Report of Independent Auditors and
Financial Statements

## Angels Foster Family Agency

December 31, 2022 and 2021

MOSSADAMS

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# Report of Independent Auditors

The Board of Directors
Angels Foster Family Agency

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Angels Foster Family Agency, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Angels Foster Family Agency as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Emphasis of Matter –Change in Accounting Principle*

As discussed in Note 1 to the financial statements, in 2022, Angels Foster Family Agency adopted new accounting guidance Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Angels Foster Family Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Angels Foster Family Agency's ability to continue as a going concern for a reasonable period of time.

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2023, on our consideration of Angels Foster Family Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Angels Foster Family Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Angel Foster Family Agency's internal control over financial reporting and compliance.

Moss Adams LLP

San Diego, California
June 28, 2023

# Financial Statements

# Angels Foster Family Agency
## Statements of Financial Position
## December 31, 2022 and 2021

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | $ | 898,275 | $ | 1,094,866 |
| Accounts receivable, net | | 160,711 | | 219,798 |
| Contributions receivable | | 36,926 | | 152,084 |
| Prepaid expenses | | 85,888 | | 88,277 |
| Total current assets | | 1,181,800 | | 1,555,025 |
| NON-CURRENT ASSETS | | | | |
| Operating lease right-of-use asset | | 286,392 | | - |
| Property and equipment, net | | 56,285 | | 54,931 |
| Deposits | | 12,172 | | 12,172 |
| Investments | | 40,887 | | 40,846 |
| Beneficial interest in assets held by Rancho Santa Fe Foundation | | 882 | | 3,501 |
| Total non-current assets | | 396,618 | | 111,450 |
| Total assets | $ | 1,578,418 | $ | 1,666,475 |
| **LIABILITIES AND NET ASSETS** | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable – resource families | $ | 81,665 | $ | 96,808 |
| Accounts payable and accrued expenses | | 159,374 | | 153,665 |
| Current portion of debt | | 26,878 | | 96,657 |
| Current portion of operating lease liability | | 134,797 | | - |
| Total current liabilities | | 402,714 | | 347,130 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred rent | | - | | 74,688 |
| Operating lease liability | | 226,284 | | - |
| Debt | | 146,126 | | 142,308 |
| Total non-current liabilities | | 372,410 | | 216,996 |
| Total liabilities | | 775,124 | | 564,126 |
| COMMITMENTS (Notes 5 and 6) | | | | |
| NET ASSETS | | | | |
| Without donor restrictions | | 786,531 | | 1,065,607 |
| With donor restrictions | | 16,763 | | 36,742 |
| Total net assets | | 803,294 | | 1,102,349 |
| Total liabilities and net assets | $ | 1,578,418 | $ | 1,666,475 |

See accompanying notes.

# Angels Foster Family Agency
## Statements of Activities and Changes in Net Assets
## Years Ended December 31, 2022 and 2021

