Children's Action Alliance, Inc.

Audited Financial Statements

Year Ended December 31, 2022

Stevenson CPA LLC

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Children's Action Alliance, Inc.
Audited Financial Statements
Year Ended December 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Children's Action Alliance, Inc.
3030 N 3rd St. Suite 760
Phoenix, AZ 85012

Opinion

We have audited the financial statements of Children's Action Alliance, Inc., 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 accompanying financial statements present fairly, in all material respects, the financial position of Children's Action Alliance, Inc. 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 (GAAS). 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 Children's Action Alliance, Inc. 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.

Management's Responsibilities 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 Children's Action Alliance, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS, 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 Children's Action Alliance, Inc.'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 Children's Action Alliance, Inc.'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.

Stevenson CPA LLC

Phoenix, Arizona
June 22, 2023

Children's Action Alliance, Inc.
Statement of Financial Position
As of December 31, 2022

	2022
Assets	
Current assets	
Cash & cash equivalents	$ 684,538
Contributions receivable	416,802
Prepaid expenses	12,883
Total current assets	1,114,223
Other assets	
Endowment	925,254
Investments	1,756,043
Total other assets	2,681,297
Property & equipment	
Right of use assets	162,849
Office equipment & furniture	68,647
Leasehold improvements	49,143
Less accumulated depreciation	(58,290)
Total property & equipment	222,349
Total assets	**4,017,869**
Liabilities & net assets	
Current liabilities	
Accounts payable	32,900
Accrued payroll liabilities	38,341
Current portion of lease liabilities	60,642
Total current liabilities	131,883
Long-term liabilities	
Lease liabilities	104,606
Total long-term liabilities	104,606
Total liabilities	236,490
Net assets	
With donor restrictions	2,697,108
Without donor restrictions	
Undesignated	1,010,328
Board designated quasi endowment	73,943
Total without donor restrictions	1,084,271
Total net assets	3,781,379
Total liabilities & net assets	**$ 4,017,869**

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

Children's Action Alliance, Inc.
Statement of Activities
For the Year Ended December 31, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Support & revenue			
Grants	$ 516,939	$ 1,845,797	$ 2,362,736
Contributions	113,493	-	113,493
Other	5,188	-	5,188
Investment loss, net	(441,782)	-	(441,782)
Special event revenue	29,903	-	29,903
Less: cost of direct donor benefits	(7,131)	-	(7,131)
Special event revenue, net	22,772	-	22,772
Net assets released from restrictions	1,479,750	(1,479,750)	-
Total support & revenue	**1,696,360**	**366,047**	**2,062,407**
Expenses			
Program	2,285,416	-	2,285,416
Management & General	212,108	-	212,108
Development	167,775	-	167,775
Total expenses	**2,665,299**	**-**	**2,665,299**
Changes in net assets	(968,939)	366,047	(602,892)
Net assets, beginning of year	2,053,210	2,331,061	4,384,271
Net assets, end of year	**$ 1,084,271**	**$ 2,697,108**	**$ 3,781,379**

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

Children's Action Alliance, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2022

	2022			
	Program	**Management & General**	**Development**	**Total**
Salaries & wages	$ 1,219,255	$ 116,119	$ 116,120	$ 1,451,494
Payroll taxes	97,190	9,256	9,256	115,702
Employee related	175,822	16,745	16,745	209,312
Total salary & related expenses	1,492,267	142,120	142,121	1,776,508
Accounting		21,000	-	21,000
Advertising	119,948	1,000	1,000	121,948
Bank fees	-	1,715	-	1,715
Catering	19,005	6,335	-	25,340
Computers	20,940	2,076	2,304	25,320
Contract services	306,592	14,530	-	321,122
Depreciation	21,516	2,133	2,368	26,017
Dues & subscriptions	9,518	3,173	-	12,691
Grants to Others	88,000	-	-	88,000
Insurance	5,632	559	620	6,811
Phone & internet	44,143	4,377	4,857	53,377
Postage & printing	26,911	203	202	27,316
Rent & occupancy	66,768	6,620	7,347	80,735
Staff development	9,796	971	1,078	11,845
Supplies	14,756	1,463	1,624	17,843
Travel & meetings	39,624	3,833	4,254	47,711
Total expenses	**$ 2,285,416**	**$ 212,108**	**$ 167,775**	**$ 2,665,299**

