



CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2022

FOSTER ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2022

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**Audit, Tax, Management Advisory,
Forensic and Internal Control Consulting**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of **Foster Arizona**:

Opinion

I have audited the accompanying consolidated financial statements of Foster Arizona (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expense and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively "the financial statements").

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foster Arizona as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Foster Arizona adopted the new accounting standards as required by FASB Accounting Standard Update (ASU) No. 2016-02, *Leases (Topic 842)* and by FASB ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* and other applicable FASB ASUs related to Topic 842 and also adopted FASB ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. My opinion is not modified with respect to these matters.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Foster Arizona and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 Foster Arizona's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 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, 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, I:

- 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 Foster Arizona'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Foster Arizona's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of financial position on page 19, and the consolidating schedule of activities on page 20 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gregory Michael Coy, CPA, PLLC

Gregory Michael Coy, CPA, PLLC
Phoenix, AZ

May 1, 2023

FOSTER ARIZONA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS

	<u>2022</u>
ASSETS	
Cash	\$ 458,002
Accounts receivable, net	4,008
Prepaid expenses and other assets	<u>12,748</u>
Total Current Assets	474,758
PROPERTY AND EQUIPMENT, net	<u>1,378,195</u>
 TOTAL ASSETS	 <u>\$ 1,852,953</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable	\$ 56,303
Accrued expenses	5,504
Long-term debt, current portion	<u>26,700</u>
Total Current Liabilities	88,507
LONG-TERM DEBT, net of current portion	<u>476,984</u>
 TOTAL LIABILITIES	 565,491
NET ASSETS	
Net assets without donor restrictions	1,266,915
Net assets with donor restrictions	<u>20,547</u>
 TOTAL NET ASSETS	 <u>1,287,462</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,852,953</u>

FOSTER ARIZONA

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2022
SUPPORT AND REVENUE			
Contributions	\$ 862,302	\$ 95,655	\$ 957,957
Donated materials and supplies	81,168	-	81,168
Donated securities	79,546	-	79,546
Participant fees and registrations	69,629	-	69,629
Gain (loss) on sale of property	30,150	-	30,150
Donated rent	15,697	-	15,697
Donated services	12,785	-	12,785
Donated property and equipment	13,000	-	13,000
Rental income	2,770	-	2,770
Merchandise sales	495	-	495
Gain (loss) on sale of donated securities	(93)	-	(93)
Other income	4,703	-	4,703
Support and revenue before special events	1,172,152	95,655	1,267,807
Special event revenue:			
Special event income	68,113	-	68,113
Direct donor benefits	(33,699)	-	(33,699)
Donated auction items	42,675	-	42,675
Gain (loss) on auction	(30,841)	-	(30,841)
Net special event revenue	46,248	-	46,248
Net assets released from restrictions	94,417	(94,417)	-
TOTAL SUPPORT AND REVENUE	1,312,817	1,238	1,314,055
EXPENSES			
Program services	491,666	-	491,666
Supporting services:			
Management and general	45,276	-	45,276
Fundraising	63,208	-	63,208
Total supporting services	108,484	-	108,484
TOTAL EXPENSES	600,150	-	600,150
CHANGE IN NET ASSETS	712,667	1,238	713,905
NET ASSETS, BEGINNING OF YEAR	554,248	19,309	573,557
NET ASSETS, END OF YEAR	\$ 1,266,915	\$ 20,547	\$ 1,287,462