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUE | | | | | | |
| Children in care payments | $ 2,400,675 | $ - | $ 2,400,675 | $ 2,355,467 | $ - | $ 2,355,467 |
| Contributions | 504,853 | 5,841 | 510,694 | 796,343 | 4,500 | 800,843 |
| Special events | 268,851 | - | 268,851 | - | - | - |
| In-kind contributions | 18,118 | - | 18,118 | 17,033 | - | 17,033 |
| Other income | 3,700 | - | 3,700 | 1,825 | - | 1,825 |
| Interest | 653 | - | 653 | 2,593 | - | 2,593 |
| Net assets released from restrictions | 25,820 | (25,820) | - | 40,856 | (40,856) | - |
| Total revenue and support | 3,222,670 | (19,979) | 3,202,691 | 3,214,117 | (36,356) | 3,177,761 |
| EXPENSES | | | | | | |
| Program services | | | | | | |
| Foster care | 2,872,668 | - | 2,872,668 | 2,505,222 | - | 2,505,222 |
| Total program services | 2,872,668 | - | 2,872,668 | 2,505,222 | - | 2,505,222 |
| Supporting services | | | | | | |
| General and administrative | 211,760 | - | 211,760 | 226,769 | - | 226,769 |
| Fundraising | 318,556 | - | 318,556 | 322,878 | - | 322,878 |
| Total supporting services | 530,316 | - | 530,316 | 549,647 | - | 549,647 |
| Total program and supporting services expenses | 3,402,984 | - | 3,402,984 | 3,054,869 | - | 3,054,869 |
| Special events | 97,378 | - | 97,378 | - | - | - |
| Total expenses and losses | 3,500,362 | - | 3,500,362 | 3,054,869 | - | 3,054,869 |
| GAINS AND LOSSES | | | | | | |
| Gain on forgiveness of PPP loan | - | - | - | 204,860 | - | 204,860 |
| Loss on sale of investments | (1,384) | - | (1,384) | - | - | - |
| Total (losses)/gains | (1,384) | - | (1,384) | 204,860 | - | 204,860 |
| CHANGES IN NET ASSETS | (279,076) | (19,979) | (299,055) | 364,108 | (36,356) | 327,752 |
| NET ASSETS | | | | | | |
| Beginning of year | 1,065,607 | 36,742 | 1,102,349 | 701,499 | 73,098 | 774,597 |
| End of year | $ 786,531 | $ 16,763 | $ 803,294 | $ 1,065,607 | $ 36,742 | $ 1,102,349 |

See accompanying notes.

# Angels Foster Family Agency
## Statement of Functional Expenses – 2022
## Year Ended December 31, 2022

| | Program Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Salaries | $ 1,132,870 | $ 110,281 | $ 232,280 | $ 1,475,431 |
| Resource family payments | 1,116,425 | - | - | 1,116,425 |
| Technology and telecommunications | 122,595 | 11,525 | 17,527 | 151,647 |
| Payroll taxes and employee benefits | 151,838 | 17,269 | 27,699 | 196,806 |
| Office rents | 97,112 | 7,348 | 8,592 | 113,052 |
| Professional services | 31,527 | 28,025 | 6,913 | 66,465 |
| Insurance | 47,315 | 3,089 | 4,625 | 55,029 |
| Equipment and building maintenance and supplies | 34,354 | 5,150 | 2,847 | 42,351 |
| Travel | 39,315 | 732 | 1,880 | 41,927 |
| Depreciation | 21,110 | 1,597 | 1,868 | 24,575 |
| Advertising and marketing | 8,012 | 3,324 | 8,568 | 19,904 |
| In-kind contributions | 18,118 | - | - | 18,118 |
| Bank fees and interest | - | 5,692 | 3,056 | 8,748 |
| Utilities | 12,310 | 931 | 1,089 | 14,330 |
| Conferences, meetings, and training | 10,136 | 5,281 | 1,263 | 16,680 |
| Licensing fees | 9,961 | - | - | 9,961 |
| Office expenses | 1,025 | 3,152 | 209 | 4,386 |
| Memberships and dues | 1,480 | 7,895 | 140 | 9,515 |
| Resource family well-being | 14,247 | 141 | - | 14,388 |
| Other expenses | 2,918 | 328 | - | 3,246 |
| Total program and supporting services expenses | $ 2,872,668 | $ 211,760 | $ 318,556 | $ 3,402,984 |

See accompanying notes.