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

Children's Action Alliance, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2022

		2022
Operating activities		
Change in net assets	$	(602,892)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation & amortization		26,017
Decrease in contributions receivable		18,698
(Increase) in prepaid expenses		(4,000)
Decrease in endowment		195,988
Decrease in investment account, net		245,503
Decrease in carrying amount of right of use assets		59,985
Increase in accounts payable		34,153
Increase in accrued payroll liabilities		5,894
(Decrease) in lease liabilities		(58,976)
Net cash provided used in operating activities		**(79,630)**
Investing activities		
Capitalization of right of use assets		(222,834)
Purchase of property and equipment		(12,226)
Proceeds from sale of investments		200,000
Withdrawls from endowment		60,500
Net cash used in investing activities		**25,440**
Financing activities		
Capitalization of lease liabilities		224,225
Net cash provided by financing activities		**224,225**
Net change in cash & cash equivalents		**170,035**
Cash & cash equivalents		
Beginning of year		514,503
End of year	**$**	**684,538**
Supplemental disclosure of cash flow information		
Cash paid for interest & taxes	$	-
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	60,744
Noncash financing and investing cash flow (post adoption)		
Right of use assets obtained in exchange for lease obligation:		
Operating leases	$	222,834

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Children's Action Alliance, Inc. (CAA), a 501(c)3 nonprofit organization, strives to create an Arizona where all children and families thrive. CAA advocates for the well-being of more than 1.6 million Arizona children and their families at the state capitol and in the community. CAA works with elected officials, community partners, and coalitions to protect Arizona's ability to meet the education, health care, and human services needs of vulnerable children and families. For more information visit azchildren.org and follow CAA on Twitter and Facebook.

The Arizona Center for Economic Progress (the AZCenter) at Children's Action Alliance, Inc. is a leader in advancing policies that create fairer tax codes that raise the revenue needed to invest in education, affordable housing, health care, infrastructure, and other supports needed to build thriving communities and better economic opportunities for all Arizonans. The AZCenter works with advocates, policymakers, and communities to connect the dots between the inequities in the state economy and solutions to create a fair and socially just Arizona. For more information visit azeconcenter.org and follow the AZCenter on Twitter and Facebook.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Contributions Receivable

Contributions receivable consists of contributions promised to the Organization but not yet received.

The Organization records unconditional contributions receivable that are expected to be collected within one year at net realizable value. Unconditional contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the Statements of Activities.

An allowance for uncollectible contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Based on management's evaluation of the receivables at December 31, 2022, management expects the amounts to be fully collectible and therefore has not established an allowance for uncollectable receivables.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the Statements of Financial Position. Net investment income (loss) is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment fees.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments and Credit Risk

As of December 31, 2022, cash balances totaled $684,538 and were held in multiple accounts at a local financial institution. CAA maintains its cash balances at institutions insured by the Federal Deposit Insurance Corporation (FDIC). At times, cash balances may exceed federally insured limits. CAA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

The Organization's investments are not insured by the FDIC and are subject to various risks such as interest rate, credit and overall market volatility. Adverse economic conditions may result in a reduction of the investment's carrying amount. It is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the Statement of Financial Position. Management is of the opinion that the diversification of its invested assets among various asset classes (see note 4) should mitigate the impact of changes in any one class.

Property and Equipment

The Organization records property and equipment additions over $2,500 at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven years. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any resulting gain or loss is included in the Statement of Activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Furniture & equipment	3 - 8 years
Leasehold improvements	3 - 4 years

Carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indications of asset impairments during the year ended December 31, 2022.

Leases

At the beginning of an agreement or transaction, CAA evaluates the arrangement for whether it contains a lease. When a lease is present and the term of the lease is greater than 12 months, the right-of-use (ROU) asset and lease liability are included on the Statement of Financial Position. These assets and liabilities represent the present value of the future minimum lease payments over the lease term. A discount rate is determined using the risk-free rate at the commencement date of the lease and is used in all present value calculations, including leases. For leases with terms less than 12 months, the lease payments are recorded as lease expense on a straight-line basis over the life of the lease.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity.

Donor-restricted contributions whose restrictions are met (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same reporting period are reported as net assets without donor restriction support. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Revenue Recognition

Revenue recognition varies based on the following revenue streams.

