



Financial Statements  
August 31, 2023 and 2022

# Foster's Home Foundation

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## Independent Auditor's Report

To the Board of Directors  
Foster's Home Foundation  
Stephenville, Texas

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Foster's Home Foundation (a nonprofit organization), which comprise the statements of financial position as of August 31, 2023 and 2022, and the related statements of activities, 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 referred to above present fairly, in all material respects, the financial position of Foster's Home Foundation as of August 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 of the Audit of the Financial Statements section of our report. We are required to be independent of Foster's Home 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 these 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 Foster's Home 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 of 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 Foster's Home 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 Foster's Home 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.

*Eide Bailly LLP*

Abilene, Texas  
February 6, 2024

Foster's Home Foundation  
Statements of Financial Position  
August 31, 2023 and 2022

	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$ 500,669	\$ 416,895
Investments	18,572,495	17,472,076
Due from Sherwood and Myrtie Foster's Home for Children, Inc.	195,507	-
Assets held in charitable remainder trusts	28,828	30,539
Total assets	\$ 19,297,499	\$ 17,919,510
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 13,044
Due to Sherwood and Myrtie Foster's Home for Children, Inc.	-	40,210
Accrued expense	-	272
Liability under charitable remainder trust agreements	13,703	15,414
Annuities payable	357,299	350,364
Total liabilities	371,002	419,304
<b>Net assets</b>		
Without donor restrictions		
Undesignated	18,625,516	17,235,984
Designated for scholarship	41,415	39,136
With donor restrictions		
Scholarships	244,441	209,961
Charitable remainder trusts	15,125	15,125
Total net assets	18,926,497	17,500,206
Total liabilities and net assets	\$ 19,297,499	\$ 17,919,510

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Contributions of cash and other financial assets	\$ 608,415	\$ 22,250	\$ 630,665
Contributions of cash from Sherwood and Myrtie Foster's Home for Children, Inc.	475	-	475
Contributions of nonfinancial assets	-	-	-
Net investment return	526,539	1,274	527,813
Oil royalties	227,516	-	227,516
Realized and unrealized gains (losses) on investments	276,472	10,956	287,428
Miscellaneous revenue	22,573	-	22,573
Net assets released from restriction	-	-	-
<b>Total revenues</b>	<b>1,661,990</b>	<b>34,480</b>	<b>1,696,470</b>
<b>Expenses</b>			
<b>Program</b>			
Payments to or on behalf of Sherwood and Myrtie Foster's Home for Children, Inc.	-	-	-
Scholarships and tuition	14,406	-	14,406
<b>Support</b>			
Accounting and legal	23,100	-	23,100
Property tax	11,408	-	11,408
General operating	177,590	-	177,590
Fundraising	-	-	-
<b>Total expenses</b>	<b>226,504</b>	<b>-</b>	<b>226,504</b>
<b>Other changes</b>			
Change in value of split interest agreements	(43,675)	-	(43,675)
<b>Total other changes</b>	<b>(43,675)</b>	<b>-</b>	<b>(43,675)</b>
Change in net assets	1,391,811	34,480	1,426,291
Net assets, beginning of year	17,275,120	225,086	17,500,206
Net assets, end of year	<u>\$ 18,666,931</u>	<u>\$ 259,566</u>	<u>\$ 18,926,497</u>

See Notes to Financial Statements

Foster's Home Foundation  
 Statements of Activities  
 Years Ended August 31, 2023 and 2022

2022		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 102,029	\$ 1,600	\$ 103,629
595	19,828	20,423
3,352,039	-	3,352,039
342,108	10,743	352,851
262,645	-	262,645
(2,484,698)	(30,869)	(2,515,567)
7,751	-	7,751
2,600	(2,600)	-
<u>1,585,069</u>	<u>(1,298)</u>	<u>1,583,771</u>
300,000	-	300,000
11,883	-	11,883
27,277	-	27,277
5,653	-	5,653
180,477	-	180,477
10,391	-	10,391
<u>535,681</u>	<u>-</u>	<u>535,681</u>
<u>159,159</u>	<u>-</u>	<u>159,159</u>
<u>159,159</u>	<u>-</u>	<u>159,159</u>
1,208,547	(1,298)	1,207,249
<u>16,066,573</u>	<u>226,384</u>	<u>16,292,957</u>
<u>\$ 17,275,120</u>	<u>\$ 225,086</u>	<u>\$ 17,500,206</u>