# Angels Foster Family Agency
## Statement of Functional Expenses – 2021
## Year Ended December 31, 2021

| | Program Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Salaries | $ 931,332 | $ 128,588 | $ 211,442 | $ 1,271,362 |
| Resource family payments | 1,080,607 | - | - | 1,080,607 |
| Technology and telecommunications | 103,280 | 11,362 | 21,077 | 135,719 |
| Payroll taxes and employee benefits | 103,566 | 23,703 | 20,886 | 148,155 |
| Office rents | 89,876 | 8,818 | 14,358 | 113,052 |
| Professional services | 24,295 | 26,950 | 9,591 | 60,836 |
| Insurance | 37,529 | 3,659 | 6,125 | 47,313 |
| Equipment and building maintenance and supplies | 30,443 | 3,856 | 4,676 | 38,975 |
| Travel | 25,793 | 706 | 64 | 26,563 |
| Depreciation | 18,270 | 1,793 | 2,918 | 22,981 |
| Advertising and marketing | 8,741 | 474 | 13,297 | 22,512 |
| Virtual event expense | 17,033 | - | - | 17,033 |
| Conferences, meetings, and training | - | 7,126 | 6,694 | 13,820 |
| Utilities | 9,979 | 979 | 1,594 | 12,552 |
| In-kind contributions | 6,385 | 4,001 | 1,225 | 11,611 |
| Bank fees and interest | 10,841 | - | - | 10,841 |
| Licensing fees | - | - | 8,175 | 8,175 |
| Office expenses | 1,755 | 2,258 | 676 | 4,689 |
| Resource family well-being | 590 | 2,270 | 80 | 2,940 |
| Other expenses | 2,765 | - | - | 2,765 |
| Memberships and dues | 2,142 | 226 | - | 2,368 |
| Total program and supporting services expenses | $ 2,505,222 | $ 226,769 | $ 322,878 | $ 3,054,869 |

See accompanying notes.

# Angels Foster Family Agency
## Statements of Cash Flows
## Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | $ (299,055) | $ 327,752 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities | | |
| Amortization of right-of-use asset | 107,883 | - |
| Depreciation | 24,575 | 22,981 |
| Donations of marketable securities | (25,572) | (2,909) |
| Gain on forgiveness of PPP Loan | - | (204,860) |
| (Increase) decrease in | | |
| Accounts receivable | 59,087 | (28,524) |
| Contributions receivable | 115,158 | 36,605 |
| Prepaid expenses | 2,389 | (3,704) |
| Increase (decrease) in | | |
| Accounts payable – resource families | (15,143) | (20,447) |
| Accounts payable and accrued expenses | 26,324 | 26,447 |
| Deferred rent | - | (20,615) |
| Lease liabilities | (128,497) | - |
| Net cash (used in) provided by operating activities | (132,851) | 132,726 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (25,929) | (11,856) |
| Proceeds from sale of investments | 28,191 | 22,738 |
| Interest earned on certificate of deposit | (41) | (41) |
| Net cash provided by investing activities | 2,221 | 10,841 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from notes payable | 34,936 | 33,081 |
| Payments on notes payable | (100,897) | (112,724) |
| Net cash (used in) financing activities | (65,961) | (79,643) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (196,591) | 63,924 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 1,094,866 | 1,030,942 |
| End of year | $ 898,275 | $ 1,094,866 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | $ 6,385 | $ 2,003 |
| Non-cash stock donation | $ 25,572 | $ 2,909 |
| Prepaid insurance financed with note payable | $ 34,936 | $ 34,000 |

See accompanying notes.

## Note 1 – Organization and Summary of Significant Accounting Policies

**Organization** – Angels Foster Family Agency (the "Agency") is a California State licensed (#374603866) Foster Family Agency ("FFA") founded in 1998 whose vision is to protect, heal, and nurture the lives of children in foster care, ensuring they have the best opportunity to develop into healthy, productive, and confident adults. Our mission is to passionately and collaboratively care for children five and younger with diverse and exceptional families who dedicate themselves to each child's well-being.

The Agency recruits, trains, and approves qualified parents/families who seek to provide consistent love and care to one child or sibling set, ensuring the best physical, emotional, and developmental support is provided. Research demonstrates that children who fail to develop normal attachments with an adult often are left with lasting and devastating effects on brain development and growth. The Agency is able to break this cycle of instability and broken relationships through their families who foster to positively change the life of the children in their care.

The Agency's rigorous evaluation, training, and approval process allows them to make the best placement for each child depending on their known needs. Placement of the child is critical as every one of the Agency's families commits to the stable care of the child until decided otherwise by the County of San Diego or juvenile court. The Agency's families' commitment to stability eliminates children in foster care bouncing from home to home.

**Income tax status** – The Agency is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code. The Agency believes it has appropriate support for any tax positions taken, and as such, it does not have any material unrecognized tax benefits or liabilities as of December 31, 2022 and 2021.

