

FRIENDS OF THE ARAVA INSTITUTE, LTD.

Financial Statements

Year Ended June 30, 2022

(With Independent Auditors' Report Thereon)

FRIENDS OF THE ARAVA INSTITUTE, LTD.

FINANCIAL STATEMENTS

Year Ended June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Friends of the Arava Institute, Ltd.:

Opinion

We have audited the accompanying financial statements of Friends of the Arava Institute, Ltd. (FAI) (a non-profit organization), which comprise the statement of financial position as of June 30, 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 financial statements referred to above present fairly, in all material respects, the financial position of Friends of the Arava Institute, Ltd. as of June 30, 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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 FAI's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 Organization'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 Organization'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.

Kahn, Litwin, Kenya & Co, Ltd.

November 28, 2022

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF FINANCIAL POSITION
June 30, 2022

Assets

| | |
|-----------------------------------|------------------|
| Cash and cash equivalents | \$ 2,752,696 |
| Contributions receivable | 310,953 |
| Prepaid expenses and other assets | 119,551 |
| Investments | <u>2,828,123</u> |

Total Assets **\$ 6,011,323**

Liabilities and Net Assets

Liabilities:

| | |
|---------------------------------------|-----------------------|
| Accounts payable and accrued expenses | \$ 145,556 |
| Deferred revenue | <u>273,654</u> |
| Total liabilities | <u>419,210</u> |

Net Assets:

| | |
|----------------------------|-------------------------|
| Without donor restrictions | 2,672,371 |
| With donor restrictions | <u>2,919,742</u> |
| Total net assets | <u>5,592,113</u> |

Total Liabilities and Net Assets **\$ 6,011,323**

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022



| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|---------------------|
| Support and revenue: | | | |
| Contributions and grants | \$ 1,986,133 | \$ 5,200,976 | \$ 7,187,109 |
| Other income | 3,060 | - | 3,060 |
| Investment loss, net | (4,679) | - | (4,679) |
| PPP loan forgiveness | 117,957 | - | 117,957 |
| Special event, net of direct expenses of \$119,821 | 13,029 | - | 13,029 |
| Net assets released from restrictions | 3,418,923 | (3,418,923) | - |
| Total support and revenue | 5,534,423 | 1,782,053 | 7,316,476 |
| Expenses: | | | |
| Program services | 4,241,693 | - | 4,241,693 |
| Management and general | 241,842 | - | 241,842 |
| Fundraising | 46,178 | - | 46,178 |
| Total expenses | 4,529,713 | - | 4,529,713 |
| Change in net assets | 1,004,710 | 1,782,053 | 2,786,763 |
| Net Assets, beginning of year | 1,667,661 | 1,137,689 | 2,805,350 |
| Net Assets, end of year | \$ 2,672,371 | \$ 2,919,742 | \$ 5,592,113 |

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022



| | <u>Program</u> | | Management and General | Fundraising | Total |
|----------------------------------|--------------------|---------------------|-----------------------------------|--------------------|---------------------|
| | Israel Ride | Other | | | |
| Grants and other assistance | \$ 43,484 | \$ 3,344,215 | \$ - | \$ - | \$ 3,387,699 |
| Compensation and benefits | 57,243 | 531,672 | 179,906 | 40,888 | 809,709 |
| Supplies and office expense | 30,354 | 28,252 | 13,462 | 3,737 | 75,805 |
| Consulting and professional fees | 5,294 | 37,671 | 29,015 | - | 71,980 |
| Travel, conferences and meetings | 5,728 | 61,446 | - | - | 67,174 |
| Occupancy | 3,156 | 36,825 | 12,626 | - | 52,607 |
| Information technology | 16,662 | 20,498 | 6,833 | 1,553 | 45,546 |
| Advertising | 1,174 | 18,019 | - | - | 19,193 |
| Total expenses | \$ 163,095 | \$ 4,078,598 | \$ 241,842 | \$ 46,178 | \$ 4,529,713 |