FOSTER ARIZONA

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE

For the year ended December 31, 2022

	Supporting Services			Total Supporting Services	Total Expenses
	Program Services	Management and General	Fundraising		2022
Salaries and wages	\$ 91,765	\$ 22,869	\$ 10,431	\$ 33,300	\$ 125,065
Payroll taxes and benefits	7,776	1,938	884	2,822	10,598
Program costs	156,453	-	-	-	156,453
Contract labor	12,562	1,759	41,400	43,159	55,721
Repairs and maintenance	28,893	-	-	-	28,893
Depreciation	30,169	-	-	-	30,169
Bad debt	6,442	-	-	-	6,442
Podcast	2,443	-	-	-	2,443
Utilities	25,605	-	-	-	25,605
Interest	49,483	-	-	-	49,483
Software maintenance	8,630	2,151	981	3,132	11,762
Insurance	9,186	510	510	1,020	10,206
Telephone and communications	9,451	2,355	1,074	3,429	12,880
Bank charges and merchant fees	4,591	1,144	522	1,666	6,257
Professional fees	11,148	7,394	1,140	8,534	19,682
Travel and auto	2,421	603	275	878	3,299
Donated rent	15,697	-	-	-	15,697
Small equipment	3,857	961	438	1,399	5,256
Materials and supplies	2,563	2,028	178	2,206	4,769
Training	5,636	-	-	-	5,636
Donor relations and volunteer appreciation	-	-	5,215	5,215	5,215
Film and video editing	3,446	-	-	-	3,446
Background checks	2,049	-	-	-	2,049
Postage and printing	427	106	49	155	582
Dues, subscriptions and licenses	825	206	94	300	1,125
Meals and entertainment	148	38	17	55	203
Other	-	1,214	-	1,214	1,214
	<u>\$ 491,666</u>	<u>\$ 45,276</u>	<u>\$ 63,208</u>	<u>\$ 108,484</u>	<u>\$ 600,150</u>

FOSTER ARIZONA

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 713,905
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Donated property and equipment	(13,000)
(Gain) loss on sale of property	(30,150)
Donated securities	(79,546)
(Gain) loss on donated securities	93
Depreciation expense	30,169
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	19,309
Contributions receivable	(4,008)
Prepaid expenses and other assets	(9,127)
Increase (decrease) in:	
Accounts payable	54,303
Accrued expense	279
Net cash provided by (used in) operating activities	<u>682,227</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of donated securities	79,453
Proceeds from sale of property	36,933
Purchases of property and equipment	<u>(265,051)</u>
Net cash used in investing activities	<u>(148,665)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Accrued interest added to debt principal	8,948
Payments on long-term debt	<u>(273,125)</u>
Net cash provided by (used in) investing activities	<u>(264,177)</u>
NET CHANGE IN CASH	269,385
CASH, BEGINNING OF YEAR	<u>188,617</u>
CASH, END OF YEAR	<u>\$ 458,002</u>
SUPPLEMENTAL DISCLOSURES:	
Cash paid for interest	<u>\$ 47,385</u>
Cash paid for income taxes	<u>\$ -</u>
Non-cash financing and investing activities:	
Donated property and equipment	<u>\$ 13,000</u>
Donated securities	<u>\$ 79,546</u>

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(1) Organization purpose and summary of significant accounting policies

Organization purpose – Foster Arizona is a not-for-profit corporation incorporated in September 2013, and operating in the State of Arizona. Foster Arizona’s mission is to educate, empower, and engage foster and at-risk youth, families, and the community to offer hope through connections. Foster Arizona’s support is generated primarily from contributions and grants.

Foster Arizona Housing Project is a not-for-profit corporation incorporated in April 2018, and operating in the State of Arizona. Foster Arizona Housing Project’s mission is to educate, empower, and engage foster and at-risk youth and the community to offer hope through connections. Foster Arizona Housing Project’s support is generated primarily from contributions and grants and from participant fees paid by participants in the program.

Consolidated financial statements – The accompanying consolidated financial statements (collectively “the financial statements”), include the accounts of Foster Arizona and Foster Arizona Housing Project (collectively referred to as the “Organization”). The financial statements are consolidated as a result of the fact that Foster Arizona has both an economic interest in and control of Foster Arizona Housing Project. Intercompany transactions consist primarily of rental revenue paid or due to Foster Arizona from Foster Arizona Housing Project. All significant intercompany accounts and transactions have been eliminated in consolidation.

The significant accounting policies followed by the Organization are as follows:

Basis of accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other assets and liabilities.

Basis of presentation - The financial statement presentation reports information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.
- *Net Assets With Donor Restrictions* – Assets subject to usage limitations based on donor imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization. Certain restrictions may need to be maintained in perpetuity. At December 31, 2022, the Organization had no restrictions required to be maintained in perpetuity.

COVID-19 pandemic - At the time of this report’s release, citizens and the economies of the United States and other countries have been impacted by the coronavirus (COVID-19) pandemic. The World Health Organization declared a Public Health Emergency on January 30, 2020. The evolution of the virus, the extent of its economic impact and the results of steps taken and yet to be taken by governments and financial institutions are unknown. Governments, businesses and non-profit organizations have faced supply chain disruptions, labor shortages, revenue declines, an increase in bad debts, reduced cash flow, difficulties meeting loan covenants, goodwill and inventory impairment, credit difficulties, and other financial implications. Furthermore, the financial markets have experienced significant levels of volatility as a result of the pandemic. The significance and the duration of the pandemic’s financial impact are indeterminable.

