

**FAMILY SERVICE ASSOCIATION
OF REDLANDS**

FINANCIAL STATEMENTS
December 31, 2023 and 2022

FAMILY SERVICE ASSOCIATION OF REDLANDS

December 31, 2023 and 2022

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Family Service Association of Redlands
Redlands, California

Report on Audit of the Financial Statements

Opinion

We have audited the financial statements of Family Service Association of Redlands, which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Family Services Association of Redlands as of December 31, 2023, and the changes in its net assets and cash flows, and its functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 error or fraud, and to issue an auditors' 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 generally accepted auditing standards 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, since fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 generally accepted auditing standards and *Government Auditing Standards*, we are required to –

- 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 the Association’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 evaluating the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered individually and in the aggregate, that raise substantial doubt about the Association’s ability to continue as a going concern for a reasonable period of time.

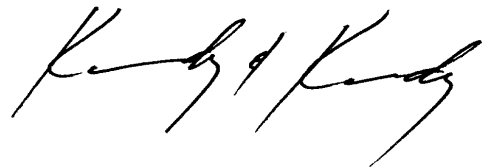
We are required to communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Association’s 2022 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated April 18, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 16, 2024, on our consideration of the Association’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



April 16, 2024
San Bernardino, California

FAMILY SERVICE ASSOCIATION OF REDLANDS

STATEMENTS OF FINANCIAL POSITION

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and Equivalents	\$ 285,843	\$ 490,328
Contract Receivables	136,387	37,667
Gift Cards on Hand	53,288	48,075
Prepaid Expenses	22,030	28,514
Total Current Assets	<u>497,548</u>	<u>604,584</u>
Property and Equipment		
Land	208,930	208,930
Building and Improvements	2,560,360	2,546,387
Fixtures and Equipment	343,170	293,038
Vehicle	4,966	4,966
Housing Project in Progress	46,951	46,951
Accumulated Depreciation	(1,962,046)	(1,878,472)
	<u>1,202,331</u>	<u>1,221,800</u>
Other Assets		
Investments	4,029,450	2,582,691
Real Estate Investment	-	293,000
	<u>4,029,450</u>	<u>2,875,691</u>
Total Assets	<u>\$ 5,729,329</u>	<u>\$ 4,702,075</u>

See Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF REDLANDS

STATEMENTS OF FINANCIAL POSITION

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 33,088	\$ 12,156
Accrued Vacation	27,581	21,657
Contract Liabilities	758,866	11,013
Total Current Liabilities	<u>819,535</u>	<u>44,826</u>
Net Assets		
Board Designated	1,206,827	1,044,462
Other Unrestricted Net Assets	1,642,775	1,916,235
Net Assets without Donor Restrictions	<u>2,849,602</u>	<u>2,960,697</u>
Net Assets with Donor Restrictions	2,060,192	1,696,552
Total Net Assets	<u>4,909,794</u>	<u>4,657,249</u>
Total Liabilities and Net Assets	<u>\$ 5,729,329</u>	<u>\$ 4,702,075</u>

See Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF REDLANDS

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2023
(Summarized Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Total 2022
Revenues				
Contributions	\$ 719,624	\$ 8,460	\$ 728,084	\$ 949,123
In-Kind Food Donations	313,772	-	313,772	213,212
Government Contracts	167,223	-	167,223	240,621
Rent Income	35,731	-	35,731	34,357
In-Kind Rent	12,000	-	12,000	12,000
Special Programs	-	10,263	10,263	6,597
	<u>1,248,350</u>	<u>18,723</u>	<u>1,267,073</u>	<u>1,455,910</u>
Other Gains and Losses				
Fundraising Revenue	458,559	-	458,559	377,717
Direct Event Costs	(120,652)	-	(120,652)	(75,008)
Net Fundraising	<u>337,907</u>	<u>-</u>	<u>337,907</u>	<u>302,709</u>
Gain on Real Estate Investment	-	328,760	328,760	-
Unrealized Gains (Losses)	164,901	131,087	295,988	(577,095)
Net Investment Earnings	134,852	-	134,852	88,503
Released from Restrictions	<u>114,930</u>	<u>(114,930)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>2,000,940</u>	<u>363,640</u>	<u>2,364,580</u>	<u>1,270,027</u>
Expenses				
Program Services				
Family Support	812,256	-	812,256	679,418
Housing Advocacy Program	897,812	-	897,812	856,366
Support Services				
Management and General	227,612	-	227,612	223,748
Fundraising	<u>174,355</u>	<u>-</u>	<u>174,355</u>	<u>83,239</u>
Total Expenses	<u>2,112,035</u>	<u>-</u>	<u>2,112,035</u>	<u>1,842,771</u>
Change in Net Assets	(111,095)	363,640	252,545	(572,744)
Net Assets - Beginning	<u>2,960,697</u>	<u>1,696,552</u>	<u>4,657,249</u>	<u>5,229,993</u>
Net Assets - Ending	<u>\$ 2,849,602</u>	<u>\$ 2,060,192</u>	<u>\$ 4,909,794</u>	<u>\$ 4,657,249</u>

See Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF REDLANDS

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Changes in Net Assets	\$ 252,545	\$ (572,744)
Noncash Items Included in Revenues and Expenses -		
Depreciation	83,574	86,485
Net Investment (Gains) Losses	(316,614)	575,489
Gain on Real Estate Investment	(328,760)	-
Donated Stock	-	(2,273)
Donated Furniture	-	(2,700)
Increase (Decrease) in Cash Resulting From Changes In:		
Contracts Receivable	(98,720)	(18,997)
Prepaid Expenses	1,271	13,765
Accounts Payable	20,932	1,710
Accrued Expenses	5,924	6,461
Contract Liabilities	747,853	10,593
Net Cash Provided by Operating Activities	368,005	97,789
Cash Flows From Investing Activities		
Purchase of Equipment & Improvements	(64,105)	(13,096)
Housing Project Costs	-	(5,691)
Proceeds from Sale of Real Estate Investment	624,025	-
Purchase of Investments	(1,569,960)	(349,046)
Proceeds from Sale of Investments	437,550	14,640
Net Cash (Used) by Investing Activities	(572,490)	(353,193)
Net (Decrease) in Cash	(204,485)	(255,404)
Cash and Equivalents - Beginning	490,328	745,732
Cash and Equivalents - Ending	\$ 285,843	\$ 490,328

Supplemental Cash Flow Information

No payments were made for interest or income taxes in either year.

See Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF REDLANDS

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2023

(Summarized Totals for 2022)

	Family Support	Housing Advocacy	Manage- ment and General	Fund Raising	Total 2023	Total 2022
Salaries and Wages	\$ 287,371	\$ 243,661	\$ 124,775	\$ 116,840	\$ 772,647	\$ 652,127
Employee Benefits	32,639	30,761	24,356	5,523	93,279	76,593
Payroll Taxes and Costs	26,113	22,357	10,707	9,932	69,109	57,555
Workers Comp Insurance	14,056	12,123	5,475	4,526	36,180	53,096
Total Salaries and Costs	360,179	308,902	165,313	136,821	971,215	839,371
Specific Assistance	11,105	436,648	-	-	447,753	429,520
In-Kind Food Donations	313,772	-	-	-	313,772	213,212
Direct Event Costs	-	-	-	120,652	120,652	75,008
Occupancy	42,249	55,539	6,264	-	104,052	84,751
Depreciation	39,280	41,787	2,507	-	83,574	86,485
Insurance	14,758	14,759	1,554	-	31,071	27,828
Miscellaneous	1,787	2,493	15,964	6,391	26,635	27,199
Supplies	8,165	11,894	3,817	551	24,427	20,505
Postage / Printing	727	742	577	21,682	23,728	19,557
Professional Fees	-	-	21,338	-	21,338	21,263
Outside Services	2,353	2,572	5,843	7,158	17,926	17,201
Telephone	5,368	9,027	565	-	14,960	14,525
Affordable Housing	-	9,718	-	-	9,718	16,674
Special Programs	9,509	-	-	-	9,509	10,131
Equipment Costs	3,004	3,060	1,407	1,752	9,223	11,732
Taxes / Licenses	-	671	2,463	-	3,134	2,817
	812,256	897,812	227,612	295,007	2,232,687	1,917,779
Direct Events Costs	-	-	-	(120,652)	(120,652)	(75,008)
Total Expenses 2023	\$ 812,256	\$ 897,812	\$ 227,612	\$ 174,355	\$ 2,112,035	
Total Expenses 2022	\$ 679,418	\$ 856,366	\$ 223,748	\$ 83,239		\$ 1,842,771

See Accompanying Notes to Financial Statements.