**Method of accounting** – The financial statements of the Agency have been prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial statement presentation** – The financial statements present information according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions based upon the following criteria:

- *Net assets without donor restrictions* represent expendable funds available for operations that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Agency. The Agency's board of directors may designate assets without restrictions for specific operational purposes from time to time. At December 31, 2022 and 2021, there were no board-designated assets.

- *Net assets with donor restrictions* consist of contributed funds subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature; those restrictions will be met by actions of the Agency or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Agency has $16,763 and $36,742 of net assets with donor restrictions as of December 31, 2022 and 2021, respectively.

**Recent accounting pronouncements** – In February 2016, the Financial Accounting Standards Board (FASB) issued guidance Accounting Standards Codification (ASC) 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statements of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Agency adopted the standard effective January 1, 2022, and recognized and measured leases existing on January 1, 2022 (the beginning of the period of adoption), through a cumulative effect adjustment with certain practical expedients available. Lease disclosures for the year ended December 31, 2021, are made under prior lease guidance in FASB ASC 840.

The Agency elected the available practical expedients to account for its operating leases as operating leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Agency recognized on January 1, 2022, a lease liability of $489,578, which represents the present value of the remaining operating lease payments of $500,405, discounted using the risk-free rate of nominal federal treasury securities of 1.23% and an ROU asset of $394,275, which represents the operating lease liability of $489,578 adjusted for deferred rent of $95,303. The standard had a material impact on the Agency's statements of financial position but did not have an impact on the statements of activities and changes in net assets or statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

**Revenue Recognition**

*Contributions* – Contributions are recognized as revenue when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as restricted by donor depending on the nature of the restrictions. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same reporting period as when the contributions are received are reported as contributions without donor restrictions. Conditional contributions with measurable performance or other barriers and a right of return are recognized when the contributions have been met.

*Foster care placements* – The Agency receives substantially all foster care payments from the County of San Diego for children referred to the Agency. Revenue is recognized based on days in care in the period those days occurred. In turn, the Agency, under contract with the parents who foster, issues monthly payments to them. Approximately 47 percent and 46 percent of the total foster care revenue for the years ended December 31, 2022 and 2021, was paid out to resource parents, respectively.

*In-kind contributions* – The Agency received in-kind donations of $21,922, of which $3,734 consisted of special event in-kind contributions and are reflected as special events in the statements of activities and changes in net assets and functional expenses. The in-kind donations of supplies totaling $18,188 and $17,033 for the years ended December 31, 2022 and 2021, respectively, are included in in-kind contributions in the statements of activities and changes in net assets and functional expenses. In-kind expenses are allocated between program services, special event, and fundraising expenses.

*Deferred revenue* – The Agency defers all revenue related to special events until the event takes place.

**Cash and cash equivalents** – The Agency considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**Accounts receivable** – Accounts receivable primarily consist of amounts due for services provided through the year end under an agreement with the County of San Diego. All accounts receivable as of December 31, 2022, are expected to be collected in 2023.

**Contributions receivable** – Contributions receivable consist of pledges receivable expected to be collected in future years and are initially recorded at fair value. All contributions receivable as of December 31, 2022, are expected to be collected within the next year.

**Allowance for doubtful accounts** – The Agency evaluates the need for an allowance for estimated uncollectible accounts receivable and contributions receivable based on past experience and on an analysis of current receivable balances. Accounts deemed uncollectible are recorded against the allowance in the year deemed uncollectible. Management estimated an $828 and $0 allowance against accounts receivable for years ended December 31, 2022 and 2021, respectively. Contributions receivable had a $0 allowance for both years ended December 31, 2022 and 2021.

**Property and equipment** – The Agency capitalizes all expenditures in excess of $5,000 for property and equipment at cost. Donated assets are recorded at their estimated fair values at the date of gift. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Agency reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives of three to seven years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or useful life of the asset. Depreciation totaled $24,575 and $22,981 for the years ended December 31, 2022 and 2021, respectively.

