FRONT STEPS, INC.

INDEPENDENT AUDITOR’S REPORTS
WITH
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

30 SEPTEMBER 2020
Board of Directors and Management
Front Steps, Inc.

INDEPENDENT AUDITOR’S REPORT

We have audited the accompanying financial statements of Front Steps, Inc. (Front Steps), a nonprofit organization, which comprise the statement of financial position as of 30 September 2020 and the related statements of activities 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 of 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 judgement, including the assessment of the risk 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 Front Steps as of 30 September 2020 and 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.

Other Matters
Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (page 17), 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 taken as a whole.

Other Reporting Required by Government Auditing Standards
In accordance with Government Auditing Standards, we have also issued our report dated 25 June 2021, on our consideration of Front Steps’ 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 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 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 Front Steps’ internal control over financial reporting and compliance.

25 June 2021
Austin, Texas

[Signature]
FRONT STEPS, INC.

STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2020

ASSETS

Current assets
Cash and equivalents $2,138,041
Investments 380,730
Federal awards receivable 293,816
City and agency contracts receivable 423,723
3,236,310
Fixed assets 242,090
$3,478,400

LIABILITIES AND NET ASSETS

Current liabilities
Accounts payable $98,270
Accrued liabilities 234,849
Deferred Revenue 3,721
336,840

Noncurrent liabilities
Note payable 1,500,000
1,836,840

Net assets
Without donor restrictions 1,438,603
With donor restrictions 202,957
1,641,560
$3,478,400

The accompanying notes are an integral part of this financial statement presentation.
FRONT STEPS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED 30 SEPTEMBER 2020

<table>
<thead>
<tr>
<th></th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City and agency contracts</td>
<td>$4,165,178</td>
<td>$0</td>
<td>$4,165,178</td>
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<tr>
<td>Federal awards</td>
<td>2,630,628</td>
<td>0</td>
<td>2,630,628</td>
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<tr>
<td>Contributions, including contributed food and supplies of $215,599</td>
<td>776,903</td>
<td>143,079</td>
<td>919,982</td>
</tr>
<tr>
<td>State awards</td>
<td>306,189</td>
<td>0</td>
<td>306,189</td>
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<tr>
<td>Other</td>
<td>64,615</td>
<td>0</td>
<td>64,615</td>
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<td>Net assets released from restrictions</td>
<td>65,090</td>
<td>(65,090)</td>
<td>0</td>
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<tr>
<td></td>
<td>8,008,603</td>
<td>77,989</td>
<td>8,086,592</td>
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<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARCH</td>
<td>3,814,758</td>
<td>0</td>
<td>3,814,758</td>
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<tr>
<td>VA Housing</td>
<td>1,498,386</td>
<td>0</td>
<td>1,498,386</td>
</tr>
<tr>
<td>Housing</td>
<td>1,138,772</td>
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<td>1,138,772</td>
</tr>
<tr>
<td>Keep Austin Housed</td>
<td>504,272</td>
<td>0</td>
<td>504,272</td>
</tr>
<tr>
<td>Recuperative Care</td>
<td>403,307</td>
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<td>403,307</td>
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<tr>
<td></td>
<td>7,359,495</td>
<td>0</td>
<td>7,359,495</td>
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<tr>
<td>Administrative</td>
<td>827,816</td>
<td>0</td>
<td>827,816</td>
</tr>
<tr>
<td>Fundraising</td>
<td>203,503</td>
<td>0</td>
<td>203,503</td>
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<tr>
<td></td>
<td>8,390,814</td>
<td>0</td>
<td>8,390,814</td>
</tr>
<tr>
<td>CHANGE IN NET ASSETS</td>
<td>(382,211)</td>
<td>77,989</td>
<td>(304,222)</td>
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<tr>
<td>BEGINNING NET ASSETS</td>
<td>1,820,814</td>
<td>124,968</td>
<td>1,945,782</td>
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<td>ENDING NET ASSETS</td>
<td>$1,438,603</td>
<td>$202,957</td>
<td>$1,641,560</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this financial statement presentation.
FRONT STEPS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED 30 SEPTEMBER 2020

CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>($304,222)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>103,814</td>
</tr>
<tr>
<td>Change in Federal awards receivable</td>
<td>(194,490)</td>
</tr>
<tr>
<td>Change in city and agency contracts receivable</td>
<td>195,338</td>
</tr>
<tr>
<td>Change in prepaid expenses</td>
<td>40,166</td>
</tr>
<tr>
<td>Change in accounts payable</td>
<td>(30,553)</td>
</tr>
<tr>
<td>Change in deferred revenue</td>
<td>(3,098)</td>
</tr>
<tr>
<td>Change in accrued liabilities</td>
<td>15,626</td>
</tr>
</tbody>
</table>

(177,419)

CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of investments</td>
<td>(2,307)</td>
</tr>
<tr>
<td>Purchases of fixed assets</td>
<td>(50,259)</td>
</tr>
</tbody>
</table>

(52,566)

CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP Loan Draw</td>
<td>1,500,000</td>
</tr>
</tbody>
</table>

NET CHANGE IN CASH AND EQUIVALENTS

1,270,015

BEGINNING CASH AND EQUIVALENTS

868,026

ENDING CASH AND EQUIVALENTS

$2,138,041

The accompanying notes are an integral part of this financial statement presentation.
FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

Front Steps, Inc. (Front Steps), formerly known as the Capital Area Homeless Alliance, Inc., is a corporate organization under the Nonprofit Corporation Act of the state of Texas. Front Steps was organized in March 1997 in response to the Community Action Network’s Comprehensive Plan for Addressing Homelessness in Austin/Travis County. Front Steps manages the Austin Resource Center for the Homeless (ARCH) located in Austin, Texas, for the City of Austin. Activities are funded by government grants and private contributors. Programs consist of:

ARCH - Through a contract with Austin Public Health, the ARCH serves as the central downtown shelter serving individuals experiencing homelessness. The shelter is transitioning to a housing-focused model. The overnight shelter serves men who are engaged in case management and working towards transitioning into permanent housing. The day resource center provides services to men and women experiencing homelessness.

Reculerative Care Program - Recuperative Care is a collaboration between Front Steps, Central Health and the hospital systems. The program assists clients with post-hospital recuperative medical assistance and transitional housing.

Keep Austin Housed - Keep Austin Housed manages the services of AmeriCorps members who partner with social services agencies to provide case management services, counseling and mentoring for homeless people.

Housing - Front Steps provides a full range of services to clients related to transitional and permanent housing by assisting them in moving from homelessness to safe, affordable long term housing.

Veterans Administration Housing - The Support Services for Veteran Families (SSVF) Program provides short term, rapid rehousing assistance with intensive case management to very low-income veteran families to obtain stable permanent housing. The SSVF program focuses on intensive case management to help participants increases their ability to sustain permanent housing and reach their greatest potential.

FINANCIAL STATEMENT PRESENTATION

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

Net Assets Without Donor Restrictions
Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 passage of time 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 the restriction expires, which includes when the stipulated time has elapsed, when the stipulated purpose for which the restricted resource has been fulfilled, or both.

BASIS OF ACCOUNTING

Front Steps uses the accrual basis of accounting. Contracts and grants are recorded as revenue when the funds are considered earned, regardless of when cash is received. Cost reimbursement contracts are recorded as revenue when the costs are incurred and contributions are recorded as support when the funds are awarded. Expenses are recorded when incurred regardless of when cash is disbursed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all monies in banks and money market funds held in brokerage accounts. The carrying value of cash equivalents approximates fair value because of the highly liquid nature of those financial instruments.

INVESTMENTS

Investments consist of mutual funds carried at fair value.

CONTRIBUTIONS

Contributions received are recorded at fair value as support with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. Donor restricted contributions are required to be reported as support with donor restrictions and are then reclassified as without donor restrictions upon satisfaction of the restriction or expiration of the time restriction.

