

# **LOCAL FIRST ARIZONA FOUNDATION**

## **FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**

**Year Ended December 31, 2022  
(with comparative totals for 2021)**

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## Independent Auditors' Report

To the Audit Committee and the Board of Directors of  
Local First Arizona Foundation  
Phoenix, Arizona

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Local First Arizona Foundation (Local First, an Arizona nonprofit corporation), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Local First Arizona Foundation 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.

#### ***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 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 Local First 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***

As discussed in Note 5 to the financial statements, in the year ended December 31, 2022, Local First changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), as amended using the modified retrospective approach. 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 Local First's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditors' Responsibility 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 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, 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 generally accepted auditing standards 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 Local First'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 Local First'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 August 15, 2023, on our consideration of Local First'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 Local First'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 Local First's internal control over financial reporting and compliance.

### ***Report on Summarized Comparative Information***

We have previously audited Local First's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 26, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Fester & Chapman, PLLC*  
August 15, 2023

Local First Arizona Foundation

STATEMENT OF FINANCIAL POSITION

December 31, 2022  
(with comparative totals as of December 31, 2021)

ASSETS

	<u>2022</u>	<u>2021</u>
Cash	\$ 3,019,769	\$ 2,487,876
Contributions and grants receivable, net	841,714	639,206
Prepaid expenses	19,785	6,348
Operating lease - right-of-use asset	67,654	
Property and equipment, net of \$32,389 and \$32,259, respectively, of accumulated depreciation	<u>202,558</u>	<u>98,672</u>
Total assets	<u>\$ 4,151,480</u>	<u>\$ 3,232,102</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 296,641	\$ 97,480
Accrued payroll	67,240	43,968
Refundable advances	409,608	305,542
Agency funds	167,335	149,185
Operating lease liability	<u>67,654</u>	
Total liabilities	1,008,478	596,175
Net assets:		
Without donor restrictions	2,889,726	2,086,465
With donor restrictions	<u>253,276</u>	<u>549,462</u>
Total net assets	<u>3,143,002</u>	<u>2,635,927</u>
Total liabilities and net assets	<u>\$ 4,151,480</u>	<u>\$ 3,232,102</u>

The accompanying notes are an integral part of these financial statements.

Local First Arizona Foundation

STATEMENT OF ACTIVITIES

Year Ended December 31, 2022

(with comparative totals for the year ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Totals	2021
Revenue and support:				
Contributions and grants	\$ 1,443,812	\$ 3,691,888	\$ 5,135,700	\$ 3,699,801
Program revenue	1,459,802		1,459,802	2,141,642
Special events, net of \$201,159 and \$71,081, respectively, of direct donor benefits	(5,695)		(5,695)	3,129
In-kind contributions	32,241		32,241	
Other income	131,768		131,768	99,803
Net assets released from restrictions	<u>3,988,074</u>	<u>(3,988,074)</u>		
Total revenue and support	7,050,002	(296,186)	6,753,816	5,944,375
Functional expenses:				
Program services - economic development	5,730,309		5,730,309	4,249,678
Management and general	339,779		339,779	238,225
Fundraising	<u>176,653</u>		<u>176,653</u>	<u>123,152</u>
Total expenses	<u>6,246,741</u>		<u>6,246,741</u>	<u>4,611,055</u>
Change in net assets	803,261	(296,186)	507,075	1,333,320
Net assets, beginning of year	<u>2,086,465</u>	<u>549,462</u>	<u>2,635,927</u>	<u>1,302,607</u>
Net assets, end of year	<u>\$ 2,889,726</u>	<u>\$ 253,276</u>	<u>\$ 3,143,002</u>	<u>\$ 2,635,927</u>

The accompanying notes are an integral part of these financial statements.

