

ROOTS & WINGS FOUNDATION
Financial Statements
December 31, 2023 and 2022
With Independent Auditor's Report

Roots & Wings Foundation
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December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Roots & Wings Foundation:

Opinion

We have audited the financial statements of Roots & Wings Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 Roots & Wings Foundation as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits 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 the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 the Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be 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 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 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 the 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 the Foundation'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.

Withum Smith & Brown, PC

July 18, 2024

Roots & Wings Foundation
Statements of Financial Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash	\$ 1,729,819	\$ 1,442,661
Contributions receivable	14,731	13,630
Grants receivable	28,855	12,500
Pledges receivable	10,000	20,000
Prepaid expenses	22,701	13,462
Security deposits	17,163	20,811
Gift cards	600	3,079
Property and equipment, net	437,024	446,272
Operating right-of-use asset, net	12,515	8,119
Intangible assets, net	<u>15,467</u>	<u>24,250</u>
 Total assets	 <u>\$ 2,288,875</u>	 <u>\$ 2,004,784</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 7,189	\$ 3,741
Accrued expenses	38,835	28,693
Lease liability - operating	20,861	8,119
Other liabilities	<u>12,412</u>	<u>4,018</u>
Total liabilities	<u>79,297</u>	<u>44,571</u>
 Net assets without donor restrictions		
Undesignated	1,425,562	1,514,048
Designated by the board for general operations	<u>400,000</u>	<u>400,000</u>
Total net assets without donor restrictions	1,825,562	1,914,048
 Net assets with donor restrictions	<u>384,016</u>	<u>46,165</u>
Total net assets	<u>2,209,578</u>	<u>1,960,213</u>
 Total liabilities and net assets	 <u>\$ 2,288,875</u>	 <u>\$ 2,004,784</u>

The Notes to Financial Statements are an integral part of these statements.

Roots & Wings Foundation
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue and support			
Fundraising, net of direct donor costs	\$ 253,501	\$ -	\$ 253,501
Private and corporate foundation and grant income	194,877	27,218	222,095
Morris and Union County grant income	94,734	-	94,734
Contributions of cash and other financial assets	323,084	346,798	669,882
Contributions of nonfinancial assets	57,537	-	57,537
Lease income	51,042	-	51,042
Interest income	21,685	-	21,685
Loss on disposal of right-of-use asset	(3,170)	-	(3,170)
Investment loss	(426)	-	(426)
Net assets released from restrictions	36,165	(36,165)	-
Total revenue and support	<u>1,029,029</u>	<u>337,851</u>	<u>1,366,880</u>
Expenses			
Program services			
Youth support	657,793	-	657,793
Youth housing	225,008	-	225,008
Total program services	<u>882,801</u>	<u>-</u>	<u>882,801</u>
Supporting services			
Management and general	93,005	-	93,005
Fundraising	141,708	-	141,708
Total supporting services	<u>234,714</u>	<u>-</u>	<u>234,714</u>
Total expenses	<u>1,117,515</u>	<u>-</u>	<u>1,117,515</u>
Changes in net assets	(88,486)	337,851	249,365
Net assets			
Beginning of year	<u>1,914,048</u>	<u>46,165</u>	<u>1,960,213</u>
End of year	<u>\$ 1,825,562</u>	<u>\$ 384,016</u>	<u>\$ 2,209,578</u>

The Notes to Financial Statements are an integral part of this statement.

Roots & Wings Foundation
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2022

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Fundraising, net of direct donor costs	\$ 335,937	\$ -	\$ 335,937
Private foundation and grant income	277,288	36,165	313,453
Morris and Union County grant income	126,395	-	126,395
Contributions of cash and other financial assets	136,986	-	136,986
Contributions of nonfinancial assets	46,953	-	46,953
Rental income	54,825	-	54,825
Interest income	3,573	-	3,573
Investment loss	(78)	-	(78)
Net assets released from restrictions	11,000	(11,000)	-
Total revenue and support	<u>992,879</u>	<u>25,165</u>	<u>1,018,044</u>
Expenses			
Program services			
Youth support	561,211	-	561,211
Youth housing	237,302	-	237,302
Total program services	<u>798,513</u>	<u>-</u>	<u>798,513</u>
Supporting services			
Management and general	84,634	-	84,634
Fundraising	120,294	-	120,294
Total supporting services	<u>204,928</u>	<u>-</u>	<u>204,928</u>
Total expenses	<u>1,003,441</u>	<u>-</u>	<u>1,003,441</u>
Changes in net assets	(10,562)	25,165	14,603
Net assets			
Beginning of year	<u>1,924,610</u>	<u>21,000</u>	<u>1,945,610</u>
End of year	<u>\$ 1,914,048</u>	<u>\$ 46,165</u>	<u>\$ 1,960,213</u>

The Notes to Financial Statements are an integral part of this statement.