**Beneficial interest in assets held by Rancho Santa Fe Foundation** – The Agency has established an agency non-endowment fund at the Rancho Santa Fe Foundation (“RSF”) through the transfer of certain funds without donor restrictions to RSF. In addition, other contributions were made by others to the fund. The Agency is the 100 percent beneficiary of these funds and distributions from the funds are determined by an advisory committee established by the Agency. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statements of activities and changes in net assets as a change in value of beneficial interest in assets held by RSF.

**Fair value measurements** – The Agency reports certain assets, including a certificate of deposit, at fair value. The Agency had no liabilities required to be reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Agency determines fair value under a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

**Level 3** – Unobservable inputs that are supported by little or no active market quotes and that are significant to the fair value of the assets or liabilities.

The fair value of the certificate of deposit is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuers. These factors are considered Level 2 inputs. The certificate of deposit matures annually in April and earned interest at a rate of 0.1 percent during the years ended December 31, 2022 and 2021. Refer to Note 12 – Subsequent Events for further discussion.

The fair value of beneficial interest in assets held by RSF for which quoted market prices are not available (Level 3) is based on the unit value of the Agency's interest in the pools in which it is invested. The unit value is based on the fair value of the underlying assets in the pool. The pools in which the Agency has funds are invested primarily in domestic and international equities. Management of the Agency reviews and evaluates the values and methodology used to determine the fair value provided by RSF quarterly. The Agency agrees with the valuation methods used. The funds held at RSF are redeemable, and there is no commitment to make future investments. The changes in fair value of the Level 3 assets are as follows:

| | 2022 | 2021 |
|---|---|---|
| Balance, December 31, 2021 | $ 3,501 | $ 23,330 |
| Contributions | 25,572 | 2,909 |
| Distributions | (28,191) | (22,738) |
| Balance, December 31, 2022 | $ 882 | $ 3,501 |

**Advertising** – Advertising costs are expensed as incurred. Advertising expense totaled $19,904 and $22,512 for the years ended December 31, 2022 and 2021, respectively. Advertising costs support the Agency's efforts to recruit more families who will foster. The Agency uses advertising to raise the level of awareness of the need for more families who will foster along with sharing stories about the experience of serving as a parent/family who fosters. Advertising expenses are allocated between program services and fundraising expenses.

**Functional allocation of expenses** – The Agency allocates its expenses on a functional basis between program and supporting services. Expenditures, which can be identified with a specific program or support service, are allocated directly, according to their natural expenditure classification. Costs that are common to more than one function are allocated between program and supporting services on the basis of time records, space utilized, and estimates made by the Agency's management.

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

## Note 2 – Concentrations

The Agency maintains its cash and cash equivalents in bank deposit accounts and money-market funds, which, at times, exceed federally insured limits. The Agency has not experienced any losses in such accounts. Refer to Note 12 – Subsequent Events for further discussion. The Agency believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable consisted of the following at December 31:

| | 2022 | 2021 |
|---|---|---|
| County of San Diego | $ 158,266 | $ 219,086 |
| Miscellaneous receivables | 2,445 | 712 |
| Total accounts receivable, net | $ 160,711 | $ 219,798 |

Substantially all revenue for the years ended December 31, 2022 and 2021, for foster care placements was earned under an agreement with the County of San Diego. This revenue represented approximately 75 percent and 74 percent of total revenue and support for the years ended December 31, 2022 and 2021, respectively.

## Note 3 – Contributions Receivable

Contributions receivable are estimated to be collected as follows at December 31:

| | 2022 | 2021 |
|---|---|---|
| Due in less than one year | $ 36,926 | $ 152,084 |
| | $ 36,926 | $ 152,084 |

At December 31, 2021, one contributor accounted for 33 percent of all promises to give.

**Note 4 – Property and Equipment**

Property and equipment consisted of the following at December 31:

| | 2022 | 2021 |
|---|---|---|
| Furniture and equipment | $ 122,759 | $ 113,079 |
| Leasehold improvements | 129,636 | 113,386 |
| Total property and equipment | 252,395 | 226,465 |
| Less: accumulated depreciation | (196,110) | (171,534) |
| Property and equipment, net | $ 56,285 | $ 54,931 |

**Note 5 – Financing Activities**

**Notes Payable**

*Paycheck Protection Program Loan ("PPP Loan")* – On May 7, 2020, the Agency received loan proceeds in the amount of $203,300 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses. The PPP Loan and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its payroll levels. The Agency used the proceeds for purposes consistent with the PPP and recorded a note payable and accrued interest as per the terms of the loan. On February 12, 2021, the Agency's application for forgiveness was approved for the full amount of $203,300 including $1,560 in accrued interest. This is shown as a gain on forgiveness of debt on the statement of activities and changes in net assets for the year ended December 31, 2021.