Foster's Home Foundation  
 Statements of Functional Expenses  
 Years Ended August 31, 2023 and 2022

	2023	2022
Expenses		
Program		
Payments to or on behalf of Sherwood and Myrtie Foster's Home for Children, Inc.	\$ -	\$ 300,000
Scholarships and tuition	14,406	11,883
Total program	14,406	311,883
Support		
Accounting and legal	23,100	27,277
Property tax	11,408	5,653
Salaries, wages and benefits	160,000	160,000
Miscellaneous	900	4,327
Office and subscriptions	16,690	16,150
Total support	212,098	213,407
Fundraising	-	10,391
Total fundraising	-	10,391
Total expenses	\$ 226,504	\$ 535,681



Foster's Home Foundation  
Statements of Cash Flows  
Years Ended August 31, 2023 and 2022

	2023	2022
Operating activities		
Change in net assets	\$ 1,426,291	\$ 1,207,249
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized and unrealized (gains) losses on investments	(287,428)	2,515,567
Change in value of split interest agreements	43,675	(159,159)
Contributions of nonfinancial assets	-	(3,352,039)
Decrease in due from/to Sherwood and Myrtie Foster's Home for Children, Inc.	(235,717)	(79,790)
Decrease in accounts payable	(13,044)	-
(Decrease) increase in accrued liabilities	(272)	272
Net cash from operating activities	933,505	132,100
Investing activities		
Proceeds from the sale of investments	3,899,662	5,523,939
Purchases of investments	(4,712,653)	(5,520,444)
Net cash (used for) from investing activities	(812,991)	3,495
Financing activities		
Payments on split interest agreements	(36,740)	(39,378)
Net cash used for financing activities	(36,740)	(39,378)
Change in cash and cash equivalents	83,774	96,217
Beginning cash and cash equivalents	416,895	320,678
Ending cash and cash equivalents	\$ 500,669	\$ 416,895

**Note 1 - Summary of Significant Accounting Policies**

Foster's Home Foundation (the Foundation) was organized in March 1992 for the purpose of the advancement of charitable, scientific and educational purposes of and for the Sherwood and Myrtie Foster's Home for Children (the Home). The Foundation may also provide support for any and all other lawful charitable purposes. The Board of Directors of the Foundation are elected by affirmative vote of a majority of the current directors; however, a significant number of the Foundation's Board of Directors also serves on the board for Foster's Home. The Sherwood and Myrtie Foster's Home for Children holds a significant economic interest in the net assets of the Foundation. As a result, the financial statements of the Foundation are consolidated with the financial statements of the Home. The financial statements presented in this report represent the Foundation assets, liabilities and net assets only, and exclude the Home's activity for the years presented.

**Basis of Accounting**

The financial statements of Foster's Home Foundation have been prepared on the accrual basis of accounting. Under this basis of accounting, revenue is recognized when earned, and expenses are recognized when incurred.

**Basis of Presentation**

The focus of these financial statements is to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of revenues, expenses, gains and losses into two classes of net assets – net assets without donor restrictions and net assets with donor restrictions.

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor-imposed restrictions. The board of directors has designated, from net assets without donor restrictions, net assets for a scholarship fund.

*Net Assets With Donor Restrictions* – Net assets subject to donor-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 that resources be maintained in perpetuity. The Foundation reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. These result in reclassification from net assets with donor restrictions to net assets without donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**Revenues**

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets with donor restrictions class, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Board designated net assets without donor restrictions have been invested in an investment portfolio specifically for scholarships for children who have lived at Foster's Home for Children. The restricted amounts included in the portfolio are original gifts intended to be held in perpetuity. It is the donors' and the Board's intent that only the scholarship portfolio investment earnings are to be used for the scholarships.

