

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

(A NON-PROFIT CORPORATION)

REPORT ON AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2017



grass coffey & scharlau
C.P.A.'s
a professional corporation

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Sarah M. Monson, CPA

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For the Year Ended June 30, 2017

Association of Arizona Food Banks, Inc.

June 30, 2017

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Independent Auditor's Report

To the Board of Directors of
Association of Arizona Food Banks, Inc.
Phoenix, Arizona

We have audited the accompanying financial statements of the Association of Arizona Food Banks, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Association of Arizona Food Banks, Inc. as of June 30, 2017, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Grass Coffey & Scharlau, CPAs
Phoenix, Arizona
December 4, 2017

Grass Coffey & Scharlau, CPAs

Association of Arizona Food Banks, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

Current Assets:

Cash	\$ 2,329,713
Grants, promises to give and trade receivables	258,135
Prepaid expenses	<u>19,388</u>

Total Current Assets \$ 2,607,236

Net Property and Equipment 742

Other Assets:

Security deposits	<u>4,341</u>
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Total Other Assets 4,341

TOTAL ASSETS \$ 2,612,319

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 5,595
Credit card payable	6,876
Accrued payroll	<u>51,132</u>

Total Current Liabilities \$ 63,603

Total Liabilities 63,603

Net Assets:

Unrestricted net assets	2,461,854
Temporarily restricted net assets	<u>86,862</u>

Total Net Assets 2,548,716

TOTAL LIABILITIES AND NET ASSETS \$ 2,612,319

See accompanying notes to financial statements

Association of Arizona Food Banks, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
<i>Revenue and Support</i>			
Contributions	\$ 996,319	\$ -	\$ 996,319
Governmental grants	475,081		475,081
Fee for service	228,233	-	228,233
Membership	55,887	-	55,887
Investment income	833		833
Miscellaneous revenue	18,550	-	18,550
	<u>1,774,903</u>	<u>-</u>	<u>1,774,903</u>
 <i>Expenses</i>			
Program Expenses:	<u>1,415,435</u>	<u>77,408</u>	<u>1,492,843</u>
Total Program Expenses	<u>1,415,435</u>	<u>77,408</u>	<u>1,492,843</u>
Support Services:			
General and administrative	166,659	-	166,659
Fundraising	147,571	-	147,571
Total Support Services	<u>314,230</u>	<u>-</u>	<u>314,230</u>
Total Expenses	<u>1,729,665</u>	<u>77,408</u>	<u>1,807,073</u>
<i>Change in Net Assets</i>	45,238	(77,408)	(32,170)
<i>Net Assets, Beginning of Year</i>	2,399,676	289,148	2,688,824
Prior period adjustment	<u>16,940</u>	<u>(124,878)</u>	<u>(107,938)</u>
<i>Net Assets, Beginning of Year - Restated</i>	<u>2,416,616</u>	<u>164,270</u>	<u>2,580,886</u>
<i>Net Assets, End of Year</i>	<u>\$ 2,461,854</u>	<u>\$ 86,862</u>	<u>\$ 2,548,716</u>

See accompanying notes to financial statements

Association of Arizona Food Banks, Inc.

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Reconciliation of changes in net assets to net cash used in operating activities

Cash Flows From Operating Activities

Decrease in net assets	\$ (32,170)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Depreciation	\$ 1,674
(Increase)/decrease in :	
Accounts receivable	(76,957)
Prepaid expenses	(3,764)
Security deposits	(4,341)
Increase/(decrease) in:	
Accounts payable	(43,929)
Credit cards payable	5,353
Accrued expenses	16,939
Total adjustments	<u>(105,025)</u>
<i>Net cash used in operating activities</i>	(137,195)
Unrestricted Cash and Cash Equivalents, beginning of year	<u>2,466,908</u>
Unrestricted Cash and Cash Equivalents, end of year	<u><u>\$ 2,329,713</u></u>

See accompanying notes to financial statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

1. ORGANIZATION:

Nature of Operations

Association of Arizona Food Banks, Inc. ("AAFB") was established and incorporated in 1984 in the State of Arizona as a non-profit organization to promote and coordinate the activities of member food banks located in the State of Arizona, including the coordination of the purchase of food from local, state and federal programs and agencies. The services and programs provided by AAFB are concentrated primarily within the State of Arizona. AAFB receives support from their programs, contributions, grants and service fees.

AAFB's programs include the following:

Member Services: AAFB was instrumental in the development of the Arizona Statewide Gleaning Project in 1993. The program was created to rescue and redistribute food to hungry Arizonans that would otherwise go to waste. AAFB assists the food bank network by coordinating their efforts to solicit, transport and distribute massive quantities of food through various initiatives such as transportation services, bulk food purchasing and assistance in developing a statewide sourcing strategy. AAFB also supported food banks in Arizona by providing technical assistance and capacity building. This included help writing and reviewing policies/procedures, developing inventory tracking processes, holding trainings, and providing resources for various regulations and processes. This support was provided to both member food banks as well as agency partners throughout the year.