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2022

| | |
|--|-----------------------------------|
| Cash Flows from Operating Activities: | |
| Change in net assets | \$ 2,786,763 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Unrealized loss on investments | 19,241 |
| PPP loan forgiveness | (117,957) |
| Changes in operating assets and liabilities: | |
| Contributions receivable | (215,953) |
| Prepaid expenses and other assets | (94,081) |
| Accounts payable and accrued expenses | 1,462 |
| Deferred revenue | 131,308 |
| Net cash provided by operating activities | <u>2,510,783</u> |
| | |
| Cash Flows from Investing Activities: | |
| Purchases of investments | <u>(1,514,743)</u> |
| Net cash used by investing activities | <u>(1,514,743)</u> |
| | |
| Net Increase in Cash and Cash Equivalents | 996,040 |
| | |
| Cash and Cash Equivalents, beginning of year | <u>1,756,656</u> |
| | |
| Cash and Cash Equivalents, end of year | <u><u>\$ 2,752,696</u></u> |
| | |
| Supplemental cash flow information, noncash financing activity: | |
| A PPP loan payable of \$117,957 was forgiven during the year. | <u><u>\$ 117,957</u></u> |

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

1. Nature of Operations

Friends of the Arava Institute, Ltd. (FAI) (a not-for-profit organization), located in Newton, MA, provides financial support to the Arava Institute for Environmental Studies (AIES) located on Kibbutz Ketura, Israel, primarily through public awareness, student recruitment and fundraising campaigns.

FAI has a strategic partnership agreement with a national fundraising organization to increase funds raised for AIES through collaborative donor identification, stewardship, and solicitations. Donations resulting from this collaboration are paid directly to the partner organization and distributed directly to AIES. These funds are not included in FAI's revenue and support, but they are counted toward FAI's annual fundraising commitment to AIES. FAI's fundraising expenses include costs incurred in connection with the aforementioned activities.

FAI is also responsible for recruiting North American students and interns to attend AIES. Tuition paid by students and interns, collected by FAI and remitted to AIES, is not included in FAI's revenue and support, but it is counted toward FAI's annual commitment to AIES. FAI's program expenses include costs incurred in connection with recruitment activities. As of June 30, 2022, accounts payable and accrued expenses include \$14,000 due to AIES.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist the reader in understanding FAI's financial statements. The financial statements and notes are representations of FAI's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Accounting Pronouncement Adopted

Effective July 1, 2021, FAI adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which provides new presentation and disclosure requirements for contributed nonfinancial assets. The adoption of ASU 2020-07 did not have significant effect on FAI's financial statements.

Financial Statement Presentation

FAI prepares its financial statements on the accrual basis of accounting and, in accordance with authoritative guidance, reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. Net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions whenever a restriction is satisfied, or when the funds have been distributed to AIES, if earlier.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less, except for money market funds included in investments.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected after one year are discounted at an appropriate rate commensurate with the risk involved. If material, receivables with amounts due beyond one year are discounted to their net present value using the interest rate for treasury bills, with a remaining term equal to future receipts. Conditional promises to give are not included as support until the conditions are met. FAI evaluates its contributions receivable and establishes an allowance for doubtful accounts, based on a history of past collection experience and current credit conditions. At June 30, 2022, management determined an allowance was not necessary.

Investments and Fair Value Measurements

FAI measures its investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by authoritative guidance, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities FAI has the ability to access.

Level 2 inputs (other than quoted prices included within level 1) are observable for the asset or liability, either directly or indirectly.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include FAI's own data.

FAI reports investments at fair value on a recurring basis. The investments are classified as level 1 within the fair value hierarchy.

Money market funds - The carrying amount of money market funds is deemed to be a reasonable estimate of fair value.

Government bonds – the fair value of government bonds is determined using pricing models maximizing the use of observable inputs for similar securities.

Realized and unrealized gains and losses on investments are reported as changes in net assets without donor restrictions, unless gains and losses on investments are restricted by a donor's explicit stipulation or by a law that extends a donor's restriction.

Dividends and interest are recorded as received, which does not differ materially from the accrual basis. Purchases and sales of securities are recorded on the trade date.

Computers and Equipment

All expenditures for computers and equipment in excess of \$5,000 are capitalized at cost; the fair value of donated assets is similarly recorded. Computers and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to five years. At June 30, 2022, computers and equipment have been fully depreciated.