FEDERAL AND STATE AWARDS AND RECEIVABLES

Cost reimbursement grant revenue is generally considered earned as services are rendered and allowable expenses are incurred. Unconditional grants are recorded as support when the funds are awarded. Deferred revenue is recognized when cash is received prior to the revenue being earned. Grants receivable are recorded when revenue is earned prior to cash being received. Front Steps expects all grants receivable to be fully collected; therefore, an allowance of doubtful accounts has not been recorded.
FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FEDERAL INCOME TAXES

Front Steps is a publicly supported organization exempt from federal income taxes under IRS Code Section 501(c)(3). Therefore, no provision has been made for federal income taxes in the accompanying financial statements. Front Steps’ policy is to record interest and penalties related to income taxes as interest and other expense, respectively.

FIXED ASSETS

Fixed assets are stated at cost if purchased or fair market value at the date of receipt if donated. Purchases are capitalized if the estimated useful service life of the asset is more than one year and the cost is at least $5,000. Depreciation is computed using the straight-line method over the estimated useful life (5 years for furniture, fixtures and equipment).

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

SUBSEQUENT EVENTS

The management of Front Steps has evaluated subsequent events as of the date of the Independent Auditor’s report, the date the financial statements were available to be issued.

NOTE 3: CONTRIBUTED GOODS AND SERVICES

Front Steps receives services donated by various sources in support of the Clothing Closet, preparation of meals, the front desk, and other programs. Front Steps estimates the donated service hours to be approximately 1,526 hours, which are valued at $43,552. These services have not been recorded in the financial statements because they did not require specialized skills. Additionally, Front Steps received contributed food and supplies, which are available for all programs, valued at $215,599. These are recorded as contribution revenue and as donated food and supplies expense.

NOTE 4: FIXED ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>$892,648</td>
</tr>
<tr>
<td>Vehicles</td>
<td>24,718</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(675,276)</td>
</tr>
<tr>
<td></td>
<td>$242,090</td>
</tr>
</tbody>
</table>
NOTE 4: FIXED ASSETS

As part of Front Steps’ management contract with the City of Austin, the City of Austin provides the facilities for the City’s ARCH program. Front Steps serves the City of Austin under the contract as manager of the program, and therefore has no facilities of its own.

NOTE 5: GRANT CONTINGENCY

Front Steps receives substantial funding under cost reimbursement grants. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of noncompliance with the terms of the grant contracts. Management believes requests for reimbursement, if any, would not be significant. Front Steps does not maintain collateral for its receivables and does not believe significant risk existed at 30 September 2020.

NOTE 6: CONCENTRATIONS

For the year ended 30 September 2020, funding provided by the City of Austin represented 52% of total revenue. Funding from two additional sources represented another 14% and 6% of total revenue. The receivables due from these three funding sources represented 70% of total receivables.

Cash at year-end exceeded FDIC coverage by $1,783,052.

NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS

Balances as of 30 September 2020:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted for future operations</td>
<td>$172,126</td>
</tr>
<tr>
<td>Veteran Assistance</td>
<td>30,831</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$202,957</strong></td>
</tr>
</tbody>
</table>

Satisfaction of purpose restrictions and expiration of time restrictions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time restrictions</td>
<td>$26,717</td>
</tr>
<tr>
<td>Transitional housing</td>
<td>24,773</td>
</tr>
<tr>
<td>Veteran Assistance</td>
<td>13,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$65,090</strong></td>
</tr>
</tbody>
</table>
NOTE 8: LIQUIDITY AND AVAILABILITY

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

- Cash and cash equivalents: $2,138,041
- Investments: 380,730
- Federal awards receivable: 294
- City and agency contracts receivable: 423,723

Total: $2,942,788

As part of Front Steps’ liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The policy is that monthly revenues are to cover monthly expenses. Monthly revenues and expenditures are deposited in and deducted from Front Steps’ operating accounts.

NOTE 9: NOTE PAYABLE

In August 2020 Front Steps received a $1,500,000 loan from the Small Business Administration (SBA) as part of Coronavirus Aid, Relief and Economic Security Act’s Paycheck Protection Plan (PPP). The loan is unsecured, nonrecourse, accrues interest at one percent per annum. Under the terms of the loan, a portion or all of the loan is forgivable to the extent that the loan proceeds are used to fund qualifying payroll, rent, and utilities during a designated period established by the Small Business Administration.