*Economic Injury Disaster Loan (EIDL)* – On June 17, 2020, the Agency executed the standard loan documents required for securing a loan (the "EIDL Loan") from the United States Small Business Administration (SBA) under its Economic Injury Disaster Loan assistance program for the COVID-19 pandemic. The principal amount of the EIDL Loan is $150,000, with the proceeds to be used for working capital purposes. Interest on the EIDL Loan accrues at the rate of 2.75 percent per annum monthly until the payments begin. Installment payments, including principal and interest, are due monthly beginning August 1, 2021, in the amount of $641. The balance of principal and interest is payable thirty years from the date of the promissory note, August 1, 2050. Subsequent to year-end, the SBA announced the deferment of loan payments from twelve months to twenty-four months from the date of the loan, which would be August 1, 2022. The Agency began payments on August 1, 2021, as per the original loan agreement.

*San Diego Foundation Non-Profit Loan Program (SDFNPLP)-2020* – In September 2020, the Agency obtained a $150,000 loan from the San Diego Foundation Non-Profit Loan Program administered by Mission Driven Finance at 0 percent interest to be repaid in 24 payments of $6,250 beginning in November 2020.

Notes payable consisted of the following at December 31:

| | 2022 | 2021 |
|---|---|---|
| Note payable to SBA through the EIDL program, due in 360 payments of $641 beginning August 2021 due in 30 years at 2.75 percent interest. | $ 149,745 | $ 150,000 |
| Note payable to Mission Driven Finance through the San Diego Foundation Non-Profit Loan Program, collateralized by business personal property and accounts receivable, due in twenty-four payments of $6,250 beginning November 2020 and monthly thereafter with a final payment due on October 2022 at 0 percent interest. | - | 62,500 |
| Unsecured note payable to Nonprofits Insurance Alliance of California, due in eight monthly payments of varying amounts of approximately $3,300 plus interest at 0 percent through August 2022. | - | 26,465 |
| Unsecured note payable to Nonprofits Insurance Alliance of California, due in eight monthly payments of varying amounts of approximately $3,500 plus interest at 0 percent through August 2023. | 23,259 | - |
| | 173,004 | 238,965 |
| Less: current portion | 26,878 | 96,657 |
| Debt, long-term | $ 146,126 | $ 142,308 |

Future maturities of notes payable are as follows:

| Years Ending December 31, | |
|---|---|
| 2023 | $ 30,951 |
| 2024 | 7,692 |
| 2025 | 7,692 |
| 2026 | 7,692 |
| 2027 | 7,692 |
| Thereafter | 111,285 |
| Total | $ 173,004 |

**Note 6 – Lease Agreements**

The Agency leases office space and equipment. The Agency determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and operating lease liabilities on the statements of financial position. ROU assets represent the Agency's right to use an underlying asset for the lease term and lease liabilities represent the Agency's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Agency used a risk-free rate based on the information available at commencement date or date of implementation to determine the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Agency has elected to apply the short-term lease exemption to one of its classes of underlying assets: office equipment. In 2022, the Agency had only a small number of leases within this class of underlying assets that qualify for the exemption. The short-term lease cost recognized and disclosed for those leases in 2022 is $8,881. The remaining lease payments due through 2027 are $27,581.

The Agency entered into a 10-year lease for new office space commencing in August 2015. The lease includes increases in the minimum lease payments based on a schedule contained in the lease and provided for $100,000 in tenant allowances, which the Agency had fully utilized by December 31, 2015. In September 2017, the Agency obtained a standby letter of credit in the amount of $36,517 in exchange for a reduction in the security deposit for its office space. The letter of credit is secured with a certificate of deposit in the amount of $40,887 and $40,846 at December 31, 2022 and 2021, respectively, which is shown as investments on the statements of financial position. As of December 31, 2022 and 2021, there were no draws on the letter of credit. Refer to Note 12 – Subsequent Events for further discussion.