Grants & contributions
The Organization recognizes contributions when cash, securities or other assets, unconditional promises to give, or notifications of a beneficial interest are received. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Special events
The Organization recognizes revenue from fundraising event ticket/table sales at the time of admission. The Organization records event revenue equal to the cost of direct benefits to donors, and contribution income for the excess received when the event takes place. All amounts received prior to the commencement of the event are deferred until the event takes place.

Donated Services and In-kind Contributions

Contributions of materials and professional services are recorded at their estimated values on the date of the contribution if they enhance the Organization's nonfinancial assets or require specialized skills that the Organization would normally purchase, if not provided by a contribution. CAA did not receive any in-kind contributions for the year ended December 31, 2022.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs for CAA are expensed in the period incurred and were $121,948 during the year ended December 31, 2022. 98% of these advertising expenses are direct programmatic expenses related to grant deliverables.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis on the Statement of Activities. The Statement of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among programs, administration and fundraising based on management's estimates of indirect overhead costs. Expenses that are attributed to more than one program or supporting function have been allocated among the various functions using a reasonable basis that is consistently applied, as follows:

- Salaries, benefits and payroll taxes are allocated on estimates of time and effort.
- Occupancy, insurance, printing & postage, repairs & maintenance
- Other expenses that cannot be directly identified are allocated based on management's estimates of indirect overhead costs.

Income Tax Status

CAA is organized as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and as an Organization described, in Section 501(c)(3), qualifies for the charitable contribution deduction under Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively. CAA is annually required to file a Return of Organization Exempt from Income Tax, Form 990, with the IRS. In addition, CAA is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that CAA is not subject to unrelated business income tax, and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates and those differences could be material.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Guidance

In June 2021, the FASB issued ASU No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-financial Assets, requires not-for-profits to present contributed non-financial assets as a separate line item in the Statement of Activities and provide additional disclosures about contributions of non-financial assets. Contributed non-financial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The ASU is effective for CAA for the year ended December 31, 2022.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the Statement of Financial Position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated Statement of Activities. The standard is effective for CAA for the year ended December 31, 2022. Upon adoption, the Organization elected the package of practical expedients that permits no reassessment at adoption of (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. Upon implementation of this standard, the Organization recognized operating lease liabilities of $224,225, which represents the present value of the future lease payments discounted using the risk-free treasury rate at the month of lease commencement, averaging 0.91%, and a right of use asset of $222,834 on the Statement of Financial Position as of January 1, 2022. The adoption did not result in a significant effect on amounts reported in the Statement of Activities for the year ended December 31, 2022.

Subsequent Events

CAA has evaluated subsequent events and transactions for potential recognition or disclosure through June 22, 2023, the date on which the financial statements were available to be issued.

NOTE 2 – COVID-19 PANDEMIC IMPACT

COVID pandemic affected both CAA's ability to execute daily and seasonal activities over the last three years.

<u>Decrease in Fundraising</u>
In January 2020 the organization celebrated the success of its 2019 signature, annual event (which has been helad for over 19 years, Through the Eyes of a Child (TEOC), where a total of $113,008 was raised. The organization was looking to build upon this success (while moving the event back to the fall) for the 2020 event. The event was budgeted to raise $100,000. However, due to the pandemic and government orders to mitigate spread of COVID, the event was canceled in 2020. In 2021 a very small event was held, that raised just under $29,000. In 2022, the event was held again, though, remaining smaller than those held prior to the pandemic and only raised $33,000.

<u>Advocacy Work Challenges</u>
CAA had an ambitious legislative agenda in 2020 much of which was forced to be abandoned as a result of the pandemic.

1. The organization piivoted to help inform and protect Arizonans from COVID and all the misinformation about COVID.
2. Arizona's legislature shut down and because of COVID, was forced to pass only the most essential functions of the state (passing a skinny budget).

NOTE 2 – COVID-19 PANDEMIC IMPACT (continued)

The challenges continued in 2021. The Arizona legislature chose not to follow, or to follow CDC COVID guidelines only partially. Please note that Arizona's legislative session is January to May, and in 2021 many of the 2020 COVID restrictions were still in place or being advised as the vaccination campaign was just ramping up during the period. Thus, CAA's most important work was once again hindered, and we again received fewer anticipated grants from funders. CAA faced many of the same challenges during the 2022 legislative session as in 2021.