Cash - Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at financial institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains cash balances at financial institutions which may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC), and therefore, the Organization is at risk of loss of these funds should the financial institution become insolvent.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(1) Organization purpose and summary of significant accounting policies (continued)

Accounts receivable – Accounts receivable consist primarily of exchange transaction revenue or other amounts due within one year. The Organization, at times, grants credit without collateral to its funders and others. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Although the Organization does not require collateral on its accounts receivable, credit risk with respect to accounts receivable is limited due to the fact that accounts receivable are not significant in amount at December 31, 2022. At December 31, 2022, all accounts receivable are due in less than one year and management considers contributions receivable to be fully collectible and, therefore, an allowance for uncollectible accounts receivable has not been provided.

Contributions receivable - Unconditional promises to give (contributions receivable) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At December 31, 2022, the Organization did not have any outstanding contributions receivable.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost and donated property and equipment is recorded at fair value at the date of the gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$5,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Building and facilities	10 to 30 years
Building improvements	7 years

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for 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 restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Contributions and grants - Contributions received are recorded as support with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions or without donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions on unconditional contributions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(1) Organization purpose and summary of significant accounting policies (continued)

Conditional contributions – Conditional contributions contain a donor-imposed condition that represents a barrier that must be overcome before the Organization is entitled to the assets transferred or promised. Failure to overcome the barrier gives the donor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. Conditional contributions are recognized as support, either with or without donor restrictions, when donor-imposed conditions are substantially met (i.e., barriers are overcome). Restrictions on conditional contributions that are met in the same reporting period as the revenue is recognized are reported in the statement of activities as support within net assets without donor restrictions

Special events revenue – The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the accompanying consolidated statement of changes in net assets. All proceeds received in excess of the direct costs are recorded as special events contributions in the accompanying statement of activities.

Exchange transaction revenue recognition - Exchange transaction revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Organization recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Since the amortization period for any incremental costs of obtaining any contract is one year or less, the Organization has elected the practical expedient under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-65-1.

The Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-10-4 for applying the revenue standard to a portfolio of contracts with similar characteristics. The Organization accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics within each portfolio. Based on historical collection trends and other analysis, management has concluded that revenue for each portfolio type would not be materially different than if accounting for revenue on a contract-by-contract basis. Exchange transaction revenue is included in service revenue on the accompanying statement of activities and consists of the following:

- *Participant fees* – The Organization charges participants in its housing programs a monthly fee to participate in the program. In exchange for the fee, the Organization provides the participant with housing, housing supplies, and other program services. The transaction price is based upon a predetermined monthly amount as stated in the participant agreement. The participant agreement operates on a month-to-month basis and the performance obligations are satisfied and fees are recognized on a monthly basis. Because the performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the exemption provided under FASB ASC 606-10-50-14(a), and is not required to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The Organization did not have any unsatisfied or partially satisfied performance obligations, or any contract assets or liabilities, related to participant fees at December 31, 2022. Since the period of time between the service being provided and the time that the services are paid is typically one year or less, the Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-32-18 for any financing component. Total revenue from participant fees recognized for the year ended December 31, 2022 is \$69,605.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(1) Organization purpose and summary of significant accounting policies (continued)

- *Registration fees* – The Organization, at times, charges fees to individuals for attendance at its Kids Connection events. For the year ended December 31, 2022, the Organization did not recognize any fee for service revenue. The transaction price is based upon a predetermined amount determined prior to the date of the event. The performance obligations are satisfied and fees are recognized as revenue on the date of the event. Because the performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the exemption provided the FASB ASC 606-10-50-14(a), and is not required to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The Organization did not have any unsatisfied or partially satisfied performance obligations, or any contract assets or liabilities, related to registration fees at December 31, 2022. Since the period of time between the service being provided and the time that the services are paid is typically one year or less, the Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-32-18 for any financing component. Total revenue from registration fees recognized for the year ended December 31, 2022 is \$24.
- *Merchandise sales* – The Organization, at times, sells merchandise to the public. Performance obligations for merchandise sales are satisfied at the point in time that each sale is completed. The transaction price for the merchandise sales is based upon a predetermined retail price for each item. Because the performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the exemption provided the FASB ASC 606-10-50-14(a), and is not required to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The Organization did not have any unsatisfied or partially satisfied performance obligations, or any contract assets or liabilities, related to registration fees at December 31, 2022. Since the period of time between the service being provided and the time that the services are paid is typically one year or less, the Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-32-18 for any financing component.