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OTHER MATTERS

Family Service Association of Redlands is a not-for-profit corporation organized in California in 1898. The Association is governed by a volunteer board of directors whose mission is to “alleviate poverty, encourage self-sufficiency, and promote the dignity of all people”. Comprehensive basic life services are provided to low-income and homeless families in need. The Association is exempt from tax liability under Section 501(c)(3) of the Internal Revenue Code and Section 23401d of the California Tax Code.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Contracts Receivable Valuation

Contracts receivable are described in Note 4 and are considered by management to be fully collectable.

Revenue Recognition

Contracts with Funding Agencies: GAAP requires that revenue from contracts with federal, state, and local funding agencies is recognized when qualifying costs are incurred for cost-reimbursement contracts or when units of service are provided for performance contracts.

The transaction price is stated in each contract and is satisfied over time, generally by monthly billings over the one-year contract period. The significant judgments required to apply the ASU involve 1) determining that a cost allowable under the contract has been incurred, and 2) determining that the cost relates to a period covered by the contract. Both of these performance obligations must be satisfied before the funding agency can be billed for reimbursement, and revenue is recognized when the funding agency is billed. Contract revenues are subject to audit and review by funding agencies, and in some cases, cost reimbursement may be disallowed.

Service Fees: The Organization recognizes service fee revenue in the period when the services are provided and when the amount and certainty of the fee can be determined.

Contributions: GAAP requires that information about financial position and activities be reported in two net asset classes: with donor restrictions and without donor restrictions. Net assets with donor restrictions may be either temporarily or permanently restricted. Contributions without donor restrictions are recognized when received. Contributions restricted by the donor are presented as increases in net assets with donor restrictions.

When temporary restrictions are satisfied, the restricted net assets are reclassified to net assets without donor restrictions and reported in the activity statement as net assets released from restrictions. When a restriction is satisfied in the same year the contribution is received, the contribution is reported as without donor restriction.

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For purposes of the statement of cash flows, the Association considers all temporary investments purchased with original maturities of three months or less to be cash equivalents.

Property, Equipment, and Depreciation

Property and equipment are presented at cost or donated value and are being depreciated by the straight-line method over the useful lives of 5-7 years for fixtures and equipment and 20-35 years for buildings and improvements. Generally, the Association capitalizes assets in excess of \$1,000.

Donated Services and Noncash Gifts

Many individuals have donated time and services to advance the Association's programs. When the value of donated items can be objectively measured, those amounts are recorded in the financial statements. When there is no objective method available to measure such value, no amounts are recorded in the statements. Information about donated products and services is included in Note 9.

Functional Expenses

The costs of providing the Association's programs and services have been summarized on a functional basis in the statement of functional expenses. Based on management estimates and an allocation plan, costs are allocated between programs and supporting services as they relate to those functions. The allocation of costs depends on the nature of the cost, the reason the cost is incurred, and the benefit received by each function.

Income Taxes

Since the Association is exempt from income taxes, no provision is made for current or deferred income tax expense. Annual information returns are filed with federal and state taxing agencies, and the accounting methods for such filings are the same as those used for financial reporting.

Fair Value Measurements

GAAP provides guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs – estimates using the best information available when there is little or no market

The Association is required to measure certain investments and noncash contributions at fair value in accordance with GAAP. The techniques used to measure the fair values of investments and noncash gifts are described in Note 3 and Note 9, respectively.

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets with Donor Restrictions

Net assets with temporary donor restrictions for special programs and capital improvements are described in Note 6. Permanently restricted endowment net assets are discussed in Note 7.