<u>Coalition Building Challenges</u>
CAA invested over $50,000 in 2019 and early 2020 in development of a 4-year strategic plan, which was 90% complete by March of 2020. One of the 4 components of the plan was to engage and interact with Arizonans in a much more authentic and personal way. COVID made this work nearly impossible as no one was coming together for much of 2020 and despite the use of Zoom and other virtual tools, authentic engagement was extremely challenging. This work became more possible in 2021 and in 2022, but really hasn't gone back to normal until 2023.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, comprise the following:

		2022
Financial assets:		
Cash and cash equivalents	$	684,538
Contributions and accounts receivable, net		416,802
Endowment		925,254
Investments		1,756,043
Total financial assets		**3,782,637**
Less financial assets held to meet donor imposed restrictions:		
Specified purpose (note 9)		1,732,647
Donor restricted endowment funds held in perpetuity (note 9)		875,000
Less financial assets designated by the Board:		
Less board designated funds (note 5)		73,943
Total amount available for general expenditures within one year	**$**	**1,101,047**

NOTE 4 - INVESTMENTS

CAA reports certain assets at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

Investments consist of the following at December 31, 2022:

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash & equivalents	$ 60,089	$ -	$ -	$ 60,089
Common stock	924,535	-	-	924,535
Fixed income securities	1,222,028	-	-	1,222,028
Series HH bonds	53,000	-	-	53,000
Assets held at Community Foundation	-	421,645	-	421,645
Total	**$ 2,259,652**	**$ 421,645**	**$ -**	**$ 2,681,297**

While CAA's investments are held at multiple financial institutions, the pooled funds are held in a fund managed by Arizona Community Foundation (ACF) which is invested 100% in the Socially Responsible Pool. As fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement, the investments are shown as Level 2 due to the inputs being used for valuation. The fair value measurements have been provided by ACF.

At December 31, 2022, 82% of total investments and 55% of total assets were held as investments for CAA with a single investment company.

NOTE 5 – ENDOWMENTS

CAA's endowment consists of two components to provide annual funding for the early childhood program and general operations, the Endowment Fund and the Board Designated Fund. The Board Designated funds are classified as without donor restrictions. Any gains or earnings from the commingled investment account are considered without donor restrictions unless otherwise designated by the Board.

The Organization has interpreted the State of Arizona's enacted version of the Uniform Prudent Management of Institutional Funds Act, UPMIFA, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted contribution, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions, (a) the original value of gifts on the date received by the Organization, (b) the original value of subsequent gifts on the date received by the Organization and (c) accumulations to the endowment made under the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund is classified as donor-restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the donor restriction.

The Organization has adopted investment and spending policies for endowment assets with the objectives of preserving capital while concentrating on long-term growth. Accordingly, the investment objective is to achieve over a three to five-year market cycle, returns that will exceed inflation, plus 5% distributed to cover expenses as directed by the Board of Directors. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund and investment assets and allocation between asset classes, and strategies are managed to ensure the fund is not exposed to an unacceptable level of risk. The spending policy determines the amount of money that will be distributed from the Organization's endowment assets. The current spending policy is to evaluate the earnings of the endowment fund for the prior year and the planned expenditures for staff and projects for the early childhood program as a part of the annual Organization budget process. Recommendations will then be made for distributions from the endowment fund. The target distribution is 5% of the endowment fund balance, leaving the principal plus additional earnings in the fund. However, based on actual returns and the needs of the Organization, distributions may be below or above 5%.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The purpose of the donor-restricted endowment fund
- Maintaining sufficient liquidity
- The investment policies of the Organization

The Organization had the following endowment net asset composition by type of fund:

December 31, 2022	With Donor Restrictions	Without Donor Restrictions	Total
Board-designated endowment funds	$ -	$ 73,943	$ 73,943
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	875,000	-	875,000
Accumulated investment gains (losses)	(23,689)	-	(23,689)
	$ 851,311	**$ 73,943**	**$ 925,254**

NOTE 5 – ENDOWMENTS (continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). CAA has interpreted the Act and UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2022, the fund established for a Director of Early Childhood Development, with original gifts totaling $875,000, fair values of $851,311 and deficiencies of $23,689 were reported in net assets with donor restrictions disclosed in Note 9. These amounts were fully recovered during 2023 due to favorable market fluctuations.