Office rent totaled $113,052 for both years ended December 31, 2022 and 2021, under this lease. Additionally, certain equipment used in operations is leased under operating leases. Rental expenses under equipment leases were $8,881 and $8,683 for December 31, 2022 and 2021, respectively.

The following table provides supplemental information related to operating lease for the purpose of the measurement of lease liability at or for the year ended December 31:

| | 2022 |
|---|---|
| Operating lease ROU assets | $ 286,392 |
| Current portion of operating lease liability | $ 134,797 |
| Operating lease liability, net of current portion | 226,284 |
| Total operating lease liabilities | $ 361,081 |
| Weight-average remaining lease term (in years) | 2.58 |
| Weight-average discount rate | 1.23% |

The following table presents supplemental cash flow information related to the operating lease for the year ended December 31:

| | 2022 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | $ 133,667 |

Future minimum lease payments under the office lease are as follows:

| Years Ending December 31, | |
|---|---|
| 2023 | $ 138,345 |
| 2024 | 143,188 |
| 2025 | 85,207 |
| Total undiscounted cash flows | 366,740 |
| Less: present value discount | (5,659) |
| Total lease liabilities | $ 361,081 |

**Note 7 – Net Assets with Donor Restrictions**

As of December 31, 2022 and 2021, the Agency had net assets with the following restrictions:

| | 2022 | 2021 |
|---|---|---|
| Purpose | | |
| Springboard Grant | $ - | $ 820 |
| Growth initiatives | 10,922 | 10,922 |
| Tides Grant | 5,841 | - |
| Time restriction | - | 25,000 |
| Total net assets with donor restrictions | $ 16,763 | $ 36,742 |

During the year ended December 31, 2022, net assets were released from restrictions of $25,000 for the time restriction and $820 for the Springboard Grant. During the year ended December 31, 2021, net assets were released from restrictions of $25,000 for the time restriction, $15,176 for growth initiatives, and $680 for the Springboard Grant.

**Note 8 – Employee Benefits**

The Agency sponsors a tax-deferred annuity plan (the “Plan”) qualified under IRC Section 403(b) covering substantially all full-time employees. This plan was effective January 1, 2022, with elective deferrals effective August 1, 2022. The Plan provides that employees who work at least 20 hours a week are eligible and will auto-enroll after the first month of employment at 4 percent, unless they opt out of participating in the plan, up to the maximum contribution allowed by the Internal Revenue Service. Employer contributions are matched up to the first 2 percent of the employee’s contribution. Any additional employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. For the initial enrollment period the Agency offered an enrollment bonus of $500 to be made as a contribution to the Plan if the employee self-enrolled in the Plan. During the years ended December 31, 2022, employer contributions to the plan were approximately $23,500, of which $9,500 was the enrollment bonus.

**Note 9 – Special Event Revenue and Expenses**

The Agency traditionally holds its annual fundraising event in May to coincide with National Foster Care Month. As a result of the COVID-19 pandemic, the Agency did not hold its in-person fundraising event scheduled in 2021. As a result of restrictions being lifted, the Agency was able to resume its in-person fundraising event in October 2022. Historically, this event generates a little over half of the Agency’s philanthropic contributions. In 2021, the Agency conducted multiple online-digital fundraising campaigns in place of the annual fundraising event. Income earned from these campaigns was recognized as contribution revenue and not as special event revenue. Special event revenue was $268,851 and $0 for the years ended December 31, 2022 and 2021, respectively. Special event expenses were $97,378 and $0 for the years ended December 31, 2022 and 2021, respectively.