In February of 2021, Front Steps received notification that the total amount of the $1,500,000 loan from the SBA would be forgiven.

NOTE 10: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel expenses are allocated based on estimates of time and effort. The remaining allocated expenses are allocated based on management’s review and analysis of expenses and transactions involved.
## FRONT STEPS, INC.

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 10: FUNCTIONAL EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>ARCH</th>
<th>Recuperative Care</th>
<th>Keep Austin Housed</th>
<th>Housing</th>
<th>VA Housing</th>
<th>Administrative</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$2,317,264</td>
<td>$75,841</td>
<td>$444,889</td>
<td>$301,121</td>
<td>$366,921</td>
<td>$596,679</td>
<td>$172,763</td>
<td>$4,275,478</td>
</tr>
<tr>
<td>Program rent and deposit</td>
<td>214,215</td>
<td>0</td>
<td>10,083</td>
<td>578,111</td>
<td>470,773</td>
<td>0</td>
<td>0</td>
<td>1,273,182</td>
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<td>Nursing home fees</td>
<td>0</td>
<td>238,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>238,000</td>
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<tr>
<td>Emergency assistance</td>
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<td>0</td>
<td>0</td>
<td>232,466</td>
<td>0</td>
<td>0</td>
<td>232,466</td>
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<td>Donated food and supplies</td>
<td>111,754</td>
<td>11,815</td>
<td>14,773</td>
<td>33,361</td>
<td>43,896</td>
<td>0</td>
<td>0</td>
<td>215,599</td>
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<td>Insurance</td>
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<td>50,467</td>
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<td>213,527</td>
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<td>Professional services</td>
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<td>13,000</td>
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<td>11,605</td>
<td>0</td>
<td>127,704</td>
<td>19,441</td>
<td>190,794</td>
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<td>Security</td>
<td>182,918</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>182,918</td>
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<td>Rent and parking</td>
<td>87,784</td>
<td>26,778</td>
<td>8,748</td>
<td>0</td>
<td>35,625</td>
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<td>158,939</td>
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<td>Repairs</td>
<td>146,656</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>146,656</td>
</tr>
<tr>
<td>Food</td>
<td>108,438</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>108,438</td>
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<tr>
<td>Employment certifications</td>
<td>38</td>
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<td>0</td>
<td>108,179</td>
<td>0</td>
<td>0</td>
<td>108,217</td>
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<tr>
<td>Depreciation</td>
<td>46,957</td>
<td>4,964</td>
<td>6,207</td>
<td>14,017</td>
<td>18,444</td>
<td>10,615</td>
<td>2,610</td>
<td>103,814</td>
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<td>Beds</td>
<td>96,936</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>96,936</td>
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<tr>
<td>Case managers-contracted</td>
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<td>75,256</td>
<td>14,678</td>
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<td>93,844</td>
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<td>Office supplies</td>
<td>15,767</td>
<td>629</td>
<td>590</td>
<td>708</td>
<td>24,974</td>
<td>1,223</td>
<td>876</td>
<td>44,767</td>
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<td>Housing assistance-utilities</td>
<td>7,207</td>
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<td>0</td>
<td>31,720</td>
<td>15,559</td>
<td>0</td>
<td>0</td>
<td>54,486</td>
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<td>45,060</td>
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<td>0</td>
<td>0</td>
<td>504</td>
<td>0</td>
<td>45,564</td>
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<td>Discretionary housing</td>
<td>11,085</td>
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<td>0</td>
<td>7,418</td>
<td>24,957</td>
<td>0</td>
<td>0</td>
<td>43,460</td>
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<tr>
<td>Move-in supplies</td>
<td>0</td>
<td>54</td>
<td>0</td>
<td>6,399</td>
<td>32,734</td>
<td>0</td>
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<td>39,187</td>
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<td>Cleaning supplies</td>
<td>35,490</td>
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<td>0</td>
<td>171</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>35,661</td>
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<tr>
<td>Travel and meetings</td>
<td>6,693</td>
<td>2,441</td>
<td>1,802</td>
<td>5,965</td>
<td>12,299</td>
<td>967</td>
<td>0</td>
<td>30,167</td>
</tr>
<tr>
<td>Telephone</td>
<td>9,108</td>
<td>4,052</td>
<td>617</td>
<td>654</td>
<td>5,828</td>
<td>4,031</td>
<td>0</td>
<td>24,290</td>
</tr>
<tr>
<td>Kitchen supplies (non-food)</td>
<td>14,553</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>14,553</td>
</tr>
<tr>
<td>Uniforms</td>
<td>10,979</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(158)</td>
<td>0</td>
<td>0</td>
<td>10,821</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>174,985</td>
<td>21,823</td>
<td>5,330</td>
<td>72,266</td>
<td>91,053</td>
<td>35,780</td>
<td>7,813</td>
<td>409,050</td>
</tr>
</tbody>
</table>