Roots & Wings Foundation
Statement of Functional Expenses
Year Ended December 31, 2023

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Youth Support</u>	<u>Youth Housing</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries	\$ 351,995	\$ -	\$ 351,995	\$ 31,589	\$ 67,691	\$ 99,280	\$ 451,275
Payroll taxes and employee benefits	48,046	-	48,046	4,991	9,359	14,351	62,397
Total personnel services	<u>400,041</u>	<u>-</u>	<u>400,041</u>	<u>36,580</u>	<u>77,050</u>	<u>113,631</u>	<u>513,672</u>
Lease and occupancy	-	225,008	225,008	-	-	-	225,008
Building expense	43,080	-	43,080	5,069	2,534	7,603	50,683
Insurance	19,278	-	19,278	6,694	804	7,498	26,776
Training	746	-	746	745	-	745	1,491
Travel and meeting expenses	4,412	-	4,412	565	-	565	4,977
Client support	61,567	-	61,567	-	-	-	61,567
Professional fees	80,762	-	80,762	20,533	14,860	35,393	116,155
Office expense	20,121	-	20,121	10,062	10,059	20,121	40,242
Special events	-	-	-	-	125,597	125,597	125,597
Advertising expenses	6,935	-	6,935	6,715	6,729	13,444	20,379
Credit loss expense	-	-	-	4,079	-	4,079	4,079
Depreciation and amortization	20,851	-	20,851	1,963	1,717	3,680	24,531
Total	<u>257,752</u>	<u>225,008</u>	<u>482,760</u>	<u>56,425</u>	<u>162,300</u>	<u>218,725</u>	<u>701,485</u>
Less: Expenses included with revenues and support on the statement of activities and changes in net assets							
Cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,642)</u>	<u>(97,642)</u>	<u>(97,642)</u>
Total expenses	<u>\$ 657,793</u>	<u>\$ 225,008</u>	<u>\$ 882,801</u>	<u>\$ 93,005</u>	<u>\$ 141,708</u>	<u>\$ 234,714</u>	<u>\$ 1,117,515</u>

The Notes to Financial Statements are an integral part of this statement.

Roots & Wings Foundation
Statement of Functional Expenses
Year Ended December 31, 2022

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Youth Support</u>	<u>Youth Housing</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries	\$ 300,339	\$ -	\$ 300,339	\$ 26,954	\$ 57,757	\$ 84,711	\$ 385,050
Payroll taxes and employee benefits	39,470	-	39,470	4,100	7,689	11,789	51,259
Total personnel services	<u>339,809</u>	<u>-</u>	<u>339,809</u>	<u>31,054</u>	<u>65,446</u>	<u>96,500</u>	<u>436,309</u>
Rent and occupancy	-	237,302	237,302	-	-	-	237,302
Building expense	44,153	-	44,153	5,195	2,597	7,792	51,945
Insurance	20,059	-	20,059	6,965	837	7,802	27,861
Training	8,348	-	8,348	8,337	-	8,337	16,685
Travel and meeting expenses	6,446	-	6,446	826	-	826	7,272
Client support	54,817	-	54,817	-	-	-	54,817
Professional fees	50,622	-	50,622	19,996	10,585	30,581	81,203
Office expense	14,436	-	14,436	7,219	7,217	14,436	28,872
Special events	-	-	-	-	115,014	115,014	115,014
Advertising expenses	3,343	-	3,343	3,237	3,244	6,481	9,824
Depreciation and amortization	19,178	-	19,178	1,805	1,579	3,384	22,562
Total	<u>221,402</u>	<u>237,302</u>	<u>458,704</u>	<u>53,580</u>	<u>141,073</u>	<u>194,653</u>	<u>653,357</u>
Less: Expenses included with revenues and support on the statement of activities and changes in net assets							
Cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(86,225)</u>	<u>(86,225)</u>	<u>(86,225)</u>
Total expenses	<u>\$ 561,211</u>	<u>\$ 237,302</u>	<u>\$ 798,513</u>	<u>\$ 84,634</u>	<u>\$ 120,294</u>	<u>\$ 204,928</u>	<u>\$ 1,003,441</u>

The Notes to Financial Statements are an integral part of this statement.