Accounts receivable consist of participant fees receivable. The beginning balance of accounts receivable is zero and the ending balance is \$4,008 at December 31, 2022.

Functional allocation of expenses - The costs of providing programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the program and supporting services benefited based on management's estimate of time and/or resources devoted to each activity.

Income tax status – Both Foster Arizona and Foster Arizona Housing Project are organized as Arizona non-profit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) and have been determined not to be a private foundations under Sections 509(a)(2) and 170(b)(1)(A)(vi). Accordingly, contributions to Foster Arizona and Foster Arizona Housing Project qualify for the charitable contribution deduction under Section 170. Foster Arizona and Foster Arizona Housing Project are both annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that Foster Arizona recognized certain unrelated rental income from debt financed property that may be subject to income tax. Management believes that the direct and allocated indirect expenses related to this rental activity and that would qualify as income tax deductions, exceeds the amount of revenue recognized. Thus, management believes that no net taxable unrelated business income related to the Organization's activities exists for the year ended December 31, 2022. However, the Organization will assess the need to file the Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent, Form 99-T for Foster Arizona for the year ended December 31, 2022.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(1) Organization purpose and summary of significant accounting policies (continued)

The tax years ended 2019, 2020, and 2021 are still open to audit for both federal and state purposes. Management believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Fair value measurements – The Organization utilizes a valuation framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value measurements. The Organization measures fair value based on a three-level hierarchy of inputs, of which the first two are considered observable and the last unobservable. For the year ended December 31, 2022, the Organization did not have any assets or liabilities subject to fair value measurement other than at initial recognition.

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of *Accounting for the Impairment of Long-Lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no long-lived assets have any impairment of value.

Use of 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. Due to their prospective nature, actual results could differ from those estimates.

Subsequent events - The Organization evaluated subsequent events after the statement of financial position date of December 31, 2022 through May 1, 2023, which was the date the Organization's financial statements were available to be issued. No conditions, other than those described below, were noted which did not exist as of December 31, 2022, but arose subsequent to that date.

- During March 2023, the Organization launched Phase 1 of the Foster Cooperative online community and approximately \$17,000 was incurred related to Phase 2 of the project during 2023.
- Foster Arizona incurred costs of approximately \$55,000, during 2023, related to construction costs for an apartment building to be built on property owned by Foster Arizona. The apartments are to be used as a program housing facility. The estimated total costs of construction for this project are approximately \$5,000,000.

(2) Adoption of accounting pronouncements

In September 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new standard is effective for the Organization January 1, 2022. Since the standard only modifies and increases the presentation and disclosure requirements for donated items (also known as Contributed Nonfinancial Assets), the adoption of this standard had no cumulative effect on net assets or the changes in net assets as compared with the previous guidance. The Organization expects the impact of the adoption of the new standard to be immaterial to changes in net assets on an ongoing basis. Adoption of the new standard did not result in any restatements or reclassifications to total net assets or changes in net assets.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(2) Adoption of accounting pronouncements (continued)

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires recognition of rights and obligations from lease contracts longer than one year as assets and liabilities on the balance sheet. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides for transition relief on comparative reporting at adoption of Topic 842 (also known as “ASC 842”). The FASB has also issued various other pronouncements related to ASC 842. These new standards are effective for the Organization January 1, 2022. The Organization did not have any operating or finance leases during the year ended December 31, 2022. Accordingly, the adoption of these standards had no cumulative effect on beginning net assets at January 1, 2022. The Organization expects the impact of the adoption of the new standard to be immaterial to changes in net assets on an ongoing basis.

(3) Liquidity and availability of financial assets

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash & cash equivalents, marketable investment securities, accounts receivable and unrestricted contributions receivable. The Organization structures its financial assets to be available to meet general expenditures, liabilities and other obligations as they come due. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization prepares and operates within an annual budget.