Summarized Prior Year Information

The financial statements include summarized comparative information from the prior year, which is not presented by net asset class and does not include sufficient detail to conform with GAAP. This information should be read in conjunction with the Association's financial statements for the year ended December 31, 2022, from which the comparative information was extracted.

Real Estate Investment

The investment in real estate has been carried at the donated value of \$285,000, plus improvements of \$8,000. The property was donated subject to a life interest in the real estate. Upon the death of the last resident, the property was available to be sold. The property was sold in July 2023 for \$645,000, resulting in a gain of \$328,760. Since the real estate was held as an endowment asset, the original amount of the gift of \$293,000 continues to be classified as permanently restricted. The gain resulting from the sale is classified as temporarily restricted until it is appropriated by the Board for expenditure.

Adoption of a Recently Issued Accounting Standards Update

In 2022, the Association adopted FASB Accounting Standards Update 2016-02, *Leases (Topic 842)*. This guidance requires the recognition of material lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. The guidance is effective for annual reporting periods beginning after December 15, 2021.

The Association has an immaterial lease for a copier discussed in Note 8. Since this lease is not material to financial position or operations, it has not been capitalized but is recorded as expense when payments are made.

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENTS

Investments consist of mutual funds, bond funds and cash listed below which are carried at fair value and are intended to provide income for the Association’s programs. The fair value of mutual funds and bond funds has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

A portion of investments is permanently restricted, and the remainder is a combination of temporarily restricted and unrestricted amounts. A portion of unrestricted investments have been designated by the Board to be used for capital improvements and emergency operating reserves. Gains on the sale of endowment investments are generally reinvested either in capital improvement or endowment funds.

<u>Investment</u>	<u>Cost or Donated Value</u>	<u>Quoted Prices in Active Markets</u>	<u>Unrealized Gains (Losses) 12/31/23</u>
<u>December 31, 2023</u>			
Cash	\$ 43,841	\$ 43,841	\$ -
Mutual Funds	3,487,446	3,735,539	248,093
Bond Funds	<u>250,000</u>	<u>250,070</u>	<u>70</u>
Total Investments	<u>\$ 3,781,287</u>	<u>\$ 4,029,450</u>	248,163
Unrealized Loss as of 12/31/2022			<u>(47,825)</u>
Unrealized Gain during 2023			<u>\$ 295,988</u>

Net Investment Earnings in 2023 comprise the following:

Realized Gain		\$ 20,626
Interest and Dividend Income		124,771
Investment Fees and Costs		<u>(10,545)</u>
Net Investment Earnings in 2023		<u>\$ 134,852</u>

December 31, 2022

Cash	\$ 103,225	\$ 103,225	\$ -
Mutual Funds	1,918,850	1,920,079	1,229
Bond Funds	<u>608,441</u>	<u>559,387</u>	<u>(49,054)</u>
Total Investments	<u>\$ 2,630,516</u>	<u>\$ 2,582,691</u>	\$ (47,825)
Unrealized Gain as of 12/31/2021			<u>529,270</u>
Unrealized Loss during 2022			<u>\$(577,095)</u>

Net Investment Earnings in 2022 comprises the following:

Realized Gain		\$ 1,606
Interest and Dividend Income		98,880
Investment Fees and Costs		<u>(11,983)</u>
Net Investment Earnings in 2022		<u>\$ 88,503</u>

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CONTRACT RECEIVABLES

Contract receivables consist of amounts due from governmental funding agencies. Beginning and ending balances are presented below. Revenues are recognized when billings are submitted to the funding agencies, which result in contract assets and the right to receive reimbursement. The Association’s policy is to charge off uncollectable accounts when management determines that amounts will not be collected.

