

ARIZONA FOOD BANK NETWORK

**Financial Statements,
Supplementary Information
and
Single Audit Reports**

June 30, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of
Arizona Food Bank Network
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Arizona Food Bank Network (AzFBN, a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, 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 financial statements referred to above present fairly, in all material respects, the financial position of AzFBN as of June 30, 2022 and 2021, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 AzFBN 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 opinions.

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 AzFBN's ability to continue as a going concern within 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 generally accepted auditing standards and *Government 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 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 and *Government 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 AzFBN'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 AzFBN'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2022, on our consideration of AzFBN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AzFBN's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

December 7, 2022

ARIZONA FOOD BANK NETWORK

Statements of Financial Position

June 30,

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 4,763,952	\$ 3,084,553
Investments	1,292,755	1,461,094
Grants and contracts receivable	787,152	1,249,839
Prepaid expenses	58,871	23,768
Security deposits	10,841	4,341
Property and equipment, net	449,512	100,200
Endowment fund	<u>172,351</u>	<u>225,532</u>
 Total assets	 <u>\$ 7,535,434</u>	 <u>\$ 6,149,327</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 657,938	\$ 265,540
Payroll related liabilities	48,287	30,603
Refundable advances	<u>437,308</u>	<u>3,000</u>
Total liabilities	1,143,533	299,143
Net assets:		
Without donor restrictions	4,838,888	4,336,600
With donor restrictions	<u>1,553,013</u>	<u>1,513,584</u>
Total net assets	<u>6,391,901</u>	<u>5,850,184</u>
 Total liabilities and net assets	 <u>\$ 7,535,434</u>	 <u>\$ 6,149,327</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statements of Activities

Years Ended June 30,

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Contributions	\$ 1,750,428	\$ 2,059,722	\$ 3,810,150	\$ 1,506,443	\$ 2,321,009	\$ 3,827,452
Governmental grants	5,926,748		5,926,748	5,400,010		5,400,010
Fee for service	2,215,482		2,215,482	991,358		991,358
Paycheck Protection Program				143,900		143,900
Memberships	64,380		64,380	75,992		75,992
Net investment (loss) income	(227,391)		(227,391)	233,997	64,435	298,432
In-kind contributions	54,636		54,636	41,661		41,661
Miscellaneous revenue	61,289		61,289	31,171		31,171
Net assets released from restrictions	<u>2,020,293</u>	<u>(2,020,293)</u>		<u>1,494,331</u>	<u>(1,494,331)</u>	
Total revenue and support	11,865,865	39,429	11,905,294	9,918,863	891,113	10,809,976
Expenses:						
Program expenses	10,777,998		10,777,998	8,160,253		8,160,253
Support services:						
General and administrative	332,329		332,329	288,392		288,392
Fundraising	<u>253,250</u>		<u>253,250</u>	<u>180,613</u>		<u>180,613</u>
Total support services	<u>585,579</u>		<u>585,579</u>	<u>469,005</u>		<u>469,005</u>
Total expenses	<u>11,363,577</u>		<u>11,363,577</u>	<u>8,629,258</u>		<u>8,629,258</u>
Change in net assets	502,288	39,429	541,717	1,289,605	891,113	2,180,718
Net assets, beginning of year	<u>4,336,600</u>	<u>1,513,584</u>	<u>5,850,184</u>	<u>3,046,995</u>	<u>622,471</u>	<u>3,669,466</u>
Net assets, end of year	<u>\$ 4,838,888</u>	<u>\$ 1,553,013</u>	<u>\$ 6,391,901</u>	<u>\$ 4,336,600</u>	<u>\$ 1,513,584</u>	<u>\$ 5,850,184</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services				Support Services			
	<u>Advocacy</u>	<u>Innovation</u>	<u>Member Services</u>	<u>Total Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support</u>	<u>Total Expenses</u>
Salaries and wages	\$ 135,281	\$ 128,279	\$ 423,327	\$ 686,887	\$ 168,433	\$ 116,635	\$ 285,068	\$ 971,955
Taxes and employee related expenses	14,736	19,997	60,802	95,535	95,062	32,335	127,397	222,932
Food, freight, and related costs			1,916,484	1,916,484				1,916,484
Professional fees and outside services	42,818	102,538	1,559,032	1,704,388	12,545	13,355	25,900	1,730,288
Capacity building expenses			4,561,080	4,561,080				4,561,080
Materials and supplies	7,331	12,008	1,201,502	1,220,841	10,803	66,992	77,795	1,298,636
Equipment, rental, and repair	469	453	355,192	356,114	680	321	1,001	357,115
Operating services	5,932	45,303	115,907	167,142	6,446	17,203	23,649	190,791
Occupancy	7,350	6,897	22,680	36,927	7,083	5,008	12,091	49,018
Travel	326	15,943	16,331	32,600	1,224	1,401	2,625	35,225
Depreciation					30,053		30,053	30,053
Total expenses	<u>\$ 214,243</u>	<u>\$ 331,418</u>	<u>\$10,232,337</u>	<u>\$10,777,998</u>	<u>\$ 332,329</u>	<u>\$ 253,250</u>	<u>\$ 585,579</u>	<u>\$11,363,577</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				Support Services			Total Expenses
	Advocacy	Innovation	Member Services	Total Program	General and Administrative	Fundraising	Total Support	
Salaries and wages	\$ 119,325	\$ 95,046	\$ 328,483	\$ 542,854	\$ 134,865	\$ 66,953	\$ 201,818	\$ 744,672
Taxes and employee related expenses	12,753	8,886	53,199	74,838	70,535	18,688	89,223	164,061
Food, freight, and related costs			1,759,327	1,759,327				1,759,327
Professional fees and outside services	30,610	48,860	436,003	515,473	23,407	10,271	33,678	549,151
Capacity building expenses		235,128	4,469,349	4,704,477				4,704,477
Materials and supplies	10,311	16,140	31,897	58,348	17,266	58,369	75,635	133,983
Equipment, rental, and repair	393	379	337,161	337,933	607	266	873	338,806
Operating services	4,703	27,078	99,338	131,119	4,661	20,385	25,046	156,165
Occupancy	7,151	6,090	21,311	34,552	6,993	5,681	12,674	47,226
Travel		1,086	246	1,332	5		5	1,337
Depreciation					30,053		30,053	30,053
Total expenses	<u>\$ 185,246</u>	<u>\$ 438,693</u>	<u>\$ 7,536,314</u>	<u>\$ 8,160,253</u>	<u>\$ 288,392</u>	<u>\$ 180,613</u>	<u>\$ 469,005</u>	<u>\$ 8,629,258</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statements of Cash Flows