Roots & Wings Foundation
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating activities		
Changes in net assets	\$ 249,365	\$ 14,603
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	24,531	22,562
Credit loss expense	4,079	-
Loss on disposal of right-of-use asset	3,170	-
Amortization of right-of-use asset - operating	5,667	4,574
Donated securities	(30,985)	(5,010)
Realized (gain) loss on donated securities	(426)	78
Operating right-of-use asset	(13,233)	-
Changes in operating assets and liabilities		
Contributions receivable	(5,180)	(13,630)
Grants receivable	(16,355)	(500)
Pledges receivable	10,000	10,000
Prepaid expenses	(9,239)	11,492
Security deposits	3,648	2,391
Gift cards	2,479	6,249
Accounts payable	3,448	(15,362)
Accrued expenses	10,142	4,805
Lease liability - operating	12,742	(4,574)
Other liabilities	8,394	(13,650)
Net cash provided by operating activities	<u>262,247</u>	<u>24,028</u>
Investing activities		
Purchase of equipment	(6,500)	(5,523)
Website redevelopment	-	(15,350)
Proceeds from sale of investments	31,411	4,932
Net cash provided by (used in) investing activities	<u>24,911</u>	<u>(15,941)</u>
Net change in cash	287,158	8,087
Cash		
Beginning of year	<u>1,442,661</u>	<u>1,434,574</u>
End of year	<u>\$ 1,729,819</u>	<u>\$ 1,442,661</u>
Supplemental disclosure of cash flow information		
Noncash investing and financing activity		
Donated investment securities	<u>\$ 30,985</u>	<u>\$ 5,010</u>
Increases to right-of-use assets at lease inception	<u>\$ 13,233</u>	<u>\$ 12,693</u>
Increases to lease liabilities at lease inception	<u>\$ 18,409</u>	<u>\$ 12,693</u>

The Notes to Financial Statements are an integral part of these statements.

Roots & Wings Foundation
Notes to Financial Statements
December 31, 2023 and 2022

1. NATURE OF ACTIVITIES

Roots & Wings Foundation (the “Foundation”), a New Jersey nonprofit corporation, formed in 1999, is a nonprofit foundation that provides young adults who age out of the foster care system in New Jersey with safe housing, emotional support, life skills, and practical opportunities; inspiring them to rise toward their greatest potential.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, gains, and losses are classified based on 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 that are resources representing the portion of expendable funds available for support of the Foundation’s programs and activities. These resources are not subject to donor-imposed stipulations. Net assets without donor restrictions also include those expendable resources which may have been designated for special use by the Board of Trustees. Board-designated net assets amounted to \$400,000 as of both December 31, 2023 and 2022, which is to be used as a reserve in the event the Foundation has difficulty meeting cash flow needs.

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. The Foundation had net assets with donor restrictions in the amount of \$384,016 and \$46,165 as of December 31, 2023 and 2022, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities, revenue and expenses and changes therein, and disclosures of contingent assets and contingent liabilities and accompanying notes. It is reasonably possible that the Foundation’s estimates may change in the near term.

Revenue and Support Recognition

The Foundation recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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.

A portion of the Foundation’s revenue is derived from cost reimbursable county 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 the Foundation has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position.

Roots & Wings Foundation
Notes to Financial Statements
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All contributions are considered available for the Foundation's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as support with donor restrictions and increases in net assets with donor restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions and increases in net assets without donor restrictions. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Revenue is measured based on consideration specified in a contract with a customer. This occurs with the transfer of control at a specific point in time. The Foundation recognizes fundraising and special event revenue at the time the event occurs. The Foundation records special events revenue equal to the fair value of direct benefits to donors and contribution revenue for the excess received when the event takes place. Any event or services revenue received in advance of the event or services being performed is recorded as deferred revenue. The Foundation did not have any contract receivables (assets or liabilities) as of December 31, 2022 and 2021 or January 1, 2022.

Contributions, Grants, and Pledges Receivable and Allowance for Credit Losses

Contributions, grants, and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Write-offs are determined on a case-by-case basis. There was no allowance for uncollectible accounts established as of December 31, 2023 and 2022, since management believes all receivables will be collected in the normal course of operations.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of gift when donated. Depreciation is provided for by the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, minor repairs, and renewals of minor items are charged as a reduction to net assets. Major renewals and improvements are capitalized.

