31,047	12,759
Deposits and other	3,581	4,856
Total other assets	<u>452,441</u>	<u>436,588</u>
Property and equipment, net	<u>4,971,660</u>	<u>5,150,436</u>
Total assets	<u><u>\$ 10,729,329</u></u>	<u><u>\$ 9,133,095</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 165,036	\$ 122,940
Accrued liabilities	140,764	102,071
Client savings accounts	26,479	11,831
Tenant security deposits	5,245	4,970
Deferred revenue	61,090	195,464
Current portion of long-term debt	1,200,000	-
Total current liabilities	<u>1,598,614</u>	<u>437,276</u>
Notes payable	1,390,000	2,990,000
Accrued interest payable	394,638	394,638
Total liabilities	<u>3,383,252</u>	<u>3,821,914</u>
Contingencies		
Net assets		
Without donor restrictions	5,600,082	4,658,932
With donor restrictions	1,745,995	652,249
Total net assets	<u>7,346,077</u>	<u>5,311,181</u>
Total liabilities and net assets	<u><u>\$ 10,729,329</u></u>	<u><u>\$ 9,133,095</u></u>

See Notes to Financial Statements.

Upward Bound House

Statement of Activities and Changes in Net Assets Year Ended December 31, 2019 With Summarized Totals for the Year Ended December 31, 2018

	2019			2018
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, support and gains				
Government contracts and grants	\$ 4,421,437	\$ -	\$ 4,421,437	\$ 3,525,142
Contributions	1,390,837	1,278,825	2,669,662	790,283
Special events	67,929	-	67,929	67,070
Management fee revenue	57,913	-	57,913	57,617
Other income	16,367	-	16,367	12,594
Investment income	44,295	-	44,295	14,846
In-kind revenue	440	-	440	6,000
Net assets released from restrictions				
Satisfaction of program restrictio	185,079	(185,079)	-	-
Total revenue, support and gai	<u>6,184,297</u>	<u>1,093,746</u>	<u>7,278,043</u>	<u>4,473,552</u>
Functional expenses				
Program services	4,774,646	-	4,774,646	4,041,988
General and administrative	130,564	-	130,564	84,320
Fundraising	337,937	-	337,937	296,321
Total functional expenses	<u>5,243,147</u>	<u>-</u>	<u>5,243,147</u>	<u>4,422,629</u>
Change in net assets	941,150	1,093,746	2,034,896	50,923
Net assets, beginning	<u>4,658,932</u>	<u>652,249</u>	<u>5,311,181</u>	<u>5,260,258</u>
Net assets, end	<u>\$ 5,600,082</u>	<u>\$ 1,745,995</u>	<u>\$ 7,346,077</u>	<u>\$ 5,311,181</u>

See Notes to Financial Statements.

Upward Bound House

Statement of Functional Expenses Year Ended December 31, 2019 With Summarized Totals for the Year Ended December 31, 2018