Investment and Spending Policies

The Organization has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Changes in endowment net assets are as follows:

Year ended December 31, 2022	With Donor Restrictions	Board Designated	Total
Endowment net assets, beginning of year	$ 1,087,302	$ 94,440	$ 1,181,742
Investment return, net	(179,594)	(15,599)	(195,193)
Contributions	-	-	-
Distribution from board-designated endowment pursuant to distribution policy	-	(4,898)	(4,898)
Appropriation of endowment assets pursuant to spending policy	(56,397)	-	(56,397)
Endowment net assets, end of year	**$ 851,311**	**$ 73,943**	**$ 925,254**

A reclassification of $133,823 was made from Board Designated to With Donor Restrictions based on percentage allocation of initial contributions to the endowment fund during the year ended December 31, 2022.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are estimated to be collected as follows at December 31:

		2022
Due within one year	$	416,802
Due in one to five years		-
		416,802
Less allowance for uncollectable accounts		-
Contributions receivable, net	**$**	**416,802**

The entire $416,802 contributions receivable balance was restricted by donor specified purposes as of December 31, 2022.

NOTE 7 – LINE OF CREDIT

The Organization has a credit card line of credit with Wells Fargo for $32,000. Unpaid balances are reported as accounts payable. There was no amount outstanding as of December 31, 2022.

NOTE 8 - LEASES

The Organization had entered into a 51 month lease for office space commencing April 1, 2021 through June 30, 2025, with multiple rent escalations over the life of the lease. Additionally, the Organization had entered into two other leases for office equipment, on lease was for 60 months commencing October 28, 2021 through September 27, 2026 and the other was for 63 months which commenced on December 20, 2021 though March 19, 2027. In adopting ASC 842, the Organization elected to use the risk-free rate in determining the present value of the lease liabilities. The ROU assets and corresponding liabilities associated with future lease payments as of the year ended December 31, 2022:

		Operating
Right of use asset	$	162,849
Lease liability	$	165,249
Weighted average:		
Discount rate		0.91%
Remaining longest lease term		4 years & 4 months

For the year ended December 31, 2022, total operating lease cost was $62,512 and cash paid for rent was $60,744.

NOTE 8 - LEASES (continued)

Future maturities of lease liabilities as of the year ended December 31, 2022:

Years ended December 31,	Office space	Copier	Office equipment	Total
2022	$ 53,091	$ 5,840	$ 1,711	$ 60,642
2023	54,681	5,910	1,732	62,323
2024	27,940	5,982	1,754	35,676
2025	-	4,534	1,776	6,309
2026	-	-	298	298
Thereafter	-	-	-	-
Total minimum lease payments	**$ 135,712**	**$ 22,266**	**$ 7,271**	**$ 165,249**

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31:

	2022
Subject to expenditure for specified purpose:	
AZ Center	$ 678,370
Child Welfare	199,111
Early Childhood	294,342
Health Policy	506,032
Opportunity Passport	48,600
Southern AZ	29,881
Endowment deficiencies	(23,689)
	1,732,647
Subject to the passage of time	
2023 operations	89,461
	89,461
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:	
Endowment corpus	875,000
	875,000
Total net assets with donor restrictions	**$ 2,697,108**

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the years ended December 31:

		2022
Subject to specified purpose:		
AZ center	$	737,697
Child welfare		142,183
Early childhood		90,783
Health policy		249,369
Opportunity passport		5,000
Southern AZ		18,727
		1,243,759
Restricted-purpose spending-rate distributions and appropriations:		
Early Childhood Development Director		56,397
		56,397
Investment losses on donor restricted endowment funds:		
Net endowment loss		179,594
		179,594
Total net assets released from donor restrictions	**$**	**1,479,750**

There were $211,863 net assets received and released for the year ended December 31, 2022.

NOTE 10 – CONCENTRATIONS OF REVENUE

The Organization's primary source of revenue is grants. The concentrations of revenue for CAA consisted of the following for the year ended December 31:

	2022
Grants	94%
Contributions	5%
Special event	1%
	100%

NOTE 11 – EMPLOYEE BENEFIT PLAN

The Organization sponsors a 403(b) retirement plan for eligible employees. Contributions are determined by the Board of Directors but are limited to an amount allowable by income tax regulations. The contributions for 2022 were $31,497, which was a match of up to 3% of the participating employees' salaries.