Local First Arizona Foundation

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

(with comparative totals for the year ended December 31, 2021)

	<u>Program Services- Economic Development</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>2021</u>
Expenses:					
Salaries and personnel services	\$ 2,691,872	\$ 237,054	\$ 170,688	\$ 3,099,614	\$ 2,183,637
Grants to others	1,726,171			1,726,171	1,600,360
Contracted services	983,368		2,250	985,618	539,218
Office	49,590	30,285		79,875	15,347
Miscellaneous	53,040	7,052		60,092	19,206
Occupancy	14,952	30,352		45,304	38,255
Dues and subscriptions	35,788	5,401		41,189	11,790
Travel	37,282	2,378		39,660	28,107
Professional services	24,497	11,672	2,640	38,809	58,610
Telephone and internet	26,729	2,863		29,592	38,921
Advertising and marketing	25,004	409	1,000	26,413	21,241
Printing	24,689		75	24,764	17,809
Depreciation	12,413	8,173		20,586	12,680
Commercial kitchen	16,068	39		16,107	17,653
Insurance	8,846	4,101		12,947	8,221
Total expenses	<u>\$ 5,730,309</u>	<u>\$ 339,779</u>	<u>\$ 176,653</u>	<u>\$ 6,246,741</u>	<u>\$ 4,611,055</u>

The accompanying notes are an integral part of these financial statements.

Local First Arizona Foundation

STATEMENT OF CASH FLOWS

Year Ended December 31, 2022

(with comparative totals for the year ended December 31, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 507,075	\$ 1,333,320
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,586	12,680
Change in:		
Contributions and grants receivable	(202,508)	(496,810)
Prepaid expenses	(13,437)	3,633
Accounts payable	199,161	9,972
Accrued payroll	23,272	8,892
Agency funds	18,150	(3,648)
Refundable advances	<u>104,066</u>	<u>305,542</u>
Net cash provided by operating activities	<u>656,365</u>	<u>1,173,581</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(124,472)</u>	<u>(99,725)</u>
Change in cash	531,893	1,073,856
Cash, beginning of year	<u>2,487,876</u>	<u>1,414,020</u>
Cash, end of year	<u>\$ 3,019,769</u>	<u>\$ 2,487,876</u>
<u>Supplemental disclosures of noncash investing and financing activities:</u>		
Leased asset obtained in exchange for new operating lease liability	\$ 98,450	

The accompanying notes are an integral part of these financial statements.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Local First Arizona Foundation (Local First) was established in 2009 to build a more diverse and resilient Arizona economy by leveraging the state's existing assets to improve opportunities for all Arizonans to build healthy lives. Using a multi-pronged approach, Local First helps develop entrepreneurship in under-resourced communities, particularly communities of color. In addition, Local First develops small scale food producers to increase access to healthy food while growing Arizona's food systems. And finally, Local First acts as the state's Rural Development Council, working in rural towns of all sizes to improve quality of life and build resiliency.

The significant accounting policies of Local First are as follows:

Basis of Presentation - Local First follows standards of accounting and financial reporting for nonprofit organizations as prescribed by accounting principles generally accepted in the United States of America. In accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, Local First reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions include those net assets over which the Board of Directors has discretionary control in carrying out the operations of Local First. Under this category Local First maintains an operating fund, plus any net assets designated by the Board for specific purposes.

Net assets with donor restrictions include those net assets which are subject to donor or time restrictions, and for which the applicable restrictions were not met as of the end of the fiscal year.

Use of Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Contributions and Grants Receivable - Unconditional promises to give that are expected to be collected within one year are recorded as receivables at net realizable value. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. At December 31, 2021 contributions and grants receivable were due within one year, except for \$63,000 which is due in 2023. Local First's contributions and grants receivable were all due within one year at December 31, 2022. Management estimated an expected bad debt of \$20,703 at December 31, 2022. Local First considers receivables as impaired and written-off when it is probable that all contractual payments due will not be collected in accordance with the terms of the agreement.

Prepaid Expenses - Prepaid expenses consist of amounts paid in advance for insurance, contract labor, and permits and fees relating to the subsequent year.

Property and Equipment - Property and equipment costing more than \$2,000 are capitalized and stated at historical cost. Donated assets meeting the capitalization threshold are stated at estimated fair value at the date of donation. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets is expensed as incurred.

Property and equipment is depreciated using the straight-line method as follows: Vehicles, furniture and equipment, and website development costs are depreciated over 5 years, curriculum is depreciated over 7 years, and leasehold improvements are depreciated over the lesser of the estimated useful lives of the underlying assets or the life of the lease.