Advocacy: Through public education/advocacy efforts, AAFB works to protect public programs and fight for the 1 in 6 Arizona adults (1 in 4 children) that struggle with hunger. AAFB advocates for policies at the state and federal level that support clients that member food banks serve. AAFB educates the public about hunger in local communities to get them involved in solutions. AAFB works with elected officials to encourage them to find solutions to hunger and push back on budget cuts to health and human services.

Children and Youth Program: AAFB worked with community partners to promote greater access to school meals and summer feeding programs. AAFB promoted school breakfast expansion and worked with the Arizona School Breakfast Coalition in Maricopa County. Additionally, an online awareness campaign in Maricopa County promoted summer meal programs to parents via Google and Facebook.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (FASB ASC 958) *Financial Statements of Not-for-Profit Organizations*. Under the standard, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Basis of Accounting

The financial statements of AAFB have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Revenues from services are reported in the period in which services are provided.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all unrestricted monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. As of June 30, 2017 there were no cash equivalents.

Property and Equipment

Property and equipment is recorded at cost and includes expenditures for new additions and repairs which substantially increase the useful lives of existing assets. Donated property and equipment is recorded at the fair value at the date of the gift to AAFB. It is the AAFB's policy to capitalize only those fixed asset additions that exceed \$1,000 in cost. Depreciation expense was \$1,674 for the year ended June 30, 2017. Depreciation is provided using the straight-line method with estimated useful lives as follows:

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Property and Equipment (continued)

Leasehold improvements	5 Years
Trailers	5 Years
Furniture and equipment	5 Years

Expenditures for normal repairs, maintenance and replacement items are charged to operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts in the year of disposition with the resulting gain or loss reflected in earnings or in the cost of the replacement asset.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows as temporarily restricted funds. The discounts on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. The organization evaluates the collectability of promises to give based on individual donor account balances, including communication with donors and individual payment history. In circumstances where it is aware of a specific donor's inability to meet its financial obligations, it records a specific reserve to reduce the amount recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible.

Grants from Government Agencies

AAFB receives grants from government agencies to coordinate the work of food banks throughout the state as they address the issue of hunger, and coordinates the efforts to glean food and other resources to deliver to food banks to use to serve hungry Arizonans. These grants from government agencies are generally considered by AAFB to be exchange transactions rather than contributions, and accordingly, are recognized as the services are performed.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Net Assets

AAFB's net assets, as well as its revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those resources available for current operation, with no donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of operations as net assets released from restrictions. As of June 30, 2017 AAFB had no permanently and \$86,862 in temporarily restricted net assets.

Donated Materials and Services

Donated materials and services are recorded at their estimated fair value upon receipt. During the year ended June 30, 2017 the Organization recorded \$48,531 in donated fuel and \$17,554 in donated advertising space. Donated services and time are recognized as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by AAFB. AAFB pays for most services requiring specific expertise. However, if such services are donated and the value is ascertainable, the fair market value is reflected in the financial statements as revenue and expense.

Advertising

AAFB uses advertising and marketing to promote its programs and services. Marketing and outreach costs are charged to operations as incurred. Marketing and outreach expense for the period ended June 30, 2017 was \$72,580.

Functional Expenses

AAFB allocates expenses on a functional basis among three categories: program, management and general, and fundraising. Most expenses are allocated directly to a function but some expenses are allocated among the various programs and supporting services benefited. If direct allocation is not feasible, expenses are allocated in proportion to estimated employee time spent on various programs and support services.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Income Taxes

AAFB is exempt from Federal and Arizona income taxes under Internal Revenue Code Section 501(c)(3) and Arizona Revenue and Taxation Code Section 17.22(a). In addition, AAFB qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and is classified as an organization other than a private foundation under Section 509(a)(2).

As of June 30, 2017, AAFB had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements, nor did AAFB have any penalties or interest related to income taxes.

With few exceptions, AAFB is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2012.

Subsequent Events

Subsequent events have been evaluated through December 4, 2017, which was the date AAFB's financials were available to be issued.

3. GRANTS, PROMISES TO GIVE AND TRADE RECEIVABLES:

Receivables as of June 30, 2017 was comprised of:

Governmental grant receivables	\$ 157,757
Accounts receivable for service fees	50,378
Promise to give	<u>50,000</u>
Total receivables	<u>\$ 258,135</u>

Receivables are recorded at fair market value and are unsecured. Based on management's review of receivables, no allowance for uncollectible accounts is considered necessary. Accounts that are over ninety days past due are considered delinquent and are reviewed by management. At the time management determines a receivable uncollectible, the receivable is charged to bad debt expense. There were no grant or trade accounts receivable over 90 days past due as of June 30, 2017.

As of June 30, 2017 there was only promise to give in the amount of \$50,000 which was collected in full subsequent to year end.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017**

4. CONCENTRATIONS OF CREDIT RISK:

AAFB occasionally maintains deposits in excess of federally insured limits. Financial Accounting Standards identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high-quality financial institutions. At June 30, 2017 AAFB had \$1,843,173 in cash deposits in excess of FDIC insurance limits.