	2019								2018			
	Program Services							Supporting Services				
	Family Place	Family Shelter	Rapid Rehousing	CES	Farm Project	TAY	Other Programs	Total	General and Administrative	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 236,259	\$ 244,297	\$ 391,275	\$ 271,345	\$ 34,191	\$ 97,436	\$ 159,206	\$ 1,434,009	\$ 40,681	\$ 167,006	\$ 1,641,696	\$ 1,423,520
Payroll taxes and benefits	47,255	57,589	78,292	63,561	6,445	21,115	32,067	306,324	7,077	28,995	342,396	271,628
Total salary and related expense	283,514	301,886	469,567	334,906	40,636	118,551	191,273	1,740,333	47,758	196,001	1,984,092	1,695,148
Temporary help	8,656	8,683	35,722	33,378	1,503	29,181	22,406	139,529	3,000	10,587	153,116	244,990
Client and program	6,749	8,554	1,365,922	21,420	866	11,495	77,304	1,492,310	10,363	940	1,503,613	1,472,430
Occupancy	49,239	38,232	21,713	354,226	1,797	113,092	32,162	610,461	2,007	2,470	614,938	150,890
Repairs and maintenance	64,848	63,880	2,560	33,248	7,643	21,459	6,121	199,759	1,600	2,628	203,987	218,949
Information technology	5,666	7,815	5,595	16,425	331	7,458	2,876	46,166	1,079	1,060	48,305	63,092
Professional services	33,373	30,833	50,406	43,926	32,359	17,102	31,961	239,960	5,495	58,001	303,456	184,414
Marketing	-	-	-	-	2,590	-	-	2,590	-	17,089	19,679	15,480
Special events	-	165	-	-	7,191	-	-	7,356	-	21,766	29,122	42,369
Travel, meals and transportation	1,596	5,638	10,050	6,197	341	6,676	2,648	33,146	7,404	2,243	42,793	44,185
Training and human resources	2,437	2,444	2,656	925	12	5,493	6,467	20,434	4,940	3,232	28,606	5,626
Supplies and office	2,472	2,404	5,692	3,002	251	1,855	1,878	17,554	1,664	2,188	21,406	19,290
Insurance	8,361	9,019	8,429	6,351	1,096	2,150	3,361	38,767	833	3,642	43,242	27,914
Taxes and licenses	946	3,713	-	-	-	-	-	4,659	6,848	7,315	18,822	16,430
Miscellaneous	2,052	1,888	3,182	2,303	457	793	1,003	11,678	5,111	8,335	25,124	26,686
Bad debt	-	-	-	-	-	-	-	-	21,770	-	21,770	8,100
In-kind expense	-	-	-	-	-	-	-	-	-	440	440	6,000
Expenses before depreciation and amortization	469,909	485,154	1,981,494	856,307	97,073	335,305	379,460	4,604,702	119,872	337,937	5,062,511	4,241,993
Depreciation and amortization	83,616	86,328	-	-	-	-	-	169,944	10,692	-	180,636	180,636
Total expenses	\$ 553,525	\$ 571,482	\$ 1,981,494	\$ 856,307	\$ 97,073	\$ 335,305	\$ 379,460	\$ 4,774,646	\$ 130,564	\$ 337,937	\$ 5,243,147	\$ 4,422,629

See Notes to Financial Statements.

Upward Bound House
Statement of Cash Flows
Year Ended December 31, 2019
With Summarized Totals for the Year Ended December 31, 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 2,034,896	\$ 50,923
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Long-term debt converted to contribution	(400,000)	-
Depreciation and amortization	180,636	180,636
Unrealized (gain) loss on investments	(12,004)	4,468
Bad debts	21,770	8,100
Changes in operating assets and liabilities		
Grants receivable	(1,422,098)	(151,969)
Due from affiliate	(95,411)	367
Prepaid expenses	(179,288)	58,963
Accounts payable	42,096	45,391
Accrued liabilities	38,693	29,235
Client savings accounts	14,648	5,374
Tenant security deposits	275	710
Deferred revenue	(134,374)	(42,718)
	<u>89,839</u>	<u>189,480</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of certificates of deposit	(821)	(997)
	<u>(821)</u>	<u>(997)</u>
Net cash used in investing activities		
Net increase in cash, cash equivalents and restricted cash	89,018	188,483
Cash, cash equivalents and restricted cash, beginning	<u>2,586,971</u>	<u>2,398,488</u>
Cash, cash equivalents and restricted cash, end	<u>\$ 2,675,989</u>	<u>\$ 2,586,971</u>

See Notes to Financial Statements.

**Upward Bound House
Notes to Financial Statements
December 31, 2019**

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 2019, the Organization served 511 families (674 adults and 920 children), a 24% increase compared to the number of families served in 2018. Of the 356 families who exited the Organization's programs, 78% moved to permanent housing and 27% increased their income through employment.

Upward Bound House
Notes to Financial Statements
December 31, 2019

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 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, 2019 conditional contributions of \$1,741,868 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, 2019**

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. The fair market value of the donated goods and services contributed during the year ended December 31, 2019 was \$440.

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 \$2,500.

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 uncollectible grants receivable when management determines the receivable will not be collected. At December 31, 2019, the allowance for disallowed costs is approximately \$41,000.

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.

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 below:

- 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, 2019

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, 2019 advertising costs were \$19,679.

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, 2019. 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 2016 and 2015, 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.

Adoption of new accounting pronouncement

In November 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash* ("ASU 2016-18"), to address diversity in practice with respect to the cash flows presentation of changes in amounts described as restricted cash and cash equivalents. ASU 2016-18 requires a reporting entity to include amounts described as either restricted cash or restricted cash and cash

**Upward Bound House
Notes to Financial Statements
December 31, 2019**

equivalents (collectively referred to as "restricted cash" herein) when reconciling beginning and ending balances in its statement of cash flows. The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash, cash equivalents and restricted cash between the statement of financial position and the statement of cash flows. ASU 2016-18 was adopted retrospectively during the year ended December 31, 2019. Consequently, ending cash, cash equivalents, and restricted cash as of December 31, 2018 was increased from \$2,299,381 to \$2,586,971.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers ("Topic 606")* in May 2014, providing new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers to reflect the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues.