Financial assets available to meet general expenditures within one year:

	2022	2021
Cash	\$ 458,002	\$ 188,617
Contributions receivable due in the next 12 months	4,008	19,309
	462,010	207,926
Donor imposed restrictions	(20,547)	(19,309)
Financial assets available to meet general expenditures within one year	\$ 441,463	\$ 188,617

(4) Property and equipment

Cost or donated value:

Land	\$ 251,717
Land improvements	11,000
Building and facilities	857,400
Building improvements	5,500
Foster Cooperative online community project in progress	73,450
Construction in progress	256,101
Total cost or donated value	1,455,168
Accumulated depreciation	(76,973)
Net property and equipment	\$ 1,378,195

Depreciation expense charged to operations was \$30,169 for 2022. During the year ended December 31, 2022, Foster Arizona sold an easement on property owned by Foster Arizona to the City of Mesa for \$36,933 and recognized a gain on the sale of the easement in the amount of \$30,150.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(5) Long-term debt

Long-term debt consists of:

Note payable to a related party board member, dated December 29, 2021, and secured by a deed of trust on real property. Payable in monthly payments of \$1,771 and an annual interest rate of 5%, beginning February 1, 2022. Interest accrues on the outstanding note balance from December 30, 2021, and accrued interest is added to the principal balance of the note. Accrued interest is to be paid in full prior to any monthly payment amount being applied to the outstanding principal balance. During the year ended December 31, 2022, a total of \$4,474 was added to the note principal. Outstanding principal and accrued interest due by December 30, 2021.

2022

\$ 251,842

Note payable to a related party board member, dated December 29, 2021, and secured by a deed of trust on real property. Payable in monthly payments of \$1,771 and an annual interest rate of 5%, beginning February 1, 2022. Interest accrues on the outstanding note balance from December 30, 2021, and accrued interest is added to the principal balance of the note. Accrued interest is to be paid in full prior to any monthly payment amount being applied to the outstanding principal balance. During the year ended December 31, 2022, a total of \$4,474 was added to the note principal. Outstanding principal and accrued interest due by December 30, 2021.

251,842

Total Net Long-Term Debt
Less: Current Maturities

503,684
(26,700)

Noncurrent Maturities

\$ 476,984

Future maturities of long-term debt are as follows:

Years ended December 31,

2023	\$	26,700
2024		19,084
2025		20,060
2026		21,086
2027		22,166
Thereafter		<u>394,588</u>

Total annual maturities of long-term debt

\$ 503,684

(6) Net assets with donor restrictions and release of restrictions

Net assets with donor restrictions consist of the following:

Purpose restrictions:

Program supplies
First night essentials
School supplies

2022

\$ 17,778
2,391
378

Total net assets with donor restrictions

\$ 20,547

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(6) Net assets with donor restrictions and release of restrictions

Net assets released from donor restrictions consist of the following:

	2022
Purpose restrictions:	
Foster Arizona housing program	\$ 44,140
Joy boxes	10,200
School supplies	6,622
Community outings	5,000
First night essentials	2,610
Normalization events	2,500
Program supplies	2,221
Participant support	1,815
Time restrictions:	
Contributions receivable	19,309
Total net assets released from restrictions	\$ 94,417

(7) Related party transactions

From time to time, members of the board of directors and senior management of the Organization provide cash contributions to the Organization. Cash contributions from board members and senior management totaled \$57,776 for the year ended December 31, 2022.

Notes payable with outstanding amounts at December 31, 2022 of \$251,842 is due and payable to the Co-chair of the board of directors of the Organization.

A note payable with an outstanding amount at December 31, 2022 of \$251,842 is due and payable to a member of the board of directors of the Organization, who is also a close relative of the Executive Director.

Donated construction services with an estimated fair value of \$7,500, were provided by a member of the board or directors, who is also a close relative of Executive Director. These services are related to an ongoing apartment construction project and are capitalized as construction in progress.

Donated graphic design and photography services with an estimated fair value of \$11,426, were provided by a close relative of the Executive Director.

Donated accounting services with an estimated fair value of \$1,359, were provided by the Treasurer of the Organization.

(8) Contributed nonfinancial assets

Donated rent and facilities, material, supplies, securities and services (also known as contributed nonfinancial assets) are recorded at their estimated values if they enhance the Organization's nonfinancial assets or require specialized skills that the Organization would normally purchase, if not provided by donation.