	<u>2023</u>	<u>2022</u>
Homeless, Housing, Assistance and Prevention (State)	\$ 93,183	\$ -
Emergency Shelter Grant (Federal)	26,420	3,839
Community Development Block Grant (Federal)	15,004	27,318
Emergency Food and Shelter Program (Federal)	-	6,510
Other	<u>1,780</u>	<u>-</u>
Total Contracts Receivable	<u>\$ 136,387</u>	<u>\$ 37,667</u>

NOTE 5 – CONTRACT LIABILITIES

Contract liabilities consist of amounts received from governmental funding agencies before performance obligations have been satisfied on contracts. These deferred payments from the City of Redlands, City of Yucaipa, and FEMA are recognized as revenues in the subsequent year as the performance obligations are satisfied.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

<u>Temporarily Restricted Net Assets</u>	<u>12/31/22</u>	<u>Revenues</u>	<u>Expenses</u>	<u>12/31/23</u>
Unappropriated Endowment Earnings	\$ 462,351	\$ 459,847	\$ -	\$ 922,198
San Manuel	65,146	-	65,146	-
Kaiser Permanente	20,275	-	20,275	-
Bill Lindsey	20,000	-	20,000	-
Good Samaritan	14,775	-	1,398	13,377
Redlands Breakfast Club	-	6,960	-	6,960
Bob’s Discount Furniture	-	1,500	-	1,500
Other Special Programs	<u>16,840</u>	<u>10,263</u>	<u>8,111</u>	<u>18,992</u>
Totals – Temporarily Restricted	599,387	478,570	114,930	963,027
Permanently Restricted Endowment (Note 7)	<u>1,097,165</u>	<u>-</u>	<u>-</u>	<u>1,097,165</u>
Total Net Assets with Donor Restrictions	<u>\$ 1,696,552</u>	<u>\$ 478,570</u>	<u>\$ 114,930</u>	<u>\$ 2,060,192</u>

Net assets released from restriction in 2023 consisted of San Manuel, Bill Lindsey, Kaiser Permanente and Other Special Programs where purpose restrictions were satisfied in the total amount of \$114,930.

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – PERMANENTLY RESTRICTED ENDOWMENTS

In accordance with California state law (UPMIFA), the Association has classified as permanently restricted the fair value of donations restricted by donors to be held as endowments in perpetuity. The finance committee has interpreted the state law as requiring preservation of the fair value of the original endowment gift, as of the gift date, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted the original value of gifts made to the permanent endowment.

Any unappropriated earnings in the permanently restricted endowment fund are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board. At the current reporting date, the Association has unappropriated earnings on endowments of \$593,438, which are included in net assets with donor restrictions. From time to time, the fair value of endowment assets may, due to market fluctuations, fall below the level that donors required to be retained as a fund of perpetual duration. In accordance with GAAP, declines of this nature are reported as losses in unrestricted net assets. As values recover, the increases are reported as unrestricted gains. At the reporting dates, the Association had no such declines in value.

The Association has adopted investment and spending policies to provide a predictable stream of revenues for operating activities and to preserve the purchasing power of the endowment assets. Under these policies, endowment assets are invested to produce a return that is expected to meet or exceed the rate of inflation as measured by the Consumer Price Index. Actual results during any period may vary from these expectations.

The Association relies on a total return strategy which allows the earnings objective to be achieved through both capital appreciation and current yield. This strategy involves a diversified asset allocation that provides a balance among equity investments. The Association’s spending policy was established considering the long-term expected return on assets and the long-term growth of the asset.

Permanently restricted endowments consist of the following assets:

	<u>2023</u>	<u>2022</u>
Mutual Funds	\$ 1,097,165	\$ 804,165
Real Estate Investment	-	293,000
Total	<u>\$ 1,097,165</u>	<u>\$ 1,097,165</u>

NOTE 8 – OPERATING LEASE AGREEMENT

In December 2022, the Association entered into an operating lease agreement with Xerox to acquire a copy machine. The lease expires in March 2028 with monthly payments of \$198. Due to the immaterial nature of the lease, it has not been recorded as a leased asset and liability. Future minimum obligations under this lease are:

December 31,	
2024	\$ 2,376
2025	2,376
2026	2,376
2027	2,376
2028	<u>594</u>
Total Future Obligations	<u>\$ 10,098</u>

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – CONTRIBUTED GOODS AND SERVICES

Certain noncash contributions are recorded in these financial statements because an objective basis was available for measuring their values. These noncash contributions were valued on a nonrecurring basis and included donated business services with a fair value of \$5,892 (Level 2 inputs), donated rent with a fair value of \$12,000 (Level 2 inputs), and 163,423 pounds of donated food valued at \$313,772 (Level 2 inputs).

