



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

FRONT STEPS, INC.

INDEPENDENT AUDITOR'S REPORTS
WITH
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

30 SEPTEMBER 2021



Montemayor Britton Bender PC
CERTIFIED PUBLIC ACCOUNTANTS

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 2021, 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.

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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 2021 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, certain errors resulted in the overstatement of the amounts previously reported as donor restricted net assets and the understatement of net assets without donor restrictions as of 30 September 2020. Accordingly, an adjustment has been recorded to net assets with donor restrictions and net assets without donor restrictions to restate the 2020 financial statements. Our opinion is not modified with respect to this matter.

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 19), 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 1 November 2022, 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.

Montgomery Britton Bender PC

1 November 2022
Austin, Texas

FRONT STEPS, INC.

STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2021

ASSETS

Current assets

Cash and equivalents	\$2,526,220
Investments	450,495
Federal awards receivable	391,457
City and agency contracts receivable	526,260
Prepaid insurance	<u>39,382</u>
	3,933,814

Fixed assets

234,035

\$4,167,849

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$247,989
Accrued liabilities	286,461
Deferred revenue	<u>3,721</u>
	<u>538,171</u>

Net assets

Without donor restrictions	3,588,105
With donor restrictions	<u>41,573</u>
	<u>3,629,678</u>
	<u><u>\$4,167,849</u></u>

The accompanying notes are an integral part of this financial statement presentation.

FRONT STEPS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED 30 SEPTEMBER 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
REVENUE			
City and agency contracts	\$4,881,568	\$0	\$4,881,568
Federal awards	3,361,332	0	3,361,332
Contributions	940,251	128,829	1,069,080
State awards	343,621	0	343,621
Paycheck Protection Program loan forgiveness	2,317,600	0	2,317,600
Other	141,612	0	141,612
Net assets released from restrictions	<u>128,829</u>	<u>(128,829)</u>	<u>0</u>
	<u>12,114,813</u>	<u>0</u>	<u>12,114,813</u>
EXPENSES			
Program:			
ARCH	3,539,566	0	3,539,566
Housing	2,688,528	0	2,688,528
VA Housing	1,760,009	0	1,760,009
Keep Austin Housed	562,732	0	562,732
Recuperative Care	<u>184,226</u>	<u>0</u>	<u>184,226</u>
	8,735,061	0	8,735,061
Administrative	1,168,975	0	1,168,975
Fundraising	<u>222,659</u>	<u>0</u>	<u>222,659</u>
	<u>10,126,695</u>	<u>0</u>	<u>10,126,695</u>
CHANGE IN NET ASSETS	1,988,118	0	1,988,118
BEGINNING NET ASSETS	<u>1,599,987</u>	<u>41,573</u>	<u>1,641,560</u>
ENDING NET ASSETS	<u>\$3,588,105</u>	<u>\$41,573</u>	<u>\$3,629,678</u>

The accompanying notes are an integral part of this financial statement presentation.

FRONT STEPS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED 30 SEPTEMBER 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$1,988,118
Depreciation expense	103,804
Contributed investments	(69,765)
Paycheck Protection Program loan forgiveness	(2,317,600)
Change in Federal awards receivable	(97,641)
Change in city and agency contracts receivable	(102,537)
Change in prepaid insurance	(39,382)
Change in accounts payable	149,719
Change in accrued liabilities	<u>51,612</u>
	<u>(333,672)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	<u>(95,749)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Paycheck Protection Program loan	<u>817,600</u>
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NET CHANGE IN CASH AND EQUIVALENTS	388,179
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BEGINNING CASH AND EQUIVALENTS	<u>2,138,041</u>
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ENDING CASH AND EQUIVALENTS	<u><u>\$2,526,220</u></u>
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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.

Recuperative 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 increase their ability to sustain permanent housing and reach their greatest potential.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

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: FIXED ASSETS

Furniture, fixtures and equipment	\$988,397
Vehicles	24,718
Accumulated depreciation	<u>(779,080)</u>
	<u>\$234,035</u>

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.

FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4: 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 2021.

NOTE 5: CONCENTRATIONS

For the year ended 30 September 2021, funding provided by the City of Austin represented 57% of total revenue. Funding from an additional source represented another 12% of total revenue. The receivables due from these two funding sources represented 88% of total receivables.

Cash at year-end exceeded FDIC coverage by \$2,157,560.