**Total:** $3,814,758 | $403,307 | $504,272 | $1,138,772 | $1,498,386 | $827,816 | $203,503 | $8,390,814
NOTES TO FINANCIAL STATEMENTS

NOTE 11: FAIR VALUE DISCLOSURES

<table>
<thead>
<tr>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in mutual funds</td>
<td>$380,730</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>$380,730</td>
<td>N/A</td>
</tr>
</tbody>
</table>

NOTE 12: CHANGE IN ACCOUNTING PRINCIPAL

On 21 June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, Not-For-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The update assists entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions, and determining whether a contribution is conditional. Front Steps has implemented ASU 2018-08 and has adjusted the presentation in these financial statements accordingly. ASU 2018-08 was applied using the modified prospective basis as of 1 October 2019.
Montemayor Britton Bender PC
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Management
Front Steps, Inc.

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Front Steps, Inc. (Front Steps) which comprise the statement of financial position as of 30 September 2020 and the related statements of activities and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated 25 June 2021.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Front Steps' 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 Front Steps' internal control. Accordingly, we do not express an opinion on the effectiveness of Front Steps' 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 combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying
schedule of findings and questioned costs, that we consider to me a material weakness. See Finding #2020-01

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Front Steps’ 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.

Front Step’s Response to Findings
Front Step’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Front Steps’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

25 June 2021
Austin, Texas
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program
We have audited Front Steps, Inc.’s (Front Steps) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Front Steps’ major federal programs for the year ended 30 September 2020. Front Steps’ 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 Front Steps’ 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 (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 Front Steps’ compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe 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 Front Steps’ compliance.
Opinion on Each Major Federal Program
In our opinion, Front Steps 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 30 September 2020.

Report on Internal Control Over Compliance
Management of Front Steps 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 Front Steps’ 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 Front Steps’ 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item #2020-02 that we consider to be significant deficiencies.

Front Step’s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Front Step’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

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 the testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

25 June 2021
Austin, Texas
<table>
<thead>
<tr>
<th>Federal Grantor/ Pass-through Grantor/ Program Title</th>
<th>Federal CFDA Number</th>
<th>Award Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One Star Foundation: Americorps</td>
<td>94.006</td>
<td>17ESHTX0010001</td>
<td>$330,104</td>
</tr>
<tr>
<td>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed-through City of Austin:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency Solutions Grant Program</td>
<td>14.231</td>
<td>NG190000012</td>
<td>329,108</td>
</tr>
<tr>
<td>Rapid Rehousing Program</td>
<td>14.231</td>
<td>NG1700000010</td>
<td>103,284</td>
</tr>
<tr>
<td>Homeless Management Information Systems</td>
<td>14.231</td>
<td>NG1700000009</td>
<td>45,010</td>
</tr>
<tr>
<td>First Steps</td>
<td>14.267</td>
<td>TX0255L6J031808</td>
<td>477,402</td>
</tr>
<tr>
<td>First Steps</td>
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<td>TX0255L6J031707</td>
<td>371,088</td>
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<tr>
<td>DEPARTMENT OF VETERANS AFFAIRS</td>
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<td></td>
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</tr>
<tr>
<td>Supportive Services for Veteran Families (SSVF) Program</td>
<td>64.033</td>
<td>18-TX-404-VA</td>
<td>841,043</td>
</tr>
<tr>
<td>COVID-19- CARES- VA Supportive Services for Veteran Families (SSVF) Program</td>
<td>64.033</td>
<td>18-TX-404-CA</td>
<td>298,461</td>
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<tr>
<td>U.S. DEPARTMENT OF LABOR</td>
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<td></td>
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</tr>
<tr>
<td>Homeless Veterans’ Reintegration Program</td>
<td>17.805</td>
<td>HV-33363-19-60-5-48</td>
<td>1,139,504</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>263,679</td>
</tr>
</tbody>
</table>

