

LOCAL FIRST ARIZONA FOUNDATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

**Year Ended December 31, 2021
(with comparative totals for 2020)**

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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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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 Arizona Foundation'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 26, 2022, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 9, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC
August 26, 2022

Local First Arizona Foundation

STATEMENT OF FINANCIAL POSITION

December 31, 2021
(with comparative totals as of December 31, 2020)

ASSETS

	<u>2021</u>	<u>2020</u>
Cash	\$ 2,487,876	\$ 1,414,020
Contributions and grants receivable	639,206	142,396
Prepaid expenses	6,348	9,981
Property and equipment, net of \$32,259 and \$19,579, respectively, of accumulated depreciation	<u>98,672</u>	<u>11,627</u>
Total assets	<u>\$ 3,232,102</u>	<u>\$ 1,578,024</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 97,480	\$ 87,508
Accrued payroll	43,968	35,076
Refundable advances	305,542	
Lending Program funds	<u>149,185</u>	<u>152,833</u>
Total liabilities	596,175	275,417
Net assets:		
Without donor restrictions	2,086,465	797,202
With donor restrictions	<u>549,462</u>	<u>505,405</u>
Total net assets	<u>2,635,927</u>	<u>1,302,607</u>
Total liabilities and net assets	<u>\$ 3,232,102</u>	<u>\$ 1,578,024</u>

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

Local First Arizona Foundation

STATEMENT OF ACTIVITIES

Year Ended December 31, 2021

(with comparative totals for the year ended December 31, 2020)

	Without Donor Restrictions	With Donor Restrictions	Totals	2020
Revenue and support:				
Contributions and grants	\$ 922,775	\$ 2,777,026	\$ 3,699,801	\$13,157,325
Program revenue	2,141,642		2,141,642	1,177,854
Paycheck Protection Program				131,700
Special events, net of \$71,081 and \$13,206, respectively, of direct donor benefits	3,129		3,129	4,304
Other income	99,803		99,803	49,857
Net assets released from restrictions	<u>2,732,969</u>	<u>(2,732,969)</u>		
Total revenue and support	5,900,318	44,057	5,944,375	14,521,040
Functional expenses:				
Program services - economic development	4,249,678		4,249,678	13,366,155
Management and general	238,225		238,225	112,385
Fundraising	<u>123,152</u>		<u>123,152</u>	<u>173,080</u>
Total expenses	<u>4,611,055</u>		<u>4,611,055</u>	<u>13,651,620</u>
Change in net assets	1,289,263	44,057	1,333,320	869,420
Net assets, beginning of year	<u>797,202</u>	<u>505,405</u>	<u>1,302,607</u>	<u>433,187</u>
Net assets, end of year	<u>\$ 2,086,465</u>	<u>\$ 549,462</u>	<u>\$ 2,635,927</u>	<u>\$ 1,302,607</u>

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

Local First Arizona Foundation

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

(with comparative totals for the year ended December 31, 2020)

	<u>Program Services- Economic Development</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>2020</u>
Expenses:					
Salaries and personnel services	\$ 1,896,362	\$ 176,917	\$ 110,358	\$ 2,183,637	\$ 1,130,562
Professional services	15,330	34,280	9,000	58,610	42,448
Travel, training and meetings	25,980	2,127		28,107	17,682
Contracted services	538,584	634		539,218	230,909
Grants to others	1,600,360			1,600,360	12,088,311
Telephone and internet	35,173	2,282	1,466	38,921	14,813
Occupancy	33,372	2,973	1,910	38,255	19,649
Commercial kitchen	17,653			17,653	13,893
Office	11,992	2,937	418	15,347	6,022
Printing	17,591	218		17,809	16,828
Miscellaneous	10,532	8,674		19,206	35,376
Insurance	6,183	2,038		8,221	7,060
Dues and subscriptions	11,790			11,790	11,422
Advertising	21,196	45		21,241	13,618
Depreciation	7,580	5,100		12,680	3,027
Total expenses	<u>\$ 4,249,678</u>	<u>\$ 238,225</u>	<u>\$ 123,152</u>	<u>\$ 4,611,055</u>	<u>\$ 13,651,620</u>

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

Local First Arizona Foundation

STATEMENT OF CASH FLOWS

Year Ended December 31, 2021
 (with comparative totals for the year ended December 31, 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,333,320	\$ 869,420
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,680	3,027
Change in:		
Contributions and grants receivable	(496,810)	28,931
Prepaid expenses	3,633	(5,296)
Accounts payable	9,972	67,969
Accrued payroll	8,892	21,623
Lending Program funds	(3,648)	(26,288)
Refundable advances	305,542	
Net cash provided by operating activities	<u>1,173,581</u>	<u>959,386</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(99,725)</u>	<u>(10,750)</u>
Cash flows from financing activities:		
Payments on note payable	<u> </u>	<u>(16,330)</u>
Change in cash	1,073,856	932,306
Cash, beginning of year	<u>1,414,020</u>	<u>481,714</u>
Cash, end of year	<u>\$ 2,487,876</u>	<u>\$ 1,414,020</u>

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

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of and for the year ended December 31, 2020)

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, 2021

(with comparative financial information as of and for the year ended December 31, 2020)

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 due within one year at December 31, 2020. Management considers its contributions and grants receivable to be fully collectible, and accordingly, no allowance for doubtful accounts has been recorded.