In June 2020, the FASB issued ASU 2020-05 providing a one year deferral of the effective date of Topic 606 for reporting entities that meet certain criteria. The Organization has elected to defer its implementation of Topic 606 which will now be effective for the annual reporting period beginning after December 15, 2019.

Reclassifications

Certain prior year balances have been reclassified to conform to the current presentation.

Subsequent events

The Organization has evaluated the impact of subsequent events through October 7, 2020, 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	\$	2,370,686
Grants receivable, net		2,340,439
Due from affiliate		142,752
Certificates of deposit		153,937
Investments not encumbered by donor or board restrictions		72,690
		5,080,504
Less assets with donor restrictions		1,745,995
	\$	3,334,509

**Upward Bound House
Notes to Financial Statements
December 31, 2019**

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, 2019 is as follows:

	<u>Operating reserve</u>	<u>Replacement reserve</u>	<u>Total</u>
Balance - January 1, 2019	\$ 78,922	\$ 191,053	\$269,975
Deposits	-	-	-
Interest	225	475	700
Withdrawals and transfers	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Balance - December 31, 2019	<u>\$ 79,147</u>	<u>\$ 191,528</u>	<u>\$270,675</u>

Note 5 - Property and equipment

At December 31, 2019, property and equipment consist of the following:

Land	\$ 2,504,109
Buildings and improvements	5,115,207
Furniture and equipment	<u>195,407</u>
	7,814,723
Accumulated depreciation	<u>(2,843,063)</u>
	<u>\$ 4,971,660</u>

Depreciation expense for the year ended December 31, 2019 was \$178,776.

Note 6 - Investments and fair value measurements

Investments carried at fair value as of December 31, 2019 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 153,937	\$ -	\$ 153,937
Common stocks	2,099	-	-	2,099
Mutual funds	<u>70,591</u>	<u>-</u>	<u>-</u>	<u>70,591</u>
	<u>\$ 72,690</u>	<u>\$ 153,937</u>	<u>\$ -</u>	<u>\$ 226,627</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

**Upward Bound House
Notes to Financial Statements
December 31, 2019**

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, 2019, 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.

Note 7 - Notes payable

As of December 31, 2019, long-term debt consists of the following:

Note payable to State of California Department of Housing and Community Development, secured by land and building, bearing simple interest at 3% per annum with all principal and interest to be forgiven at maturity on the 10-year anniversary date of commencement of operations, which was April 19, 2010, provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan.	\$ 1,000,000
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
Note payable to City of Beverly Hills, secured by land and building, bearing no interest with principal to be forgiven at maturity on the 10-year anniversary date of commencement of operations, which was April 19, 2010, provided the Organization complies with applicable use and regulatory agreements through the maturity of the loan.	<u>200,000</u>
Total	<u><u>\$ 2,590,000</u></u>

**Upward Bound House
Notes to Financial Statements
December 31, 2019**

On July 3, 2019, the note payable of \$400,000 to the City of Los Angeles Community Development Department, secured by land and building and bearing no interest was forgiven. The \$400,000 was recognized as a contribution for the year ended December 31, 2019.

As of December 31, 2019, the Organization has a contingent interest liability of \$2,644,091 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:

Year ending December 31,

2020	\$ 1,200,000
2021	-
2022	-
2023	-
2024	-
Thereafter	<u>1,390,000</u>
Total	<u>\$ 2,590,000</u>

Note 8 - Net assets with donor restrictions

At December 31, 2019, net assets with donor restrictions consist of the following:

South LA Property	\$ 300,000
Day One Families Fund	1,254,281
Farm Place	5,019
Family Shelter	34,783
Family Shelter and Family Place	2,332
Rapid Rehousing	39,680
Senior Villa	12,500
Davis Garden Endowment Fund	76,326
General	<u>21,074</u>
	<u>\$ 1,745,995</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, 2019, \$37,420 has been amortized, and the net value of the lease acquisition costs is \$147,138.

Upward Bound House
Notes to Financial Statements
December 31, 2019

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, 2019.

As of December 31, 2019, 70% of the Organization's grants receivable were due from three grantors.