Leases

Effective January 1, 2022, the Foundation accounts for leases with a term greater than 12 months in accordance with Accounting Standards Codification ("ASC") 842. In accordance with ASC 842, the Foundation determines if an arrangement is or contains a lease at contract inception and recognizes a right-of-use asset and lease liability at the lease commencement date. Contract terms determine if a lease will be accounted for as an operating lease or finance lease. Finance leases are generally those leases that allow the Foundation to substantially utilize or pay for the entire asset over its estimated useful life. All other leases are categorized as operating leases. The Foundation has no financing leases. Based on the lease contracts, nonlease components are separated and recorded as other liabilities, as applicable. As a result, the nonlease components are not included in the lease calculation. The lease terms used to calculate the right-of-use asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option.

Several key estimates and judgements are used to determine the right-of-use assets and operating lease liabilities, including the discount rate used to discount the unpaid lease payments to present value, lease term, and lease payments. ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease unless an entity elects the practical expedient to use the risk-free rate. The Foundation has elected the practical expedient to utilize the risk-free rate of return for U.S. Treasury securities of a similar term at the date of inception.

Roots & Wings Foundation
Notes to Financial Statements
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For operating leases, the lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on the risk-free rate. Right-of-use assets are recognized based on the initial present value of the fixed lease payments, plus initial direct costs from executing the lease. Lease assets are tested for impairment in the same manner as long-lived assets used in operations. Lease expense for operating leases is recognized on a straight-line basis over the lease term and is included in office expense in the accompanying statements of activities and changes in net assets.

The Foundation has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less. The Foundation recognizes the lease payments associated with short-term leases as an expense on a straight-line basis over the lease term.

Valuation of Long-Lived Assets

In accordance with the provisions of accounting for the impairment or disposal of long-lived assets, the Foundation reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Management has determined that no impairment adjustment was required to be recorded for the years ended December 31, 2023 and 2022.

Intangible Assets

In accordance with Financial Accounting Standards Board ("FASB") ASC 350-40, *Intangibles Goodwill and Other - Internal Use Software and Website Development Costs*, internal and external costs incurred during the application development stage to develop computer software and websites solely to meet the Foundation's internal needs are capitalized. Costs incurred during the preliminary project stage and postimplementation/operation stage are expensed as incurred. Capitalized software and website costs are amortized on a straight-line basis over the estimated useful lives.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities and changes in net assets and statements of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements report certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to each program based on a percentage of use determined by management to reflect the benefit received. The percentage of use is primarily determined by cost allocation techniques such as time and effort. Program expenses are those related to client assistance activities and are allocated based on direct expenditures incurred. Management and general expenses relate to supporting expenses, both direct and indirect, associated with those programs and are allocated based on salaries associated with the office administrative staff. Fundraising expenses include the direct costs of special events and the allocation of employees' salaries and other costs involved in fundraising and special events based on methods considered by management to be reasonable.

Income Taxes

The Foundation is a foundation described under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is therefore exempt from federal income taxes under Section 501(a) of the Code. The Foundation is also exempt under Title 15 of the State of New Jersey Corporations and Associations Not for Profit Act. Accordingly, no provision for federal or state income taxes has been presented in the accompanying financial statements.

Roots & Wings Foundation
Notes to Financial Statements
December 31, 2023 and 2022

The Foundation follows the provisions of FASB ASC 740, *Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition related to those tax positions.

The Foundation believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. There are no income tax related penalties or interest included in these financial statements.

As required by law, the Foundation files informational returns with the U.S. federal and New Jersey and New York state jurisdictions on an annual basis, Form 990 with the Internal Revenue Service, Form CRI-300R with the State of New Jersey, and Form CHAR 500 with the State of New York. These returns are subject to examination by these authorities within certain statutorily defined periods established by the respective jurisdictions.

Fair Value Measurements

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The measurement of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). An exit price valuation will include margins for risk even if they are not observable. As the Foundation is released from risk, the margins for risk will also be released through net realized capital gains (losses) in net income. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Roots & Wings Foundation

Notes to Financial Statements

December 31, 2023 and 2022

Level 3 assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

- Market approach prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- Income approach techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option pricing models, and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information might not be available. When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or settle or otherwise fulfill a liability is not relevant when measuring fair value.