**Note 10 – Continuum of Care Reform / Resource Family Approval**

In 2017, the state of California implemented Continuum of Care Reform (CCR) which combined a series of existing plus new reforms focusing efforts on placing children in foster care with committed nurturing families. CCR greatly increased the regulatory requirements to approve a family to foster through the establishment of the Resource Family Approval (RFA) program. The California Department of Social Services Community Care Licensing division approved the Agency to operate under the new RFA program guidelines (Interim Licensing Regulations) in May 2017. RFA created a unified set of minimum standards and a common application and approval process for all caregivers (related and unrelated to the child). The Interim Licensing Regulations or ILS have been updated six times with version six issued on February 1, 2023. Each subsequent version has enhanced regulatory requirements to approve a resource family requiring more time and resources from the Agency. In 2022 and in response to the enhanced regulatory requirements, the Agency added the position of Director, Program Administration to ensure compliance due to the ever-expanding regulatory environment.

In addition, CCR and RFA require each FFA to become nationally accredited as a condition of continued licensure. The Agency received a three-year accreditation (the highest possible) from the Commission on Accreditation of Rehabilitation Facilities (CARF) in December 2018. The Agency’s CARF accreditation was renewed in December 2021 for another three-year period. The costs of accreditation were $8,506 and $6,269, respectively, and were prepaid over the applicable 3-year period to which it applied.

In May 2020, the Agency received its Intensive Services Foster Care (ISFC) certification approval from the California Department of Social Services (CDSS) Foster Care Rates Bureau. The ISFC program was established as part of the CCR implemented in 2017 to serve children who require intensive home-based/family setting services in support of their continued emotional, cognitive, and physical development. The ISFC program provides a higher level of rate reimbursement to the Agency and the Resource Family. The Agency received a restricted contribution in late 2019 to fund the costs of obtaining this certification and other growth initiatives.

**Note 11 – Liquidity**

The following reflects the Agency's financial assets as of the statement of financial position date, reduced by the amount not available for general use within one year of the statement of financial position date as of December 31, 2022 and 2021, because of contractual or donor-imposed restrictions or internal designations.

| | 2022 | 2021 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | $ 898,275 | $ 1,094,866 |
| Accounts receivable, net | 160,711 | 219,798 |
| Investments | 40,887 | 40,846 |
| Beneficial interest in assets held by Rancho Santa Fe Foundation | 882 | 3,501 |
| Contributions receivable | 36,926 | 152,084 |
| Total financial assets | 1,137,681 | 1,511,095 |
| Less: amounts not available to be used within one year | | |
| Investments – lease letter of credit | (40,887) | (40,846) |
| Restricted contributions | (16,763) | (11,742) |
| | (57,650) | (52,588) |
| Financial assets available to meet general expenditures within one year | $ 1,080,031 | $ 1,458,507 |

As part of the Agency's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Agency invests cash in excess of immediate requirements in interest bearing money market accounts, which are drawn as needed and replenished when excess funds are available.

## Note 12 – Subsequent Events

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The Agency recognizes in the financial statements the effects of all significant subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Agency's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Agency has evaluated subsequent events through June 28, 2023, which is the date the financial statements were available to be issued.

In January 2023, Silvergate Bank informed the Agency of discontinuance of several account / product types in use by the Agency. These account / product types included the Agency's primary operating and short-term savings accounts. In response, the Agency transferred funds to an existing account at another financial institution while also opening additional accounts at two other financial institutions to reduce its concentration of deposits. By March 31, 2023, all funds held at Silvergate Bank had been transferred to other FDIC insured financial institutions. Additionally, as discussed in Note 6 – Lease Agreements, Silvergate Bank previously held a standby letter of credit for the Agency in the amount of $36,517 and secured by a certificate of deposit in the amount of $40,887 held at Silvergate Bank. In March 2023, the Agency requested and received landlord's approval to remove the standby letter of credit lease requirement and subsequently redeemed the certificate of deposit.

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## Report of Independent Auditors 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*

The Board of Directors
Angels Foster Family Agency

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 Angels Foster Family Agency, which comprise the statements of financial position as of December 31, 2022, and the related notes to the financial statements, statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and have issued our report thereon dated June 28, 2023.

### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Angels Foster Family Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Angels Foster Family Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Angels Foster Family Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Angels Foster Family Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

Moss Adams LLP

San Diego, California
June 28, 2023