Grants Payable and Grant Expense

Unconditional grants, if any, expected to be paid during subsequent years are presented as grants payable in the accompanying statement of financial position. Grants that provide for certain conditions that must be satisfied by a specific time or for a specific purpose are recorded as expense when the conditions have been met.

PPP Loan Payable

FAI received a Paycheck Protection Program loan (PPP Loan) and recorded it as a loan payable until the conditions for loan forgiveness were satisfied. Loan forgiveness is recognized and included in change in net assets without donor restrictions when FAI satisfies the conditions for loan forgiveness and the forgiveness amount is formally approved by the U.S. Small Business Administration (SBA).

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

Revenue and Support Recognition

Contributions and Grants - FAI recognizes contributions and grants in the year in which the contribution or grant is made. Contributions and grants are recorded either as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Restricted contributions and grants are classified as net assets without donor restrictions if the restrictions are satisfied in the same reporting period in which the contributions or grants are received.

During 2022, FAI received a \$4,000,000 contribution restricted for the new campus at AIES.

Program Registration Fees and Special Event Revenue – Revenue from performance obligations satisfied at a point in time consists of program registration fees related to the annual Israel Ride, which are recorded in the period in which the Israel Ride occurs, and special event revenue is recognized when any special events take place. Program registration fees and sponsorships received for a future period are deferred until the ride takes place. Program registration fees included in deferred revenue at June 30, 2022 and June 30, 2021, were \$167,554 and \$140,636, respectively.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by FAI. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Advertising Costs

Advertising costs incurred in the production and printing of FAI's literature are charged to expense as incurred.

Allocation of Expenses

FAI's operating costs have been allocated between program, management and general, and fundraising expenses based on direct identification when possible, and allocation if a single expenditure benefits more than one program or function. Expenditures that require allocation are allocated based on personnel cost.

Income Taxes

FAI is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Management believes that FAI operates in a manner consistent with its tax-exempt status at both the state and federal levels.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

FAI annually files IRS Form 990 - *Return of Organization Exempt From Income Tax*, reporting various information that the IRS uses to monitor the activities of tax-exempt entities. These tax returns are subject to review by the taxing authorities, generally for a period of three years after they were filed. FAI currently has no tax examinations in progress.

Estimates and Assumptions

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*, which was later delayed to be effective for annual periods beginning after December 15, 2021. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for FAI's year ending June 30, 2023. FAI is currently in the process of evaluating the impact of adoption on the financial statements.

Subsequent Events

Management has evaluated subsequent events through November 28, 2022, which is the date these financial statements were available to be issued.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

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:

| | |
|--|--------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 2,752,696 |
| Contributions receivable, net | 310,953 |
| Investments | 2,828,123 |
| Financial assets, end of year | 5,891,772 |
| | |
| Less those unavailable for general expenditure within one year due to: | |
| Time and purpose restrictions | 2,758,789 |
| Contributions receivable due after one year | 160,953 |
| | \$ 2,972,030 |

FAI's financial assets available for general expenditure consist of funds intended to be used to cover short-term operating expenses, including its AIES grant program. These financial assets are invested with the purpose of preserving assets to cover operating expenses and realizing earnings in a way that allows for immediate liquidity to meet FAI's ongoing programmatic and operational needs.

4. Contributions Receivable

Contributions receivable consist of unconditional promises to give from donors to support FAI's charitable mission.

At year-end, long-term pledges receivable have been discounted at 3.01% (the one-year Treasury Bill rate at June 30, 2022) to reflect the present value of those receivables. Contributions receivable consisted of the following at June 30, 2022:

| | |
|--------------------------------|------------|
| Gross contributions receivable | \$ 320,000 |
| Unamortized discount at 3.01% | (9,047) |
| | \$ 310,953 |

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

Contributions receivable are expected to be received as follows:

| | | |
|---------------------|----|---------|
| Within one year | \$ | 150,000 |
| One to two years | | 65,000 |
| Two to three years | | 65,000 |
| Three to four years | | 40,000 |
| | | 40,000 |
| Total | \$ | 320,000 |