Refundable Advances - A portion of revenue and support is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Local First has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Agency Funds - Agency funds primarily include Lending Program funds representing amounts held in order to provide micro-loans for small businesses in rural areas in Arizona. Local First does not have variance power over determining the loan recipients; therefore, the liability and related cash are presented on the statement of financial position, and no revenue or related expenses are recognized in these financial statements. A third-party partnering organization disburses funds and administers the loans.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Contributions In-kind - Contributions in-kind are also recognized in accordance with the provisions of the FASB ASC topic of *Not-for-Profit Entities*. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which Local First would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. Local First also receives donated services that do not require specific expertise, but which are nonetheless central to Local First's operations. No volunteer services are recognized in the accompanying financial statements as they do not meet the above criteria; however, volunteers have donated significant amounts of their time to Local First.

During the year ended December 31, 2022, Local First recognized \$20,620 for donated goods and supplies and \$11,621 for professional services to use exclusively for their events/auctions. Donated goods are valued based on donor estimates, market rates, or industry estimates. Professional services are valued based on amounts provided by vendors that would be charged in an open market.

Contributions and Grants - Contributions and grants are reported in accordance with the FASB ASC topic of *Not-for-Profit Entities*. Contributions and grants are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Government grants are recognized when donor imposed conditions are met. Contributions and grants are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence of donor restrictions. When the restriction is met on a contribution or grant, the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Income Taxes - Local First is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Functional Expense Allocation - The costs of providing program and other activities are reported on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of facility usage and the estimated percentage of payroll costs benefiting the program or supporting services. Salaries and personnel services, professional services and contracted services are allocated based on estimates of time and effort devoted to each function. Depreciation, occupancy, insurance and miscellaneous expenses are allocated based on the percentage of employees compared to total number of employees for each program area.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Prior Year Summarized Information - The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should only be read in conjunction with Local First's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Change in Accounting Principle: In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights of obligations created by leases that extended more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. Local First has elected the package of practical expedients permitted in ASU 2016-02. Accordingly, Local First accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASU 2016-02, (b) whether classification of the operating leases would be different in accordance with ASU 2016-02, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2015) would have met the definition of initial direct costs in ASU 2016-02 at lease commencement. No changes to beginning net assets were necessary as Local First implemented this change in accounting principle on a modified retrospective basis.

Subsequent Events - Subsequent events have been evaluated through August 15, 2023, which was the date Local First's financial statements were issued.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 2 - LIQUIDITY AND AVAILABILITY

Local First monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. Local First has the following financial assets that could readily be made available within one year of its fiscal year end to fund expenses without limitations:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 3,019,769	\$ 2,487,876
Contributions and grants receivable, net	<u>841,714</u>	<u>639,206</u>
Total financial assets	3,861,483	3,127,082
Less amounts unavailable for general expenditures within one year:		
Agency funds	(167,335)	(149,185)
Net assets with donor restrictions	<u>(253,276)</u>	<u>(549,462)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,440,872</u>	<u>\$ 2,428,435</u>

In addition to financial assets available to meet general expenditures over the year, Local First operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants, and other revenues and by utilizing donor-restricted resources from current and prior years gifts.

NOTE 3 - CONCENTRATIONS

At December 31, 2022, 10% of the contributions and grants receivable balance was due from another nonprofit foundation.

During the year ended December 31, 2022, Local First earned \$1,941,475 from federal grant funding passed through the City of Phoenix, which comprised 29% of total revenue and support. During the year ended December 31, 2021, Local First received a grant from the State of Arizona for \$1,471,399 for COVID relief efforts. This grant totaled 25% of Local First's total revenue and support in 2021.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Vehicle		\$ 20,456
Furniture and equipment	\$ 3,214	3,214
Leasehold improvements	188,458	69,036
Website development costs, software and curriculum	43,275	38,225
Less: Accumulated depreciation	<u>(32,389)</u>	<u>(32,259)</u>
Property and equipment, net	<u>\$ 202,558</u>	<u>\$ 98,672</u>

NOTE 5 - OPERATING LEASES

Local First has a non-cancelable operating lease with a related party (see Note 7) for office space that commenced January 1, 2021, with a term of four years ending on December 31, 2024.