NOTE 1: This schedule is prepared on the same basis as the financial statements. Refer to the notes to the financial statements on pages 6-12 for applicable accounting policies.

NOTE 2: Front Steps did not elect to use the 10% de minimis indirect cost rate.
FRONT STEPS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED 30 SEPTEMBER 2020

SUMMARY OF AUDITOR’S RESULTS

A. FINANCIAL STATEMENTS

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

2. Internal control over financial reporting:
   a. Material weakness(es) identified?
   Yes
   b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?
   None Noted
   c. Noncompliance material to financial statements noted?
   None Noted

B. FEDERAL AWARDS

1. Internal control over major programs:
   a. Material weakness(es) identified?
   No
   b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?
   Yes
   c. Type of auditor’s report issued on compliance for major programs:
   Unmodified
   d. Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?
   No

2. Major programs:
   CFDA#64.033 VA Supportive Services for Veteran Families Program

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

4. Auditee qualified as low-risk auditee?
   Yes
C. FINANCIAL STATEMENT FINDINGS

Condition
Approximately $140,000 of credit card transactions had not been recorded.

Criteria
As stated in our independent auditor’s report on pages 1 and 2, 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; this includes the design, implementation, and maintenance on internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Cause
Credit card statement balances were not reconciled to the general ledger on a timely basis.

Effect
Expenses were understated by approximately $140,000. As a result of the audit, management recorded the transactions subsequent to year end. Further, these expenses may have been eligible for grant reimbursement.

Perspective Information
This amount represents 1.90% of total expenses for the year.

Recommendation
Monthly credit card statement should be reconciled to the general ledger on a timely basis.

Views of Responsible Officials
FRONT STEP’S RESPONSE BELOW (ITALICIZED) WAS NOT SUBJECT TO THE AUDITING PROCEDURES APPLIED IN OUR AUDITS AND, ACCORDINGLY, WE EXPRESS NO OPINION ON THE RESPONSE.

Front Steps leadership understands the finding and remains committed to the importance of properly recording transactions in accordance with generally accepted accounting principles. The accounting staff endured many challenges during the Fiscal Year 2019-2020, particularly due to the COVID-19 pandemic. The normal processes of receiving and recording credit card transaction documents were challenged due to less office presence and more remote working. Front Steps staff typically would receive a signed Visa Authorized form with a receipt attached for any expenses on the cardholder’s credit card statement according to Front Steps documented accounting processes. Accounting staff would subsequently record that transaction into the accounting software. During this Fiscal year it became difficult to retrieve those Visa Authorization forms and receipts due to the pandemic. Card holders were not consistently submitting the forms by phone photo or whatever was necessary at the time. This behavior led to transactions not being recorded in the accounting system. Upon the discovery of missing expenses, the Front Steps accounting staff determined that approximately $140,000 of credit card expenses were not entered into the accounting system.

See independent auditor’s report.
Corrective Action Plan
To ensure credit card expenses are properly recorded in accordance with generally accepted accounting principles Front Steps will implement a change in its policy and procedure of recording credit card transactions effective June 23, 2021. This change will include the process of recording transactions of cardholders by credit card statement to ensure every item has been entered. Front Steps will retrieve the Visa Authorization as previously required, and reconcile those receipts to the transactions on the credit card statements. Front Steps will also immediately seek software capable of maintaining the credit card process more efficiently and with more automation to avoid risk of continuous manual entry. Effective July 1, 2021.