The following is a description of valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Cash, contributions receivable, grants receivable, pledges receivable, prepaid expenses, security deposits, gift cards, accounts payable, accrued expenses, custodial funds payable, deferred revenue, and other liabilities – the carrying amounts approximate fair value because of the short-term maturity of these instruments. The Foundation considers contributions and grants receivable at December 31, 2023 and 2022 to be current assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments

The Foundation records investments in accordance with FASB ASC Topic 958-320, *Not for Profit Entities: Investments – Debt Securities*. Investments are initially reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities and changes in net assets. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sale of securities are based on average cost and are recorded in the statements of activities and changes in net assets in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Vacation Pay Accrual

The Foundation's policy regarding accrued vacation is to allow employees to carry forward up to five vacation days into the following year. The Foundation calculates unused vacation days as of the end of the calendar year, December 31. All unused time must be utilized by March 31 of the following year or it will be forfeited. As of December 31, 2023 and 2022, the accrued vacation liability was \$-0- and \$1,369, respectively, and is included in accrued expenses on the statements of financial position.

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Advertising

The Foundation expenses the costs of advertising the first time advertising takes place. The Foundation incurred \$20,379 and \$9,824 in advertising expenses for the years ended December 31, 2023 and 2022, respectively, and are included in advertising expenses on the statements of functional expenses.

Donated Services

The Board of Trustees makes significant contributions of time relative to general management and operations of the Foundation. These donated services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services in accordance with accounting principles generally accepted in the United States of America.

Accounting Pronouncements Implemented in the Current Year

Current Expected Credit Losses

In June 2016, FASB issued an Accounting Standards Update (“ASU”) amending the accounting for credit losses on financial instruments. This methodology replaces the incurred loss methodology with the expected credit losses using a wide range of reasonable and supportable information. The amendment affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposure, and other financial instruments recorded at amortized cost. The Foundation adopted the new standard effective January 1, 2023, using the modified retrospective approach. The adoption of this ASU did not have a material impact on the financial statements.

3. LIQUIDITY AND AVAILABILITY

The Foundation regularly monitors liquidity required to meet its operating needs and other obligations as they become due. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities to be general expenditures. Amounts available for general expenditures over a 12-month period include donor-restricted amounts that are available for ongoing programmatic and support expenditures.

The following reflects the Foundation’s financial assets, as of December 31, 2023 and 2022, reduced by amounts not available for general use within one year because of contractual or internal restrictions and designations:

	<u>2023</u>	<u>2022</u>
Financial assets at year-end		
Cash	\$ 1,729,819	\$ 1,442,661
Contributions receivable	14,731	13,630
Grants receivable	28,855	12,500
Pledges receivable	<u>10,000</u>	<u>20,000</u>
Total financial assets	<u>1,783,405</u>	<u>1,488,791</u>
Less: Amounts not available to be used within one year		
Board-designated funds for reserves	400,000	400,000
Net assets with donor restrictions	<u>384,016</u>	<u>46,165</u>
	<u>784,016</u>	<u>446,165</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 999,389</u>	<u>\$ 1,042,626</u>

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The Foundation has a goal to maintain financial assets on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$270,000. In addition to these financial assets, a significant portion of the Foundation's annual expenditures will be funded by current-year operating revenues including fundraising, private foundations and grant income, and donations. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation also has a \$25,000 line of credit available to meet cash flow needs. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution as well.

4. INVESTMENTS

Investments are stated at fair value based on quoted market prices. It is the Foundation's policy to liquidate donated securities immediately upon receipt.

Investments consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ -	\$ -
Donated securities	30,985	5,010
Sales	(31,411)	(4,932)
Realized gain (loss)	426	(78)
Ending balance	<u>\$ -</u>	<u>\$ -</u>

There were no investments as of December 31, 2023 and 2022.

5. PROPERTY AND EQUIPMENT

Property and equipment and their related estimated useful lives consist of the following at December 31:

	<u>Estimated Useful Life (Years)</u>	<u>2023</u>	<u>2022</u>
Land		\$ 180,800	\$ 180,800
Building	39	311,280	311,280
Building improvements	10	52,184	52,184
Furniture and fixtures	7	27,793	21,293
Vehicles	5	23,550	23,550
Computers	5	11,014	11,014
Total property and equipment		606,621	600,121
Less: Accumulated depreciation		<u>(169,597)</u>	<u>(153,849)</u>
Net property and equipment		<u>\$ 437,024</u>	<u>\$ 446,272</u>

Depreciation expense charged to operations for the years ended December 31, 2023 and 2022 totaled \$15,748 and \$20,462, respectively.