NOTE 6: NET ASSETS WITH DONOR RESTRICTIONS

Balances as of 30 September 2021:

Restricted for future operations	\$10,742
Veteran Assistance	<u>30,831</u>
	<u>\$41,573</u>

Expiration of time restrictions:

Time restrictions	<u>\$128,829</u>
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NOTE 7: 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	\$2,526,220
Investments	450,495
City and agency contracts receivable	526,260
Federal awards receivable	<u>391,457</u>
	<u>\$3,894,432</u>

FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7: LIQUIDITY AND AVAILABILITY

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 8: SUBSEQUENT EVENTS

- A. In August 2022, a terminated employee filed a charge of discrimination against Front Steps with the United States Equal Employment Opportunity Commission (EEOC). The parties plan to mediate the claims with the EEOC. Due to the limited information that has been exchanged between the parties, the likelihood of a favorable or unfavorable outcome, or estimate of the amount or range of loss to Front Steps can not be determined. Front Steps' insurance carrier approved coverage for the defense of this matter, and Front Steps' deductible under the policy is \$15,000.
- B. The claims specialist for Front Steps' insurance carrier indicated that a claim may be forthcoming from certain employees based on a letter the claims specialist received from a former employee. This potential claim has not escalated and no communication was received by or on behalf of Front Steps related to this matter.
- C. In September of 2022, the City of Austin ceased all contract renewals with Front Steps. The ARCH and Rapid Rehousing Programs were funded under these contracts. Front Steps is no longer running operations at the shelter and will continue to run a reduced housing and Veteran's services through a new location (see Note 8, D below). The revenue from these contracts for the year was approximately \$5,622,000.
- D. In September 2022, Front Steps entered into a new lease contract for 4 years. Total minimum payments due per the lease agreement are approximately \$100,000 per year for the next 4 years.

NOTE 9: CONDITIONAL GRANTS

A significant portion of Front Steps' revenue is derived from cost-reimbursement government grants, which are conditioned upon the incurrence of allowable qualifying expenses. Cash amounts received are recognized as revenue when Front Steps has incurred expenditures in compliance with specific contract provisions. Front Steps has been awarded contracts for cost reimbursable grants of \$1,464,981 of which cash has not been received, and accordingly, has not been recognized as revenue because qualifying expenditures have not been incurred or deliverables have not been met.

FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

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 expenses are directly allocated based on management's review and analysis of expenses and transactions involved.

	<u>ARCH</u>	<u>Recuperative Care</u>	<u>Keep Austin Housed</u>	<u>Housing</u>	<u>VA Housing</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$2,285,437	\$41,551	\$539,545	\$1,461,386	\$442,779	\$825,775	\$216,898	\$5,813,371
Program rent and deposit	88,673	0	6,222	790,997	471,685	0	0	1,357,577
Emergency assistance	584	0	0	0	396,424	0	0	397,008
Security	195,126	0	0	1,164	67,163	0	0	263,453
Insurance	60,562	0	0	0	0	200,199	0	260,761
Rent and parking	93,203	39,760	11,433	3,939	89,985	0	0	238,320
Repairs	218,045	0	0	0	19,081	161	0	237,287
Beds	33,604	0	349	33,080	90,801	0	0	157,834
Food	103,221	0	0	32,036	0	0	0	135,257
Professional services	43,968	3,000	1,200	6,269	727	62,816	5,395	123,375
Depreciation	36,409	1,885	5,758	27,507	18,007	11,960	2,278	103,804
Housing assistance- utilities	510	0	428	62,402	26,582	0	0	89,922
Discretionary assistance	14,558	0	423	30,598	44,018	42	0	89,639
Nursing home fees	0	79,730	0	3,230	0	0	0	82,960
Employee certifications	246	0	0	0	65,336	0	0	65,582
License and permits	52,290	0	0	343	2,700	0	0	55,333
Office Supplies	43,590	0	523	1,472	4,926	2,190	176	52,877
Telephone	15,578	1,682	366	8,390	4,701	19,177	302	50,196
Move-in supplies	397	0	514	2,313	39,492	0	0	42,716
Cleaning supplies	25,473	0	0	7,970	0	0	0	33,443
Miscellaneous	<u>228,092</u>	<u>16,618</u>	<u>(4,029)</u>	<u>215,432</u>	<u>(24,398)</u>	<u>46,655</u>	<u>(2,390)</u>	<u>475,980</u>
	<u>\$3,539,566</u>	<u>\$184,226</u>	<u>\$562,732</u>	<u>\$2,688,528</u>	<u>\$1,760,009</u>	<u>\$1,168,975</u>	<u>\$222,659</u>	<u>\$10,126,695</u>

FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11: FAIR VALUE DISCLOSURES

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments in stocks	<u>\$71,015</u>	NA	NA
Investments in mutual funds	<u>\$379,480</u>	NA	NA

NOTE 12: CHANGE IN ACCOUNTING POLICY

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Front Steps adopted the new standard effective 1 October 2020, using the modified retrospective approach.

Analysis of various provisions of this standard resulted in no significant changes in the way Front Steps recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

NOTE 13: PRIOR PERIOD ADJUSTMENT

Net assets with donor restrictions were overstated by \$161,384 as of 30 September 2020 and unrestricted net assets was understated by the same amount. A prior period adjustment has been recorded to correct the beginning net assets with donor restrictions and without restrictions. This had no effect on change in net assets for the years ended 30 September 2020 and 2021.

NOTE 14: REVENUE FROM CONTRACTS WITH CUSTOMERS

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table disaggregates Front Steps' revenue based on the timing of satisfaction of performance obligations for the year ended 30 September 2021.