**In-Kind Contributions**

The Foundation's policy regarding contributed assets is to consider and evaluate each asset individually, whether it is more financially advantageous to the Foundation to sell the asset immediately upon receipt or hold the investment for future growth potential. In valuing the contributed land, the Foundation estimated the fair value based on an external appraisal which was based upon recent comparable sales prices.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits in checking or savings accounts with banks, and money market funds in investment brokerage accounts.

**Investments**

Investments in debt and equity securities are recorded at fair value. The estimated fair value of debt and equity securities is based on quoted market prices. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investments in mineral interests are recorded at cost.

**Annuities Payable**

Annuities payable represent the present value of future payments to be made to annuitants using a discount rate of 6%.

### **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 reported amounts of assets and liabilities and disclosures of contingent 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.

### **Income Taxes**

The Foundation is organized as a Texas 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 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. The Foundation is subject to income tax on net income that is derived from business activities that is unrelated to its exempt purposes. Management has determined that the Foundation 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.

Management believes that the Foundation has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Functional Allocation of Expenses**

The financial statements report categories of expenses that are attributed to program activities or support activities. The expenses are generally directly attributable to a functional category with no significant allocation between program and support activities occurring. Program activities have been defined by the Foundation as activities that advance the charitable, scientific and educational purposes of and for the Sherwood and Myrtie Foster's Home for Children (the Home). Support activities include management and general expenses, which are described by their natural classification on the statements of functional expenses.

### **Subsequent Events**

The Foundation has evaluated subsequent events through February 6, 2024, the date the financial statements were available to be issued.

**Note 2 - Liquidity and Availability**

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 500,669	\$ 416,895
Investments	<u>14,676,275</u>	<u>13,610,336</u>
	<u>\$ 15,176,944</u>	<u>\$ 14,027,231</u>

Investments reported above exclude investments restricted for scholarships, oil and gas mineral interests, and donated land, as these investments are not considered available for expenditure. The Foundation regularly monitors the availability of resources required to meet its operating needs. For the purpose of analyzing resources available to meet general expenditures within one year of the statement of financial position date, the Foundation considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

**Note 3 - Charitable Trusts and Annuities Payable**

For charitable annuities for which the Foundation is trustee and beneficiary, contributions are recorded at fair value in the year of the agreement. For the years ended August 31, 2023 and 2022, no contribution revenue was recorded related to these types of agreements. In addition to the recording of the assets received, a liability is recorded representing the discounted future cash flows expected to be paid to the annuitant. The estimated liability of future cash flows is based upon the life expectancy of the annuitant, the contractual payout amounts and a discount rate of 6%. Annual adjustments to the annuity liability, as a result of amortization of the discount, annuity maturities and changes in the estimated life expectancies of the annuitants, are reflected as change in value of split-interest agreements in the statements of activities. Annuities payable of \$357,299 and \$350,364 were recorded at August 31, 2023 and 2022, respectively.

For charitable remainder trusts for which the Foundation is trustee and beneficiary, contributions are recorded at fair value in the year of the agreement and are reflected as charitable trusts in the accompanying financial statements. In addition to the recording of the assets held in trust, a liability is recorded representing the discounted future cash flows expected to be paid to the specified beneficiary designated by the donor. The estimated liability of future cash flows is based upon the life expectancy of the specified beneficiary, the current fair value of the trust's assets, and the applicable federal rate ("AFR") related to each trust based on the AFR in effect at the date the trust was created. Investment income, payments to beneficiaries, and adjustments to the liability are reflected as changes in value of split-interest agreements in the statements of activities. The estimated liability for the future cash flows as of August 31, 2023 and 2022, was \$13,703 and \$15,414, respectively.

**Note 4 - Intercompany Transactions**

Foster's Home Foundation transferred \$0 and \$300,000 to Foster's Home for Children for operations for the years ended August 31, 2023 and 2022, respectively.