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.

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.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of and for the year ended December 31, 2020)

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

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.

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, 2020, from which the summarized information was derived.

Subsequent Events - Subsequent events have been evaluated through August 26, 2022, which was the date Local First's financial statements were issued.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of and for the year ended December 31, 2020)

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>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 2,487,876	\$ 1,414,020
Contributions and grants receivable	<u>639,206</u>	<u>142,396</u>
Total financial assets	3,127,082	1,556,416
Less amounts unavailable for general expenditures within one year:		
Lending Program funds	(149,185)	(152,833)
Net assets with donor restrictions	<u>(549,462)</u>	<u>(505,405)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,428,435</u>	<u>\$ 898,178</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, 2021 31% of the contributions and grants receivable balance was due from another nonprofit foundation.

During the year ended December 31, 2021, Local First earned \$1,471,399 from federal grant funding passed through the City of Phoenix, which comprised 25% of total revenue and support. During the year ended December 31, 2020, Local First received a grant from the State of Arizona for \$10,000,000 for COVID relief efforts. This grant totaled 69% of Local First's total revenue and support in 2020.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of and for the year ended December 31, 2020)

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Vehicle	\$ 20,456	\$ 20,456
Furniture and equipment	3,214	
Leasehold improvements	69,036	
Website development costs, software and curriculum	38,225	10,750
Less: Accumulated depreciation	<u>(32,259)</u>	<u>(19,579)</u>
Property and equipment, net	<u>\$ 98,672</u>	<u>\$ 11,627</u>

NOTE 5 - DONOR RESTRICTED NET ASSETS

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
Small Business Emergency Assistance	\$ 505,405	744,258	(1,249,663)	
Fuerza Program		71,992	(71,992)	
Rural Program		916,721	(736,902)	179,819
Sustainability Program		183,550	(183,550)	
WeRise 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, 2021

(with comparative financial information as of and for the year ended December 31, 2020)

NOTE 5 - DONOR RESTRICTED NET ASSETS (CONTINUED)

Net assets with donor restrictions activity for the year ended December 31, 2020 is as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Time-restricted	\$ 30,000		\$ (30,000)	
Purpose-restricted				
State of Arizona - Rent and Mortgage Relief program		\$ 10,000,000	(10,000,000)	
Small Business Emergency Assistance		1,990,596	(1,485,191)	\$ 505,405
Other purpose restrictions	82,255		(82,255)	
	<u>\$ 112,255</u>	<u>\$ 13,981,192</u>	<u>\$ (13,082,637)</u>	<u>\$ 505,405</u>

NOTE 6 - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2021 and 2020, 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.

NOTE 7 - 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 503(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.

Local First Arizona Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of and for the year ended December 31, 2020)

NOTE 8 - CONDITIONAL PROMISES TO GIVE

Local First received conditional contributions and grants during the fiscal year ended December 31, 2021 and 2020. 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, 2021 and 2020 amounts awarded but not yet earned totaled \$1,968,922 and \$289,911, respectively. While management believes that the 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 9 - PAYCHECK PROTECTION PROGRAM

On April 19, 2020, Local First was approved for a \$131,700 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). As of December 31, 2020, Local First had expended all of the loan proceeds for qualified payroll and other costs, and therefore recognized the loan proceeds as revenue in the Statement of Activities.

LOCAL FIRST ARIZONA FOUNDATION

SINGLE AUDIT REPORTING PACKAGE

**Year Ended December 31, 2021
(with comparative totals for 2020)**

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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 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, 2021, 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 26, 2022.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weaknesses.

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.

Local First's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Local First's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Local First's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 26, 2022



Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance 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 program for the year ended December 31, 2021. Local First Arizona Foundation's major federal program is 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.

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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-101. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Local First's response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. Local First's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-101 to be a material weakness.

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 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.

Government Auditing Standards requires the auditor to perform limited procedures on Local First's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Local First's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Center as of and for the year ended December 31, 2021, and have issued our report thereon dated August 26, 2022, 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.