Donated marketable securities are valued at the estimated fair value, as determined by the closing price on publicly traded markets, of like or similar securities. Donated securities are sold shortly after they are received and any resulting gain or loss on the sale of these securities is recognized in the accompanying statement of activities.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(8) Contributed nonfinancial assets (continued)

Volunteers donate a significant amount of time to the Organization's program services. No amounts have been reflected in the financial statements for these other volunteer services, since they did not meet the recognition requirements under generally accepted accounting standards. The monetary value of in-kind services contributed volunteer hours as follows is calculated at the estimated hourly rate for calendar year 2022 for Arizona of \$30.13, as published in the Economic Report of the President as reported by the *Independent Sector*. For the year ended December 31, 2022, the Organization received a total of 1,405 hours of volunteer services with an estimated value of \$43,329.

Support from contributed nonfinancial assets for the year ended December 31, 2022 are as follows:

	<u>Revenue Recognized</u>	<u>Utilization in Programs/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Equity securities	\$ 79,546	Monetized shortly after the equity shares are received	No associated donor restrictions	Contributed equity securities are valued at the market value, as determined by the closing price on publicly traded markets, of a like number of equity shares for the same issuer.
Clothing	\$ 34,803	Utilized for program activities	No associated donor restrictions	Contributed clothing is valued at the estimated retail values that would be received from selling similar products in the United States.
Participant supplies and support items	\$ 23,496	Utilized for program activities	No associated donor restrictions	Contributed participant supplies and support items are valued at the estimated retail values that would be received from selling similar products in the United States.
Computers, software and other technology	\$ 21,492	Utilized for program and management & general activities	No associated donor restrictions	Contributed computers, software and other technology are valued at the estimated retail values that would be received from selling similar products in the United States.
Rent	\$ 15,697	Utilized for program activities	No associated donor restrictions	Contributed rent is valued on an estimated square footage basis using an estimated rental rate per square foot which is compared for reasonableness to the "Colliers 4th quarter 2022 Greater Phoenix" rent survey rates for similar location and class of property.
Gift packages	\$ 14,042	Monetized during special event auction	No associated donor restrictions	Contributed gift packages are valued at the estimated retail values that would be received from selling similar products or services in the United States.
Graphic design services	\$ 11,426	Utilized for program, fundraising and management & general activities	No associated donor restrictions	Contributed graphic design services are valued at the estimated fair value based upon current rates for similar services.
Hotel lodging	\$ 9,279	Monetized during special event auction	No associated donor restrictions	Contributed hotel lodging is valued at the estimated room rates that would be received from selling similar hotel accommodations at the same location.
Contractor services	\$ 7,500	Capitalized as construction in progress	No associated donor restrictions	Contributed contractor services are valued at the estimated fair value based upon current rates for similar services.
Building improvements	\$ 5,500	Capitalized as building improvements	No associated donor restrictions	Contributed building improvements are valued at the estimated retail values that would be received from selling similar products or services in the United States.

FOSTER ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

(8) Contributed nonfinancial assets (continued)

	<u>Revenue Recognized</u>	<u>Utilization in Programs/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Flowers and plants	\$ 4,000	Monetized during special event auction	No associated donor restrictions	Contributed flowers and plants are valued at the estimated retail values that would be received from selling similar products or services in the United States.
Tickets	\$ 3,125	Monetized during special event auction	No associated donor restrictions	Contributed tickets are valued at the face values of the respective ticket.
Artwork and memorabilia	\$ 2,799	Monetized during special event auction	No associated donor restrictions	Contributed artwork and memorabilia is valued at the estimated retail values that would be received from selling similar artwork in the United States.
Airfare	\$ 2,500	Monetized during special event auction	No associated donor restrictions	Contributed airfare is valued at the retail face value of the contributed airline tickets.
Jewelry	\$ 2,400	Monetized during special event auction	No associated donor restrictions	Contributed jewelry is valued at the estimated retail values that would be received from selling similar products or services in the United States.
Gift certificates	\$ 2,290	Monetized during special event auction	No associated donor restrictions	Contributed gift certificates are valued at the face values of the respective gift certificate.
Furniture	\$ 1,867	Monetized during special event auction	No associated donor restrictions	Contributed furniture is valued at the estimated retail values that would be received from selling similar products or services in the United States.
Accounting services	\$ 1,359	Utilized for management & general activities	No associated donor restrictions	Contributed accounting services are valued at the estimated fair value based upon current rates for similar services.
Food and beverages	\$ 1,088	Monetized during special event auction	No associated donor restrictions	Contributed food and beverages are valued at the estimated retail values that would be received from selling similar products in the United States.
Food and beverages	\$ 662	Utilized for program activities	No associated donor restrictions	Contributed food and beverages are valued at the estimated retail values that would be received from selling similar products in the United States.