As of June 30, 2017, promises to give includes an amount from one donor. Concentration of credit risk with respect to this promise to give is limited due to the nature of the promises, the means of the donor and the long-term relationships with AAFB. AAFB requires no collateral on its promises to give.

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following as of June 30, 2017:

Refrigerated trailers and storage containers	\$ 407,172
Furniture and equipment	15,371
Leasehold improvements	8,365
Less: accumulated depreciation	<u>(430,166)</u>
Property and equipment (net)	<u>\$ 742</u>

6. OPERATING LEASES:

In 2014 AAFB signed a three year lease for office space expiring on July 1, 2017. Total monthly lease payments were \$2,402 and the total base rent paid under this operating lease for the year ended June 30, 2017 was \$28,818. Subsequent to year end AAFB began to rent the space on a month to month basis until their new office space was available.

AAFB signed a new lease for office space during the year ended June 30, 2017. The commencement date would began upon substantial completion of tenant improvements and the lease term was for five years. In November of 2017 AAFB moved into the new office space so the lease will expire on October 1, 2022. The monthly lease payments increase annually over the five years from \$3,845 to \$4,341 and include one month of free rent each year. There was no rent paid under this lease during the year ended June 30, 2017.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

6. OPERATING LEASES (continued):

Future minimum lease payments for the office space is as follows:

Years Ending June 30:	
2018	\$ 26,917
2019	43,166
2020	44,531
2021	45,895
2022	47,260
Thereafter	<u>17,366</u>
Total minimum future lease payments	<u>\$ 225,135</u>

7. DESIGNATED NET ASSETS:

Included in unrestricted net assets as of June 30, 2017 are funds that have been designated by the executive committee of the board of directors to be used for the following purposes:

Agency capacity grants	\$ 100,000
Operating reserves (6 months)	<u>686,597</u>
Total designated net assets	<u>\$ 786,597</u>

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were comprised of the following as of June 30, 2017:

Purpose restrictions:	
Disaster	\$ 21,497
Hildebrand Fund	3,874
Western Refining fuel cards	11,491
Time restrictions:	
Contribution receivable	<u>50,000</u>
Total temporarily restricted net assets	<u>\$ 86,862</u>

9. EMPLOYEE BENEFIT PLANS:

AAFB has a simplified employee pension plan (SEP) for all employees who meet specified service requirements. Under the provisions of the plan, AAFB contributes 3% of each participating employee's salary to an individual retirement account held in the employee's name. AAFB made contributions to the plan in the amount of \$16,554 for the year ended June 30, 2017.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017**

10. RELATED PARTY TRANSACTIONS:

AAFB is related to several other food banks in Arizona by common board members. This relationship allows AAFB to coordinate services with the other food banks to provide transportation, storage and other services that may not be available without this relationship.

11. CONCENTRATIONS:

AAFB received approximately 27% of its total revenue from a grant awarded by the Arizona Department of Economic Security (DES) during the year ended June 30, 2017. The amount receivable from DES as of June 30, 2017 was \$157,757. Discontinuation of the grant funding could have a severe near term impact on AAFB and its operations. Management does not anticipate discontinuation of funding by this source.

12. PRIOR PERIOD ADJUSTMENTS:

During the year ended June 30, 2017, management of AAFB discovered that certain outstanding checks were not recorded and other adjustments were not made as of June 30, 2016. Accordingly, a prior period adjustment in the amount of \$107,938, was recorded to reduce net assets at the beginning of the current year.

SUPPLEMENTARY INFORMATION

Association of Arizona Food Banks, Inc.

SCHEDULE I - STATEMENT OF FUNCTIONAL EXPENSE
For the Year Ended June 30, 2017

	Programs			Support Services			
	Advocacy	Children's Programs	Member Services	Total Programs	Management & General	Fundraising	Total
Salaries and wages	\$ 78,296	\$ 118,282	\$ 202,113	\$ 398,691	\$ 67,573	\$ 68,039	\$ 534,303
Taxes and employee related expenses	11,861	24,413	29,843	66,117	38,797	15,693	120,607
Food, freight and related costs	-	-	460,284	460,284	-	-	460,284
Professional fees and outside services	22,138	6,540	319,313	347,991	14,414	4,290	366,695
Agency capacity building expenses	-	-	10,000	10,000	-	-	10,000
Materials and supplies	8,410	4,050	12,977	25,437	4,692	53,323	83,452
Equipment, rental and repair	1,909	353	108,355	110,617	314	204	111,135
Operating services	4,964	9,868	14,641	29,473	32,837	2,293	64,603
Occupancy	4,090	6,096	9,754	19,940	5,350	3,528	28,818
Travel	10,643	8,246	4,249	23,138	2,364	-	25,502
Depreciation	234	352	569	1,155	318	201	1,674
Total expenses	\$ 142,545	\$ 178,200	\$ 1,172,098	\$ 1,492,843	\$ 166,659	\$ 147,571	\$ 1,807,073

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