Foster's Home for Children transferred \$475 and \$20,423 in contributions to Foster's Home Foundation for the years ended August 31, 2023 and 2022, respectively.

In December 2020, the Foundation signed a services agreement with the Home, whereby the Foundation has agreed to reimburse the Home for the use of certain personnel, office space and accounting and bookkeeping services for \$180,000 per year. As a result, the Foundation reimbursed the Home \$180,000 for each of the years ended August 31, 2023 and 2022.

**Note 5 - Investments**

The Foundation's investments consisted of the following as of August 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Investments at Fair Value		
Money market	\$ 342,732	\$ 117,642
Mutual funds/ETFs	14,367,620	13,430,782
Corporate bonds	39,874	42,560
Equity securities	52,670	58,655
Unit investment trust	117,820	170,658
	<u>14,920,716</u>	<u>13,820,297</u>
Other investments		
Land*	3,352,039	3,352,039
Oil and gas interests **	299,740	299,740
	<u>3,651,779</u>	<u>3,651,779</u>
Total	<u>\$ 18,572,495</u>	<u>\$ 17,472,076</u>

\* Land is recorded at appraised valued at the time of contribution.

\*\* Oil and gas interests are recorded at cost.

**Note 6 - Fair Value Measurement**

Authoritative guidance establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Foundation's assumptions (unobservable inputs). Determining where an asset falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of the three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Inputs other than Level 1 inputs that are either directly or indirectly observable

Level 3 – Unobservable inputs developed using the Foundation's and/or third-party estimates and assumptions, which reflect those that market participants would use

The determination of where an asset or liability falls within the hierarchy requires significant judgment. The Foundation evaluates its hierarchy disclosures periodically and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Foundation expects that changes in classifications between different levels will be rare.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Foundation's valuation methodologies 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 estimate of fair value at the reporting date.

**Money Market, Mutual Funds, Corporate Bonds, Equity Securities, and Fixed Income**

These investments are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Foundation obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

**Charitable Remainder Trusts**

Charitable remainder trusts are measured at fair value based on the fair value of the underlying investments in the trust. These investments are reported at fair value utilizing Level 1 inputs.

## Foster's Home Foundation

Notes to Financial Statements

August 31, 2023 and 2022

The following table summarizes the Foundation's financial instruments measured at fair value on a recurring basis as of August 31, 2023, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Money market	\$ 342,732	\$ -	\$ -	\$ 342,732
Mutual funds	14,396,448	-	-	14,396,448
Equity securities	52,670	-	-	52,670
Corporate bonds	-	39,874	-	39,874
Unit investment trust	-	117,820	-	117,820
	<u>\$ 14,791,850</u>	<u>\$ 157,694</u>	<u>\$ -</u>	<u>\$ 14,949,544</u>
Reported as				
Investments-only those at FV	\$ 14,763,022	\$ 157,694	\$ -	\$ 14,920,716
Charitable remainder trusts	28,828	-	-	28,828
	<u>\$ 14,791,850</u>	<u>\$ 157,694</u>	<u>\$ -</u>	<u>\$ 14,949,544</u>

The following table summarizes the Foundation's financial instruments measured at fair value on a recurring basis as of August 31, 2022, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Money market	\$ 117,642	\$ -	\$ -	\$ 117,642
Mutual funds	13,461,321	-	-	13,461,321
Equity securities	58,655	-	-	58,655
Corporate bonds	-	42,560	-	42,560
Unit investment trust	-	170,658	-	170,658
	<u>\$ 13,637,618</u>	<u>\$ 213,218</u>	<u>\$ -</u>	<u>\$ 13,850,836</u>
Reported as				
Investments-only those at FV	\$ 13,607,079	\$ 213,218	\$ -	\$ 13,820,297
Charitable remainder trusts	30,539	-	-	30,539
	<u>\$ 13,637,618</u>	<u>\$ 213,218</u>	<u>\$ -</u>	<u>\$ 13,850,836</u>



**Note 7 - Mineral Royalty Investment in Oil Leases**

The Sherwood and Myrtie Foster's Home for Children transferred the mineral royalty interests in real estate located in Ector County, Texas to the Foundation during the year ended August 31, 2002. The value of the transfer, \$299,740, was based upon the Ector County tax appraisal statements for 2002. A warranty deed was made at that time granting the Foundation the ownership of the mineral interests. Neither the Foster's Home for Children nor the Foundation have ever owned the surface rights to the real estate located above these mineral interests.