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6. LEASES

The Foundation leases equipment for operations. In the prior year, the Foundation had a lease with an expiration date in 2024. During 2023, the Foundation entered into a new equipment lease set to expire in December 2028. The equipment from the prior-year lease was returned to the lessor, but the Foundation is contractually obligated to make payments through the initial date of expiration. Therefore, the outstanding balance due remains reflected in the balance as presented on the statement of financial position. The right-of-use asset associated with this lease has been written off as of December 31, 2023.

The statement of financial position includes operating lease right-of-use asset and liability at December 31, as follows:

	<u>2023</u>	<u>2022</u>
Operating lease right-of-use asset, gross	\$ 16,693	\$ 12,693
Less: Accumulated amortization of right-of-use asset	<u>(4,178)</u>	<u>(4,574)</u>
Total operating lease right-of-use asset, net	<u>\$ 12,515</u>	<u>\$ 8,119</u>

Operating lease expense for the years ended December 31, 2023 and 2022 was \$6,747 and \$4,680, respectively. There was no variable lease expense for the years ended December 31, 2023 and 2022.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liability for future years ending December 31:

2024	\$ 7,434
2025	3,924
2026	3,924
2027	3,924
2028	<u>3,597</u>
Total undiscounted future lease payments	22,803
Less: Imputed interest	<u>(1,942)</u>
Total operating lease liability at December 31, 2023	<u>\$ 20,861</u>

The remaining lease term and the discount rate for the operating lease liability at December 31, 2023 are 4.22 years and 3.88%, respectively. The remaining lease term and discount rate for the operating lease liability at December 31, 2022 are 1.75 years and 1.04%, respectively.

The Foundation also incurs additional rent expenses through the payment of rent and utilities on behalf of tenants for apartment units occupied in connection with the Foundation's programs. Total rental expense charged to operations for this purpose for the years ended December 31, 2023 and 2022 was \$162,624 and \$189,489, respectively.

The following table summarizes certain other information related to the Foundation's operating leases for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ (12,742)	\$ 4,574

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7. INTANGIBLE ASSETS

Intangible assets and their related estimated useful lives consist of the following at December 31:

	<u>Estimated Useful Life (Years)</u>	<u>2023</u>	<u>2022</u>
Computer software	3	\$ 42,775	\$ 42,775
Website	3	<u>13,750</u>	<u>13,750</u>
Total intangible assets		56,525	56,525
Less: Accumulated amortization		<u>(41,058)</u>	<u>(32,275)</u>
Net intangible assets		<u>\$ 15,467</u>	<u>\$ 24,250</u>

Amortization expense charged to operations for the years ended December 31, 2023 and 2022 totaled \$8,783 and \$2,100, respectively.

8. LINE OF CREDIT

The Foundation has an unsecured line of credit with TD Bank in the amount of \$25,000. The interest rate on this line of credit is subject to change from time to time based on an independent index, the Wall Street Journal Prime Rate, which is added to the margin of 3%. The index at December 31, 2023 and 2022 was 11.5% and 7.50% per annum, respectively. The revolving line of credit will be reviewed annually, and renewal is at the sole discretion of the bank. The line of credit was set to expire on March 31, 2024. Subsequent to year-end, the line of credit was renewed for an additional year through March 31, 2025. There were no borrowings made during 2023 and 2022, nor were there any amounts outstanding against the line of credit at December 31, 2023 and 2022.

9. CONTRIBUTED NONFINANCIAL ASSETS

The Foundation received contributed nonfinancial assets composed of food and supplies, gift cards, fundraising auction items, and professional services during the years ended December 31, 2023 and 2022 in support of its programs and operations which are recognized in the statements of activities and changes in net assets as follows:

<u>Nonfinancial Contributions Category</u>	<u>Type of Contribution</u>	<u>Valuation</u>	<u>2023</u>	<u>2022</u>
Client support	Food and supplies	Fair market value for similar item	\$ 16,687	\$ 5,739
Client support	Gift cards	Fair market value for gift card	2,520	4,028
Special events	Auction items	Donor provided fair market value	27,955	28,789
Special events	Marketing services	Donor provided current billing rates	1,000	1,272
Professional fees	Marketing services	Donor provided current billing rates	9,375	3,375
Professional fees	Legal services	Donor provided current billing rates	-	3,750
			<u>\$ 57,537</u>	<u>\$ 46,953</u>