Fester & Chapman, PLLC

August 26, 2022

Local First Arizona Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

Federal Grantor/Federal Assistance Listings Number	Federal Program Name	Pass-Through Grantor	Pass-Through Grantor's Number	Expenditures
U.S. Department of the Treasury				
21.019	COVID-19: Coronavirus Relief Fund	City of Phoenix	152576-0, 154941-00	\$ 1,471,399
U.S. Department of Agriculture				
10.351	Rural Business Development Grant	N/A	N/A	102,570
U.S. Department of Labor				
17.258	WIOA Adult Program	State of Arizona, Office of the Governor	SC-WIOA-20-12220119-01	<u>367,198</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,941,167</u></u>

The accompanying notes are an integral part of this schedule.

Local First Arizona Foundation

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

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), 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 2021 *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.

Local First Arizona Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2021

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 _____

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.019	COVID-19: Coronavirus Relief Fund

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

Local First Arizona Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2021

SECTION II - FINANCIAL STATEMENT FINDINGS

2021-001 Revenue Recognition for Conditional Promises to Give

Criteria: The Uniform Guidance requires organizations to prepare financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Financial Accounting Standards Board Accounting Standards Update (FASB ASU) 2018-08 requires that conditional promises to give are recognized as revenue only after conditions and barriers specified by donors have been overcome. For cost-reimbursement type government grants, this generally occurs when qualifying expenditures for allowable costs have been incurred.

Condition: Government grants were accounted for as unconditional promises to give instead of as conditional promises to give.

Cause: FASB ASU 2018-08 was not applied correctly to government grant revenue.

Effect: Government grant revenue was overstated by approximately \$994,000 prior to management posting correcting journal entries.

Recommendation: Local First's management and the contracted CPA should review each grant award when it is received and document the proper accounting treatment. This should help to ensure that revenue is recognized in the proper period. We further recommend that management tracks expenditures for each Federal program separately in the general ledger and compares Federal grant revenue and expenses, including administrative fees earned, for each grant as part of the financial closing process. This should help to ensure that revenue for cost-reimbursement grants is accounted for in accordance with GAAP.

Management's Corrective Action Plan is included at the end of this report.

Local First Arizona Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2021

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2021-101 Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Federal Assistance Listings Number: Not applicable

Questioned Costs: Not Applicable

Criteria: In accordance with the requirements of the Uniform Guidance §200.510(b) the auditee must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502. The SEFA must also include:

- Expenditures for each Federal program,
- Federal Assistance Listings numbers,
- Amounts passed through to subrecipients, and
- Pass-through grantors and pass-through grantor's numbers.

Condition: Expenditures for the *COVID-19: Coronavirus Relief Fund* program were overstated by approximately \$1.5 million and two other federal programs and related expenditures were omitted from the SEFA.

Effect: Local First's SEFA was not accurate or complete before corrections were made by the auditors. This finding is a material weakness in internal control over compliance and noncompliance with the Uniform Guidance reporting requirements.

Cause: Local First did not have effective policies and procedures in place to ensure that Federal monies were properly recorded on the SEFA, and controls were ineffective in ensuring that all Federal program information was correctly reported on the SEFA.

Recommendation: Local First should develop policies and procedures to help ensure that the SEFA is complete and accurate, including developing a process for preparing and reviewing the SEFA as part of its year-end financial closing process.

Management's Corrective Action Plan is included at the end of this report.

CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2021

We have prepared the following corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by 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). Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Findings - Financial Statement Audit

2021-001 Revenue Recognition for Conditional Promises to Give

Recommendation: Local First's management and the contracted CPA should review each grant award when it is received and document the proper accounting treatment. This should help to ensure that revenue is recognized in the proper period. We further recommend that management tracks expenditures for each Federal program separately in the general ledger and compares Federal grant revenue and expenses, including administrative fees earned, for each grant as part of the financial closing process. This should help to ensure that revenue for cost-reimbursement grants is accounted for in accordance with GAAP.

Action Taken: Local First concurs and has implemented the recommendation.

Completion Date: During fiscal year 2022

Contact Person: Kimber Lanning, Chief Executive Officer

Federal Awards Findings and Questioned Costs

2021-101 Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Recommendation: Local First should develop policies and procedures to help ensure that the SEFA is complete and accurate, including developing a process for preparing and reviewing the SEFA as part of its year-end financial closing process.

Action Taken: Local First concurs and has implemented the recommendation. A new full-time staff position was created to specifically focus on tracking and compliance of grant funding, specifically federal grant funding. Key to this position is the development and implementation of new systems and procedures to track all federal grant income and expenditures in an accurate manner that allows for efficient and clear reporting. Additionally, the new position is responsible for reviewing and cataloging grant information which includes Federal Assistance Listings number, Federal Department source, Grant or Contract number, and other pertinent information to ensure the SEFA is accurate. The SEFA will be completed as a formal procedure of the year-end financial closing process.

Completion Date: During fiscal year 2022

Contact Person: Kimber Lanning, Chief Executive Officer