**Note 8 - Concentration of Credit Risk**

The Foundation carries certain bank deposits with financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. The Foundation has not experienced any losses on such accounts. Deposits subject to credit risk totaled \$127,414 and \$29,997 as of August 31, 2023 and 2022, respectively.

**Note 9 - Risks and Uncertainties**

The Foundation invests in various investment securities, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect amounts reported in the accompanying financial statements.

**Note 10 - Endowment**

The Foundation's endowment account contains individual donor restricted endowment funds established for the purpose of assisting the Home with the cost of higher education. The net assets of endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Foundation, relying on information and advice from legal counsel and appointed officers, has interpreted UPMIFA to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary. As a result of this interpretation, for financial reporting purposes, the Foundation classifies as net assets with donor restrictions the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the instructions of the applicable gift instruments.

Foster's Home Foundation

Notes to Financial Statements

August 31, 2023 and 2022

Endowment net assets consist of the following at August 31, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds			
Amount held in perpetuity	\$ -	\$ 41,000	\$ 41,000
Subject to expenditure for scholarships	-	203,441	203,441
Board-designated endowment funds	<u>41,415</u>	<u>-</u>	<u>41,415</u>
 Total endowed net assets	 <u>\$ 41,415</u>	 <u>\$ 244,441</u>	 <u>\$ 285,856</u>

Endowment net assets consist of the following at August 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds			
Amount held in perpetuity	\$ -	\$ 41,000	\$ 41,000
Subject to expenditure for scholarships	-	168,961	168,961
Board-designated endowment funds	<u>39,136</u>	<u>-</u>	<u>39,136</u>
 Total endowed net assets	 <u>\$ 39,136</u>	 <u>\$ 209,961</u>	 <u>\$ 249,097</u>

Changes in endowment net assets for the year ended August 31, 2023 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, August 31, 2022	\$ 39,136	\$ 209,961	\$ 249,097
Contributions	-	22,250	22,250
Investment return			
Endowment and investment income	237	1,274	1,511
Net unrealized gains	<u>2,042</u>	<u>10,956</u>	<u>12,998</u>
 Endowment net assets, August 31, 2023	 <u>\$ 41,415</u>	 <u>\$ 244,441</u>	 <u>\$ 285,856</u>

Changes in endowment net assets for the year ended August 31, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, August 31, 2021	\$ 52,260	\$ 211,259	\$ 263,519
Contributions	865	21,428	22,293
Investment return			
Endowment and investment income	2,658	10,743	13,401
Net unrealized losses	(7,636)	(30,869)	(38,505)
Distributions and withdrawals	(9,011)	(2,600)	(11,611)
Endowment net assets, August 31, 2022	<u>\$ 39,136</u>	<u>\$ 209,961</u>	<u>\$ 249,097</u>

### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies that attempt to provide a predictable stream of funding for scholarships. Endowment assets are invested to yield a level of return to meet the objectives of the fund while adhering to a prudent level of risk.

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield.

### Underwater Endowments

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). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation had no underwater endowments at August 31, 2023 and 2022.

### **Spending Policy and How Investment Objectives Relate to Spending Policy**

In accordance with UPMIFA, the Foundation considers the following factors in determining spending policy:

1. The duration and preservation of the endowment fund
2. The purposes of the Home and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The spending policy of the Foundation will be reviewed periodically using the seven factors above and approved by the Board of Directors in conjunction with the annual budget. Any subsequent modifications to the spending policy will be approved by the Board of Directors. Based on market performance, distributions may vary from year to year. The Foundation appropriates funds for expenditure as they are utilized for higher education and scholarship needs.