Operating lease - right-of-use assets	\$ 67,654
Operating lease liability	67,654
Operating lease cost - rent expense	31,947
<i>Cash paid for amounts included in the measurement of lease liabilities:</i>	
Operating cash flows from operating leases	34,847
<i>Right-of-use assets obtained in exchange for lease obligations:</i>	
Operating lease	98,450

Future minimum operating lease commitments are as follows:

Year ending December 31,	
2023	\$ 36,000
2024	<u>36,000</u>
	72,000
Less: interest	<u>(4,346)</u>
Present value of lease liabilities	<u>\$ 67,654</u>

Because the Local First does not have access to the rate implicit in the leases, the Organization utilized the Wall Street Journal prime rate of 6.05% for the year ended December 31, 2022.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 6 - DONOR RESTRICTED NET ASSETS

Net assets with donor restrictions activity for the year ended December 31, 2022 is as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Time-restricted	\$ 198,000	\$ 10,000	\$ (163,000)	\$ 45,000
Purpose-restricted:				
Food Program	171,643	294,451	(466,094)	
Small Business Emergency Assistance		1,631,546	(1,631,546)	
Fuerza Program		430,750	(430,750)	
Sustainability Program		115,871	(115,871)	
US Energy		75,000	(37,500)	37,500
Flinn Foundation		25,000		25,000
Rural Program	179,819	732,770	(912,589)	
Arizona Community Foundation		76,500	(30,724)	45,776
Burton Family- Outcome Based		200,000	(200,000)	
Kemper & Ethel Marley Foundation		100,000		100,000
	<u>\$ 549,462</u>	<u>\$ 3,691,888</u>	<u>\$ (3,988,074)</u>	<u>\$ 253,276</u>

Net assets with donor restrictions activity for the year ended December 31, 2021 is as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Time-restricted		\$ 198,000		\$ 198,000
Purpose-restricted:				
Food Program		523,225	\$ (351,612)	171,613
Fuerza Program		71,992	(71,992)	
Rural Program		916,721	(736,902)	179,819
Sustainability Program		183,550	(183,550)	
Small Business Emergency Assistance	\$ 505,405	744,258	(1,249,663)	
We Rise Program		139,250	(139,250)	
	<u>\$ 505,405</u>	<u>\$ 2,776,996</u>	<u>\$ (2,732,969)</u>	<u>\$ 549,432</u>

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

(with comparative financial information as of and for the year ended December 31, 2021)

NOTE 7 - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2022 and 2021, Local First paid \$36,000 in rent expenses for a facility owned by a member of Local First's management. Management believes that rental costs are similar to, or less than, what would be paid to a non-related party. Future minimum rental payments of \$36,000 are due annually through December 2024 under the terms of the lease agreement. See Note 5.

NOTE 8 - MANAGEMENT SERVICES AGREEMENT

In December 2021, Local First Arizona Foundation (LFAF) entered into a Management Services Agreement (the Agreement) with Local First Arizona (LFA), a tax-exempt organization under section 501(c)(6) of the Internal Revenue Code. Under the Agreement, LFAF provides management, administrative, finance, human resources and other resources to LFA and is reimbursed for these services at fair market value. The Agreement is effective January 1, 2021 through December 31, 2022, and automatically renews unless terminated by either party with 30 days notice.

NOTE 9 - CONDITIONAL PROMISES TO GIVE

Local First received conditional contributions and grants during the fiscal year ended December 31, 2022 and 2021. Conditional contributions and grants are recorded when the donor-imposed conditions are substantially met and/or a barrier has been overcome or removed by the donor.

Certain conditions are required to be met by Local First in the subsequent years in order to earn and receive these amounts. As of December 31, 2022 and 2021 amounts awarded but not yet earned totaled \$2,244,310 and \$1,968,922, respectively. While management believes that Local First will meet these conditions, they had not been met as of each year end, as they consisted primarily of cost-reimbursable grants for which qualifying expenses had not yet been incurred. Accordingly, no amounts have been recorded for these conditional contributions and grants as receivables in these financial statements.

NOTE 10 - DEFINED CONTRIBUTION RETIREMENT PLAN

In 2022 Local First began offering a 401(k) defined contribution retirement plan to its employees. Under the plan, Local First provides matching contributions of up to 3 percent of each participating employee's salary. Local First's contributions to the plan were \$11,607 for the year ended December 31, 2022.