5. Investments

Investments are presented in the statement of financial position at their aggregate fair value and consist of the following at June 30, 2022:

| | | |
|---------------------------------|----|-------------|
| Level 1: | | |
| Money market funds | \$ | 86,773 |
| Government bonds | | 2,741,350 |
| | | 2,741,350 |
| Total investments at fair value | \$ | \$2,828,123 |

The investment loss, net, consists of the following:

| | | |
|------------------------|----|----------|
| Interest and dividends | \$ | 14,562 |
| Unrealized loss | | (19,241) |
| | | (19,241) |
| Investment loss, net | \$ | (4,679) |

6. Trust Income Beneficiary

FAI is an income beneficiary in the Jerome E. Toffler Living Trust (the Trust), the assets of which are not in FAI's possession, and is entitled to a portion of the annual distributions from the Trust. FAI received \$31,021 of distributions from the Trust during the year ended June 30, 2022, which is included in contributions and grants without donor restrictions on the statement of activities. Distributions from the Trust are for general use by FAI; however, all funds must be used within the United States or its possessions.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

FAI is also the income beneficiary in irrevocable Arava Institute for Environmental Studies Endowment funds (the Funds), the assets of which are in the possession of and managed by Jewish National Fund. Three donors established the Funds to support general operations and scholarships for students from diverse backgrounds seeking to study and/or do environmental research at the Arava Institute. FAI received \$45,000 of distributions from the Funds during the year ended June 30, 2022, which is included in contributions and grants without donor restrictions on the statement of activities.

7. PPP Loan Payable

PPP Loan

On April 16, 2021, the FAI received loan proceeds of \$117,957 under the Paycheck Protection Program (PPP), which was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in response to the COVID-19 outbreak. Proceeds from this second-draw loan (PPP2 Loan) may only be used for payroll costs, mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. The PPP2 Loan was set to mature on April 16, 2026 and bore interest at a rate of 1% per annum, payable monthly. Under the terms of the PPP, certain amounts of the PPP2 Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. FAI used the proceeds in accordance with the loan terms and applied for forgiveness from the SBA. On February 9, 2022, FAI received notification of SBA approval for forgiveness of the entire PPP2 loan proceeds.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows at June 30, 2022:

| | | |
|--|----|-----------|
| Time-restricted | \$ | 469,879 |
| Restricted for Specified Purpose: | | |
| New Campus at AIES | | 2,214,240 |
| Women of Arava | | 76,561 |
| Track II Forum | | 63,281 |
| Water Gen | | 50,000 |
| Scholarships | | 45,781 |
| Total net assets with donor restrictions | \$ | 2,919,742 |

The time-restricted amount above includes \$397,049 of contributions to be used for the 2022 Israel Ride and \$72,830 restricted by the donor to be used where needed most for 2022 through 2025.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2022

9. Retirement Plan

FAI sponsored a defined contribution retirement plan under section 403(b) of the Internal Revenue Code covering all eligible employees. Employees contributed a percentage of their eligible gross wages to the plan. FAI did not contribute to the plan. Effective September 1, 2022, FAI joined the Massachusetts Defined Contribution CORE Plan, a multi-employer 401k plan sponsored by the Commonwealth of Massachusetts, which includes an employer match.

10. Concentrations of Credit and Business Risk

The financial instruments that potentially subject FAI to concentrations of credit risk consist of cash and cash equivalents, contributions receivable and investments.

FAI maintains its cash balances in several financial institutions. The balance at each institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. FAI's cash balances exceed the \$250,000 limit. Cash balances in excess of \$250,000 are generally uninsured.

Investment securities 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 possible that changes in values of investment securities could occur in the near term and that such changes could materially affect investment balances and activity included in the financial statements.

At June 30, 2022, contributions receivable were due from five contributors. Management has performed an analysis of those receivables and does not believe that significant credit risk exists.

11. Lease Commitment

FAI leases its office facility under a lease agreement dated May 2016, with monthly payments of approximately \$4,200 through April 2023. Lease expense, including FAI's share of common area expenses, was \$52,607 for the year ended June 30, 2022, and is included in occupancy costs in the statement of functional expenses.

Total future minimum lease payments for the year ending June 30, 2023 total approximately \$42,700.