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Contributed nonfinancial assets are reflected as contributions at their fair value on the date of the donation and are reported as support without donor restrictions unless explicit donor stipulation specify how donated assets must be used. The Foundation benefited from donated food and supplies, gift cards, and auction items, which amounted to \$47,162 and \$38,556 and have been reported as contributions of nonfinancial assets on the statements of activities and changes in net assets and within their functional expenses category for the years ended December 31, 2023 and 2022, respectively. Donated marketing and legal services in the amount of \$10,375 and \$8,397 have been reported as contributions of nonfinancial revenue on the statements of activities and changes in net assets and within their functional expenses category for the years ended December 31, 2023 and 2022, respectively. All donated services were utilized by the Foundation's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

10. OTHER INCOME

The Foundation entered into a four-year lease agreement with the State of New Jersey to rent out office space in 2018. The lease requires the State of New Jersey to make monthly payments of \$4,079 from February 1, 2022 through January 31, 2024.

In September 2021, the Foundation entered into a two-year lease agreement with Project Readiness, a New Jersey nonprofit corporation, to rent out office space. The lease required the tenant to make monthly payments of \$500 from October 4, 2021 through October 4, 2023. During 2023, a renewal was signed, with an effective term of October 4, 2023 through September 29, 2024. There was no change in monthly payments.

Future lease income associated with these leases for years ending December 31 are as follows:

2024	\$ 12,658
2025	50,412
2026	<u>50,412</u>
	<u>\$ 113,482</u>

Lease income amounted to \$51,042 and \$54,825, respectively, for the years ended December 31, 2023 and 2022.

On January 17, 2024, the Foundation agreed to a renewal of the above-mentioned lease with the State of New Jersey for a term of two years. This renewed lease's effective term is from February 1, 2024 through January 31, 2026 with monthly payments of \$4,201. The agreement also includes an option for an additional two-year extension with payments of \$4,327. If the option is executed, the effective term of the lease would be extended through January 31, 2028.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes as of December 31:

	<u>2023</u>	<u>2022</u>
Purchase of permanent housing	\$ 10,000	\$ 10,000
Program expenses	<u>374,016</u>	<u>36,165</u>
	<u>\$ 384,016</u>	<u>\$ 46,165</u>

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Net assets released from donor restrictions by incurring expenses satisfying the specified restrictions placed by donors amounted to \$36,165 and \$11,000 for the years ended December 31, 2023 and 2022, respectively.

12. PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
One year or less	\$ 10,000	\$ 10,000
One to five years	-	10,000
	<u>\$ 10,000</u>	<u>\$ 20,000</u>

Calculation of discount on pledges receivable was deemed immaterial and is not reflected in the pledges receivable balance at December 31, 2023 and 2022. All pledges receivable are expected to be collected and are recorded at their net realizable value.

13. FUNDRAISING

The Foundation held several fundraising events during the years ended December 31, 2023 and 2022. The gross receipts from these events totaled \$351,143 and \$422,162 for 2023 and 2022, respectively. Direct expenses consisting of raffle tickets, facility costs, and other related expenses totaled \$97,642 and \$86,225 for 2023 and 2022, respectively, leaving net proceeds of \$253,501 and \$335,937 for 2023 and 2022, respectively.

14. CONCENTRATIONS

The Foundation has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of \$250,000. This risk is mitigated by deposits made through an IntraFi program, in which cash balances are collateralized through certificates of deposits by the bank at which funds are held. Therefore, despite significant cash balances, it is unlikely that any loss incurred or a lack of access to such funds would have a significant adverse impact on the Foundation's financial condition, results of operations, and cash flows.

Funding for the Foundation comes from private foundations and grants, fundraising, donations, rental income, and government sources. As of December 31, 2023 and 2022, approximately 22% and 11% of the funding for the Foundation came from one donor, respectively. There is no guarantee that such funding will continue. Additionally, some net asset balances are dependent upon approval of disbursement monies by the granting agencies.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 18, 2024, which is the date the financial statements were available to be issued. Based upon this evaluation, the Foundation has determined that, other than those mentioned in Note 10, no subsequent events have occurred, which would require disclosure in or adjustment to the financial statements.