

LOCAL FIRST ARIZONA FOUNDATION

Financial Statements
and
Independent Auditors' Report

December 31, 2019

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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 Financial Statements

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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Local First as of December 31, 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fester & Chapman, PLLC

April 22, 2020

Local First Arizona Foundation

STATEMENT OF FINANCIAL POSITION

December 31, 2019

ASSETS

Cash and cash equivalents	\$ 481,714
Contributions and grants receivable	171,327
Prepaid expenses	4,685
Vehicles, net of \$16,552 of accumulated depreciation	<u>3,904</u>
Total assets	<u>\$ 661,630</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 19,539
Accrued payroll	13,453
Lending Program funds	179,121
Note payable	<u>16,330</u>
Total liabilities	228,443
Net assets:	
Without donor restrictions	320,932
With donor restrictions:	
Time-restricted for future periods	30,000
Purpose-restricted	<u>82,255</u>
Total net assets with donor restrictions	<u>112,255</u>
Total net assets	<u>433,187</u>
Total liabilities and net assets	<u>\$ 661,630</u>

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

Local First Arizona Foundation

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>
Revenue and support:			
Contributions and grants	\$ 667,012	\$ 203,021	\$ 870,033
Program revenue	415,374		415,374
Special events, net of \$85,051 of direct donor benefits	41,654		41,654
In-kind contributions	10,500		10,500
Other income	43,401		43,401
Net assets released from restrictions	<u>90,766</u>	<u>(90,766)</u>	
Total revenue and support	1,268,707	112,255	1,380,962
Functional expenses:			
Program services - economic development	991,391		991,391
Management and general	149,934		149,934
Fundraising	<u>101,040</u>		<u>101,040</u>
Total expenses	<u>1,242,365</u>		<u>1,242,365</u>
Change in net assets	26,342	112,255	138,597
Net assets, beginning of year	<u>294,590</u>		<u>294,590</u>
Net assets, end of year	<u>\$ 320,932</u>	<u>\$ 112,255</u>	<u>\$ 433,187</u>

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

Local First Arizona Foundation

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	<u>Program Services- Economic Development</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:				
Salaries and personnel services	\$ 444,573	\$ 93,747	\$ 72,450	\$ 610,770
Employee benefits	26,097	5,362	4,290	35,749
Payroll taxes	<u>35,048</u>	<u>7,202</u>	<u>5,761</u>	<u>48,011</u>
Total salaries and related expenses	505,718	106,311	82,501	694,530
Professional services		4,733	15,175	19,908
Travel, training and meetings	28,772			28,772
Contracted services	268,665	25,011		293,676
Grants to others	103,945			103,945
Telephone and Internet	7,255	2,345		9,600
Occupancy	17,062	3,506	2,805	23,373
Office	4,415	1,432	209	6,056
Printing	10,889			10,889
Miscellaneous	10,878	969	350	12,197
Interest		1,434		1,434
In-kind	7,875	2,625		10,500
Insurance	5,031	964		5,995
Dues and subscriptions	7,012			7,012
Advertising	6,490			6,490
Meals and entertainment	5,432	604		6,036
Depreciation	<u>1,952</u>			<u>1,952</u>
Total expenses	<u>\$ 991,391</u>	<u>\$ 149,934</u>	<u>\$ 101,040</u>	<u>\$ 1,242,365</u>

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

Local First Arizona Foundation
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019

	2019
Cash flows from operating activities:	
Change in net assets	\$ 138,597
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation	1,952
Change in:	
Contributions and grants receivable	(120,503)
Prepaid expenses	856
Accounts payable	(15,253)
Accrued payroll	13,453
Lending Program funds	39,793
Net cash and cash equivalents provided by operating activities	58,895
 Cash flows from financing activities:	
Payments on note payable	(37,410)
Net cash and cash equivalents used by financing activities	(37,410)
 Change in cash and cash equivalents	21,485
 Cash and cash equivalents, beginning of year	460,229
 Cash and cash equivalents, end of year	\$ 481,714
 <u>Supplemental Information:</u>	
Cash paid for interest	\$ 1,434

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

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 voluntary health and welfare 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. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

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, 2019

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- Continued

Cash and Cash Equivalents - For the purposes of the statement of cash flows, Local First considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Local First maintains its cash and cash equivalents in bank deposit accounts, which at times, may exceed federally insured limits. Local First has not experienced any losses in such accounts. Management believes it is not exposed to any significant risks on cash accounts.

Contributions and Grants Receivable - Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Management considers its contributions receivable to be fully collectible within one year of the statement of financial position date, and accordingly, no allowance for doubtful accounts has been recorded. Grants receivable consist of amounts for grant expenses incurred, but reimbursement has not been received.

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

Vehicles - Vehicles 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. Vehicles are depreciated over 5 years using the straight-line method.

Lending Program Funds - Lending Program funds consist of amounts held as agency funds 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.

Contributions - Contributions are reported in accordance with the FASB ASC topic of *Not-for-Profit Entities*. Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with donor restrictions or without donor restrictions depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Restricted contributions are reported as increases in net assets without donor restrictions if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in net assets with donor restrictions. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- Continued

Grants - Local First recognizes grants as support when eligible costs are incurred or revenues are earned in accordance with the FASB ASC topic of *Not-for-Profit Entities*.

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, a substantial number of volunteers have donated significant amounts of their time to Local First. Local First recognized \$10,500 for donated supplies during the year ended December 31, 2019.

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 to program and supporting services benefited based on directly identifiable expenses, or on management's estimates of employee hours and facility usage devoted to each function.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 as of December 31, 2019:

Financial assets:	
Cash and cash equivalents	\$ 481,714
Contributions and grants receivable	<u>171,327</u>
Total financial assets	<u>653,041</u>
Less amounts unavailable for general expenditures within one year:	
Lending Program funds	(179,121)
Net assets with donor restrictions	<u>(112,255)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 361,665</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 - CONCENTRATION

At December 31, 2019, 50% of contributions and grants receivable was due from one donor. Local First considers the balances to be fully collectible and has not recorded an allowance for doubtful accounts at December 31, 2019.

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restrictions activity for the year ended December 31, 2019 is as follows:

	Beginning Balance	Contributions	Releases	Ending Balance
Time-restricted		\$ 30,000		\$ 30,000
Purpose-restricted		<u>173,021</u>	<u>\$ (90,766)</u>	<u>82,255</u>
		<u>\$ 203,021</u>	<u>\$ (90,766)</u>	<u>\$ 112,255</u>

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 5- NOTE PAYABLE

Local First has an unsecured note payable to the City of Phoenix with an original balance of \$75,000, bearing interest at 4.0%, payable in 24 monthly principal and interest installments of \$3,257, maturing in May 2020. The outstanding balance at December 31, 2019 was \$16,330.

NOTE 6 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, Local First paid \$18,000 in rent expenses for a facility owned by a member of Local First's management. Management believes that rental costs are similar to what would be paid to a non-related party.

NOTE 7 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 22, 2020, which was the date Local First's financial statements were available to be issued. The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closings of various entities. While the disruption is expected to be temporary, there is considerable uncertainty around the duration of the closings and the related financial impact. Therefore, Local First expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.