For the year ended December 31, 2019, 55% of the Organization's contributions were received from one donor.

For the year ended December 31, 2019, 59% of the Organization's grant revenues were received from three grantors.

Note 11 - Contingencies

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.

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 \$57,913 for the year ended December 31, 2019, of which \$48,244 is receivable.

The Organization gets reimbursed for various expenses that it pays on behalf of Senior Villa. During the year ended December 31, 2019, the Organization paid \$37,499 of reimbursable expenses, of which \$94,508 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	\$ 2,370,686
Operating and replacement reserves	270,675
Client savings accounts	31,047
Deposits and other	3,581
	<hr/>
	\$ 2,675,989
	<hr/>

Amounts included in restricted cash are comprised 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.

**Upward Bound House
Notes to Financial Statements
December 31, 2019**

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 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

The Fund is invested approximately 50% in an equity market index fund and 50% in cash equivalents; 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, 2019 is as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, January 1, 2019	\$ -	\$ 76,326	\$ 76,326
Investment income	-	12,004	12,004
Amounts appropriated for expenditure	-	(12,004)	(12,004)
Endowment net assets, December 31, 2019	\$ -	\$ 76,326	\$ 76,326

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, 2019, the Organization did not contribute any amounts to the Plan.

Upward Bound House
Notes to Financial Statements
December 31, 2019

Note 16 - Subsequent events

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.

In April 2020, the note payable of \$1,000,000 to the State of California Department of Housing and Community Development and note payable of \$200,000 to the City of Beverly Hills qualified to be forgiven and was recorded as contribution income.

On August 4, 2020, the Organization obtained a loan under the Small Business Administration's Paycheck Protection Program for a total of \$364,987. The note has an interest rate of 1.00% per annum and is due on August 4, 2025. Per the terms of the Paycheck Protection Program, a portion of the loan's principal may be forgiven if certain conditions are met by the Organization.

**Upward Bound House
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019**

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA 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	CA0518L9D001710	\$ -	\$ 128,520
Supportive Housing Program	14.235	CA0518L9D001811	-	154,942
			-	283,462
Passed through: Los Angeles Homeless Services Authority				
Continuum of Care	14.267	CA1335L9D00170	-	230,684
Continuum of Care	14.267	CA1335L9D00180	-	601,841
Continuum of Care	14.267	CA1497L9D00170	-	986,444
			-	1,818,969
CDBG-Entitlement Grants Cluster				
LAHSA: Community Development Block Grant	14.218	2017CESF13	-	97,724
Passed through: Los Angeles Homeless Service Authority				
Measure H Special Funds	14.218	2017CESF13	-	24,597
Total CDBG-Entitlement Grants Cluster				122,321
LAHSA: Community Development Block Grant				
Passed through: Los Angeles Homeless Service Authority	14.231	2017CESF13	-	89,831
Measure H Special Funds	14.231	2017CESF13	-	48,709
			-	138,540
Federal Temporary Assistance for Needy Families 477 Cluster:				
HOPICS (Prime Contract with LAHSA for CALWORKS)	93.558	SSG-HOPICS	-	46,514
HOPICS (Prime Contract with LAHSA for CALWORKS)	93.558	SSG-HOPICS	-	28,914
Total 477 Cluster:				75,428
Total U.S. Department of Housing and Urban Development			-	2,438,720
<u>U.S. Department of Health and Human Services</u>				
Bright Futures Maternity Group Home Program				
Bright Futures Maternity Group Home Program	93.550	90CX7270-01-00	-	116,935
Bright Futures Maternity Group Home Program	93.550	90CX7270-02-01	-	59,907
			-	176,842
Total U.S. Department of Health and Human Services			-	176,842
<u>U.S. Department of Homeland Security</u>				
Passed through: United Way of Los Angeles				
Emergency Food and Shelter National Board Program	97.024	LRO 328	-	43,400
Total U.S. Department of Homeland Security			-	43,400
Total Expenditures of Federal Awards			\$ -	\$ 2,658,962

See Notes to Schedule of Expenditures of Federal Awards.

Upward Bound House

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2019

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, 2019. 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, 2019, 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 October 7, 2020.

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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

CohnReznick LLP

Los Angeles, California
October 7, 2020

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

We have audited Upward Bound House's (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of 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, 2019.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



Los Angeles, California
October 7, 2020

Upward Bound House

Schedule of Findings and Questioned Costs December 31, 2019

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 programs:

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

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

CFDA 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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