Prior Year Findings
NONE NOTED
D. FEDERAL FINDINGS

Criteria
Front Steps is responsible for establishing and maintaining internal controls over compliance with Federal Grant requirements. To support compliance with eligibility requirements, Front Steps is required to maintain specific documentation for each individual served who entered the program. Front Steps' internal control procedures require program staff fill out a participant eligibility checklist to ensure compliance with eligibility documentation requirements.

Condition
The eligibility checklist was not provided for 10 of 51 individuals tested that participated in the program.

Cause
We were not able to determine why the checklists were not in the participants' files.

Effect
Although there were 10 checklists were missing, each of the 10 files had proper documentation to support eligibility.

Perspective information
Front Steps provides supportive housing services to a targeted population of individuals that are homeless veterans. During the year Front Steps served 221 individuals who received services in the program.

Recommendation
Front Steps should implement periodic secondary review of each file to ensure checklists are included.

Views of Responsible Officials
FRONT STEP’S RESPONSE BELOW (ITALICIZED) WAS NOT SUBJECT TO THE AUDITING PROCEDURES APPLIED IN OUR AUDITS AND, ACCORDINGLY, WE EXPRESS NO OPINION ON THE RESPONSE.

*Front Steps leadership understands the finding and remains committed to the importance of maintaining proper internal controls over compliance.*

*Effective immediately, the Front Steps Director of Client Services will review and make sure that the checklist is the first page of the 2021 intake packet that all case managers use when enrolling new clients.*

Prior Year Findings
NONE NOTED
FRONT STEPS, INC.
CORRECTIVE ACTION PLAN
30 SEPTEMBER 2020

FINDING #2020-01:

Views of Responsible Officials
FRONT STEP’S RESPONSE BELOW (ITALICIZED) WAS NOT SUBJECT TO THE AUDITING PROCEDURES APPLIED IN OUR AUDITS AND, ACCORDINGLY, WE EXPRESS NO OPINION ON THE RESPONSE.

Front Steps leadership understands the finding and remains committed to the importance of properly recording transactions in accordance with generally accepted accounting principles. The accounting staff endured many challenges during the Fiscal Year 2019-2020, particularly due to the COVID-19 pandemic. The normal processes of receiving and recording credit card transaction documents were challenged due to less office presence and more remote working. Front Steps staff typically would receive a signed Visa Authorized form with a receipt attached for any expenses on the cardholder’s credit card statement according to Front Steps documented accounting processes. Accounting staff would subsequently record that transaction into the accounting software. During this Fiscal year it became difficult to retrieve those Visa Authorization forms and receipts due to the pandemic. Card holders were not consistently submitting the forms by phone photo or whatever was necessary at the time. This behavior led to transactions not being recorded in the accounting system. Upon the discovery of missing expenses, the Front Steps accounting staff determined that approximately $140,000 of credit card expenses were not entered into the accounting system.

Corrective Action Plan
To ensure credit card expenses are properly recorded in accordance with generally accepted accounting principles Front Steps will implement a change in its policy and procedure of recording credit card transactions effective June 23, 2021. This change will include the process of recording transactions of cardholders by credit card statement to ensure every item has been entered. Front Steps will retrieve the Visa Authorization as previously required, and reconcile those receipts to the transactions on the credit card statements. Front Steps will also immediately seek software capable of maintaining the credit card process more efficiently and with more automation to avoid risk of continuous manual entry.

Implementation date: July 1, 2021

Responsible Official: Tenille Carpenter, Board Treasurer

See independent auditor's report.
FINDING #2020-02:

Views of Responsible Officials
FRONT STEP’S RESPONSE BELOW (ITALICIZED) WAS NOT SUBJECT TO THE AUDITING PROCEDURES APPLIED IN OUR AUDITS AND, ACCORDINGLY, WE EXPRESS NO OPINION ON THE RESPONSE.

Front Steps leadership understands the finding and remains committed to the importance of maintaining proper internal controls over compliance.

Corrective action plan: Front Steps will review and make sure that the checklist is the first page of the 2021 intake packet that all case managers use when enrolling new clients.

Implementation date: June 25, 2021.

Responsible Official: Tenille Carpenter, Board Treasurer