SUPPLEMENTARY INFORMATION

FOSTER ARIZONA
SUPPLEMENTARY INFORMATION

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2022

	<u>Foster Arizona</u>	<u>Foster Arizona Housing Project</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>ASSETS</u>				
ASSETS				
Cash	\$ 440,387	\$ 17,615	\$ -	\$ 458,002
Accounts receivable, net	1,123	2,885	-	4,008
Prepaid expenses and other assets	12,748	-	-	12,748
Total Current Assets	454,258	20,500	-	474,758
PROPERTY AND EQUIPMENT, net	1,378,195	-	-	1,378,195
TOTAL ASSETS	<u>\$ 1,832,453</u>	<u>\$ 20,500</u>	<u>\$ -</u>	<u>\$ 1,852,953</u>

LIABILITIES AND NET ASSETS

LIABILITIES				
Accounts payable	\$ 55,203	\$ 1,100	\$ -	\$ 56,303
Accrued expenses	5,504	-	-	5,504
Long-term debt, current portion	26,700	-	-	26,700
Total Current Liabilities	87,407	1,100	-	88,507
LONG-TERM DEBT, net of current portion	476,984	-	-	476,984
TOTAL LIABILITIES	564,391	1,100	-	565,491
NET ASSETS				
Net assets without donor restrictions	1,247,515	19,400	-	1,266,915
Net assets with donor restrictions	20,547	-	-	20,547
TOTAL NET ASSETS	1,268,062	19,400	-	1,287,462
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,832,453</u>	<u>\$ 20,500</u>	<u>\$ -</u>	<u>\$ 1,852,953</u>

See Independent Auditor's Report

FOSTER ARIZONA
SUPPLEMENTARY INFORMATION

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended December 31, 2022

	<u>Foster Arizona</u>	<u>Foster Arizona Housing Project</u>	<u>Eliminations</u>	<u>Consolidated</u>
SUPPORT AND REVENUE				
Contributions	\$ 913,817	\$ 44,140	\$ -	\$ 957,957
Donated materials and supplies	81,168	-	-	81,168
Donated securities	79,546	-	-	79,546
Participant fees and registrations	29,257	40,372	-	69,629
Gain (loss) on sale of property	30,150	-	-	30,150
Donated rent	15,697	-	-	15,697
Donated services	12,785	-	-	12,785
Donated property and equipment	13,000	-	-	13,000
Rental income	2,770	-	-	2,770
Merchandise sales	495	-	-	495
Gain (loss) on sale of donated securities	(93)	-	-	(93)
Rental revenue from FAHP	42,000	-	(42,000)	-
Other income	4,563	140	-	4,703
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Support and revenue before special events	1,225,155	84,652	(42,000)	1,267,807
Special event revenue:				
Special event income	68,113	-	-	68,113
Direct donor benefits	(33,699)	-	-	(33,699)
Donated auction items	42,675	-	-	42,675
Gain (loss) on auction	(30,841)	-	-	(30,841)
Net special event revenue	46,248	-	-	46,248
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL SUPPORT AND REVENUE	1,271,403	84,652	(42,000)	1,314,055
EXPENSES				
Program services	481,017	52,649	(42,000)	491,666
Supporting services:				
Management and general	43,988	1,288	-	45,276
Fundraising	50,597	12,611	-	63,208
	<hr/>	<hr/>	<hr/>	<hr/>
Total supporting services	94,585	13,899	-	108,484
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	575,602	66,548	(42,000)	600,150
CHANGE IN NET ASSETS	695,801	18,104	-	713,905
NET ASSETS, BEGINNING OF YEAR	572,261	1,296	-	573,557
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, END OF YEAR	<u>\$ 1,268,062</u>	<u>\$ 19,400</u>	<u>\$ -</u>	<u>\$ 1,287,462</u>

See Independent Auditor's Report