**LOCAL FIRST ARIZONA FOUNDATION**

**SINGLE AUDIT REPORTING PACKAGE**

**Year Ended December 31, 2022**

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**Independent Auditors' Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Directors of  
Local First Arizona Foundation  
Phoenix, Arizona

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 U.S. Comptroller General of the United States, the financial statements of Local First Arizona Foundation (Local First, a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Local First'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Local First's internal control. Accordingly, we do not express an opinion on the effectiveness of Local First'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 the 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 have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Local First'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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Fester & Chapman, PLLC*

August 15, 2023



**Independent Auditors' Report on Compliance for Each Major Program and  
on Internal Control Over Compliance Required by the Uniform Guidance; and Report on  
Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Directors of  
Local First Arizona Foundation  
Phoenix, Arizona

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Program***

We have audited Local First Arizona Foundation (Local First)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Local First's major federal programs for the year ended December 31, 2022. Local First Arizona Foundation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Local First complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Local First and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Local First's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Local First's federal programs.

## ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Local First's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Local First's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Local First's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Local First's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Local First's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of Local First as of and for the year ended December 31, 2022, and have issued our report thereon dated August 15, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

August 15, 2023

Local First Arizona Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2022

<b>Federal Grantor/Federal Assistance Listings Number (FAN)</b>	<b>Federal Program Name</b>	<b>Pass-Through Grantor</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of the Treasury</b>				
21.027	COVID 19: Coronavirus State and Local Fiscal Recovery Funds	State of Arizona	GR-ARPA-LFAF-030122-01	\$ 353,202
21.027	COVID 19: Coronavirus State and Local Fiscal Recovery Funds	Arizona Office of Tourism	GR-ARPA-12092021-07-001, GR-ARPA-09092022-01-051	137,439
21.027	COVID 19: Coronavirus State and Local Fiscal Recovery Funds	Maricopa County, Arizona	220009-RFP	591,351
21.027	COVID 19: Coronavirus State and Local Fiscal Recovery Funds	City of Phoenix	156955-0	<u>78,228</u>
<i>Total FAN 21.027</i>				1,160,220
21.019	COVID-19: Coronavirus Relief Fund	City of Phoenix	154941-00	<u>1,941,475</u>
<b>Total U.S. Department of the Treasury</b>				<b>3,101,695</b>
<b>U.S. Department of Agriculture</b>				
10.935	Urban Agriculture and Innovative Production	N/A	N/A	31,849
10.351	Rural Business Development Grant	N/A	N/A	<u>51,291</u>
<b>Total U.S. Department of Agriculture</b>				<b>83,140</b>
<b>Small Business Administration</b>				
59.077	Community Navigator Pilot Program	International Rescue Committee	SBAHQ22CNP0002	<u>36,259</u>
<b>Total Expenditures of Federal Awards</b>				<b><u>\$ 3,221,094</u></b>

Local First Arizona Foundation

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2022

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Local First Arizona Foundation (Local First), for the year ended December 31, 2022, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2 - FEDERAL ASSISTANCE LISTINGS NUMBER**

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2022 *Federal Assistance Listings*. When no Federal Assistance Listings number had been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the 2-digit federal agency identifier and the word "unknown" were used.

**NOTE 3 - INDIRECT COST RATE**

Local First has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 4 - SUBRECIPIENTS**

Local First did not pass through federal funding to subrecipients during the year ended December 31, 2022.

Local First Arizona Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

Type of Auditors' Report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes      No

\_\_\_\_\_ X

Significant deficiency(ies) identified?

\_\_\_\_\_ X

(none reported)

Noncompliance material to the financial statements noted?

\_\_\_\_\_ X

**Federal Awards:**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ X

Significant deficiency(ies) identified?

\_\_\_\_\_ X

(none reported)

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ X

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ X

**Other Matters:**

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR 200.511(b)?

X      \_\_\_\_\_

Identification of major programs:

<u>FAN Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID 19: Coronavirus State and Local Fiscal Recovery Funds
21.019	COVID-19: Coronavirus Relief Fund

Local First Arizona Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None noted

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2022

Status of Financial Statement Findings:

Finding No.: 2021-001 - Revenue Recognition for Conditional Promises to Give  
Status: Fully corrected

Status of Federal Award Findings and Questioned Costs:

Finding No.: 2021-101 - Preparation of Schedule of Expenditures of Federal Awards  
Status: Fully corrected