Performance obligations satisfied over time	<u>\$277,795</u>
Performance obligations satisfied at a point in time	<u>\$75,600</u>

FRONT STEPS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 13: REVENUE FROM CONTRACTS WITH CUSTOMERS

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue recognized at a point of time includes fees received for placement of clients at nursing home facilities and are recorded within city and agency contracts on the statement of activities. Revenue recognized over time consists of housing and outreach services and are recorded within city and agency contracts on the statement of activities. In general, revenue does not have a significant financing component because payment terms are relatively short.

CONTRACT BALANCES

Accounts receivable from contracts consist of Front Steps' right to payment from customers for services that have been provided to the customers. The balance of accounts receivable from these contracts at 30 September 2021 and 2020 were \$32,082 and \$38,084 respectively. There were no contract liabilities as of 30 September 2021 or 2020.



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 2021 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 1 November 2022.

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.

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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 below, that we consider to be a material weakness.

September 2021 cash balances were not properly reconciled to the general ledger until August 2022. Additionally, as a result of the untimely reconciliations, material adjustments were required to correct the cash balances. Management is responsible for preparing financial statements in accordance with generally accepted accounting principles. Management should establish procedures to ensure each bank account is reconciled timely on a monthly basis.

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 Steps' Response to Findings

Front Steps' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Front Steps' 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.

1 November 2022
Austin, Texas



Montemayor Britton Bender PC
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Management
Front Steps, Inc.

**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 2021. 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 2021.

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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 #2021-001 that we consider to be a significant deficiency.

Front Steps' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Front Steps' 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.

A handwritten signature in blue ink that reads "Monty B. Borden PC". The signature is written in a cursive, flowing style. A long, thin vertical line extends downwards from the bottom of the signature.

1 November 2022
Austin, Texas

FRONT STEPS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED 30 SEPTEMBER 2021

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Assistance Listing Number</u>	<u>Award Number</u>	<u>Expenditures</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
One Star Foundation: Americorps	94.006	20ESHTX0010002	<u>\$381,713</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-through City of Austin:			
Emergency Solutions Grant Program	14.231	NG190000012	313,922
COVID-19-CARES- Emergency Solutions Grant Bridge Program	14.231	NG210000196	410,845
Rapid Rehousing Program	14.231	NG170000010	70,000
Homeless Management Information Systems	14.231	NG170000009	<u>27,084</u>
			<u>821,851</u>
First Steps	14.267	TX0255L6J031909	<u>476,267</u>
DEPARTMENT OF VETERANS AFFAIRS			
Supportive Services for Veteran Families (SSVF) Program	64.033	18-TX-404	491,505
COVID-19- CARES- VA Supportive Services for Veteran Families (SSVF) Program	64.033	18-TX-404-CA	<u>996,334</u>
			<u>1,487,839</u>
U.S. DEPARTMENT OF LABOR			
Homeless Veterans' Reintegration Program	17.805	HV-33363-19-60-5-48	<u>193,662</u>
			<u>\$3,361,332</u>

NOTE 1: This schedule is prepared on the same basis as the financial statements. Refer to the notes to the financial statements on pages 6-13 for applicable accounting policies.

NOTE 2: Front Steps did not elect to use the 10% de minimis indirect cost rate.

See independent auditor's report.

FRONT STEPS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED 30 SEPTEMBER 2021

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: | |
| Assistance listing number 64.033 -VA Supportive Services for Veteran Families Program | |
| Assistance listing number 14.231 - Emergency Services Grant Programs | |
| 3. Dollar threshold used to distinguish between type A and Type B programs: | \$750,000 |
| 4. Auditee qualified as low-risk auditee? | No |

See independent auditor's report.

FRONT STEPS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED 30 SEPTEMBER 2021

C. FEDERAL AWARD FINDINGS

FINDING #2021-001 - SIGNIFICANT DEFICIENCY (CONTINUED FROM PRIOR YEAR)

Information on the Federal Program

Assistance listing number 64.033- Supportive Services for Veteran Families (SSVF) Program

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 documentation checklist was not completed for 12 of 51 individuals tested that participated in the program.

Cause

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

Effect

Although there were 12 incomplete checklists, each of the 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 284 individuals who received services in the program.

Repeat finding

Yes

Recommendation

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

Views of Responsible Officials / Corrective Action Plan

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, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED 30 SEPTEMBER 2021

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 2022 intake packet that all case managers use when enrolling new clients.

Implementation date: 24 October 2022

Responsible Official: Beryl Robinson, Director of Client Services

FRONT STEPS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED 30 SEPTEMBER 2021

PRIOR YEAR FINDING #2020-002-SIGNIFICANT DEFICIENCY (CONTINUED IN CURRENT YEAR)

Information on the Federal Program

Assistance listing number 64.033- Supportive Services for Veteran Families (SSVF) Program

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.

Repeat finding

No

Recommendation

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

Status

Not corrected. Repeated as #2021-001

FRONT STEPS, INC.
CORRECTIVE ACTION PLAN
30 SEPTEMBER 2021

FINDING #2021-01 - SIGNIFICANT DEFICIENCY

Views of Responsible Officials/Corrective Action Plan

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 2022 intake packet that all case managers use when enrolling new clients.

Implementation date: 24 October 2022

Responsible Official: Beryl Robinson, Director of Client Services