The contributed products and services described below have not been recorded because an objective basis for estimating the value of these gifts was not available. Most of the Association’s clients work directly with a case manager who is a paid staff member, and many of the Association’s programs are run largely by volunteers. 15,620 volunteer hours were contributed in 2023.

In addition to the contributed volunteer services, these programs rely largely on donated food products and other goods. The Association maintains records of donated food products and estimates the volume and value of these items. Perishable food products, including fruits, vegetables, and bread are considered surplus food. The following is a summary of the receipt and distribution of donated food products and holiday gifts not recorded in the financial statements:

	<u>Estimated Value</u>
Holiday gifts to hundreds of children and families, including toys for children, food boxes to families, and a Christmas party for client families at the Housing Advocacy facility.	\$ 196,000
Support services for the Family Support and Housing Advocacy programs include 16,431 meals served.	<u>133,000</u>
Total estimated value of unrecorded donated food and holiday gifts distributed	<u>\$ 329,000</u>

NOTE 10 – RELATED PARTY TRANSACTIONS

The Association has a conflict-of-interest policy that governs transactions with related parties. Management may engage in such transactions when they are at least equivalent to similar transactions with an unrelated party. During the reporting periods, the Association engaged in a transactions with a companies related to board members and conducted the transactions in accordance with this policy.

Two board members were real estate agents on the sale of the Kimberly Place house. Both opted not to receive a commission on the sale. A board member is a Principal of the Association’s investment company. He receives no fee for investment transactions or holdings.

NOTE 11 – RETIREMENT PLAN

In 2021, the Association began a Simple IRA Retirement Plan covering employees who have earned \$5,000 or more in wages in each year. Plan contributions include voluntary employee contributions and employer matching contributions. In the reporting periods, the Association matched voluntary employee contributions up to 3% of employee compensation, which amounted to \$13,655 in 2023 and \$10,819 in 2022.

FAMILY SERVICE ASSOCIATION OF REDLANDS

NOTES TO FINANCIAL STATEMENTS

NOTE 12 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Family Service Association of Redlands receives substantial support from restricted contributions. Because donor restrictions require that resources be used in a specified manner or for a specified purpose, the Association must maintain sufficient resources to meet those donor commitments. A total of \$2,060,192 of cash and investments must be held to meet the commitments included in net assets with donor restrictions. These funds are not available for general expenditures in future periods.

Family Service Association of Redlands has the following financial assets available to meet cash needs for general expenditures, liabilities, and other obligations during the next year:

Cash	\$ 285,843
Contracts Receivable	136,387
Investments	4,029,450
Restricted Cash and Investments	<u>(2,060,192)</u>
Net Financial Assets Available	<u>\$ 2,391,488</u>

The Organization’s liquidity management includes a policy to structure its financial assets to be available for general expenditures as they come due.

NOTE 13 – HOUSING PROJECT IN PROGRESS

The Association was in the development phase of building eleven small homes that would have been located on the property in Redlands. The purpose of the project was to provide longer term affordable housing options for households with children under 18 and the elderly disabled population on fixed incomes.

Due to challenges in funding and the location, the Association has halted this specific project.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 16, 2024, the date when the financial statements were available to be issued.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Family Service Association of Redlands
Redlands, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, the financial statements of Family Service Association of Redlands (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 16, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 significant deficiencies or material weaknesses. 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.

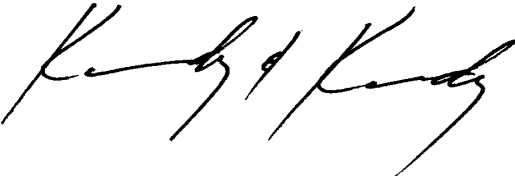
Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of 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 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 Association’s internal control over compliance.

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kendy & Kendy".

April 16, 2024
San Bernardino, California