Years Ended June 30, 2022

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 541,717	\$ 2,180,718
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness		(143,900)
Depreciation	30,053	30,053
Unrealized loss (gain) on investments	202,945	(294,495)
Change in:		
Grants and contracts receivable	462,687	(941,164)
Security deposits	(6,500)	
Prepaid expenses	(35,103)	(3,009)
Accounts payable and accrued expenses	392,398	86,870
Payroll related liabilities	17,684	12,664
Refundable advances	<u>434,308</u>	
Net cash provided by operating activities	2,040,189	927,737
Cash flows from investing activities:		
Purchases of fixed assets	(379,365)	(15,949)
Purchases of investments	(198,598)	
Proceeds from sales of investments	<u>217,173</u>	
Net cash used by investing activities	<u>(360,790)</u>	<u>(15,949)</u>
Net increase in cash	1,679,399	911,788
Cash, beginning of year	<u>3,084,553</u>	<u>2,172,765</u>
Cash, end of year	<u>\$ 4,763,952</u>	<u>\$ 3,084,553</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Arizona Food Bank Network (AzFBN) formerly known as The Association of Arizona Food Banks, Inc. 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 AzFBN are concentrated primarily within the State of Arizona. AzFBN receives support from their programs, contributions, grants and service fees.

AzFBN's programs include the following:

Advocacy: Through public education/advocacy efforts, AzFBN works to protect public programs and fights for the 1 in 9 Arizonans (1 in 6 children) that struggle with hunger in the state. AzFBN advocates for policies at the state and federal level that support clients of its member food banks. AzFBN educates the public about hunger in local communities in order to get as many partners as possible involved in solutions. AzFBN works with elected officials to encourage solutions to hunger as well as push back on cuts and restrictions to health and human services.

Innovation Programs: AzFBN provides programming for especially vulnerable populations to ensure they access hunger relief programs available to them as well as to develop pathways to prevent the necessity of using the emergency food bank network across the state to make ends meet. This work includes:

- Ensuring schools and districts make free and reduced price breakfast and lunch available to as many children as possible
- Providing solutions so that more older adults who are eligible for food assistance (SNAP, CACFP) access these resources
- Working together with and at the direction of Native American and Tribal leaders to implement hunger solving solutions in their communities
- Outreach to military communities that suffer food insecurity
- Ensuring college students have access to healthy food and systems of support as they work to secure an education
- Working with community partners to ensure that immigrant populations can access enough food for their families

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Member Services: AzFBN was instrumental in the development of the Arizona Statewide Gleaning Project in 1993. The program was created to rescue and redistribute food that might otherwise go to waste to hungry Arizonans. AzFBN 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 equitably channeling product to partners statewide and beyond. AzFBN also supports food banks in Arizona by providing technical assistance and capacity building. Additionally, AzFBN runs consolidated programs, such as Americorps/VISTA, that enables these assets to be used by partners statewide.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. AzFBN is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. AzFBN's Board of Directors has set aside approximately 6 months of operating reserves as board designated net assets, which is included in net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the restricted stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Expenses: In the statements of functional expenses, directly identifiable expenses are charged to programs and supporting services. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation and occupancy expenses, which are allocated on a square footage basis; payroll and related expenses, and operating expenses are allocated on the basis of estimates of time and effort.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments: Investments are stated at fair value using the valuation methodologies as described in Note 5. Although management is not aware of any factors that would significantly affect the fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Grants and Contracts Receivable: AzFBN recognizes grants and contracts as support when eligible costs are incurred or services are provided. Grants receivable are recorded when grant and contract expenses are incurred or contracted services have been provided, but reimbursement has not been received by AzFBN. Management has not recorded an allowance for doubtful grants and contracts receivable at June 30, 2022 and 2021, as amounts are considered to be fully collectible.

Contributions: Contributions are reported in accordance with FASB ASC's topic of *Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When net assets with donor restrictions expire, they are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted conditional grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

In-kind contributions: In-kind contributions are recognized in accordance with the FASB ASC topic of *Not-for-Profit Entities*, which requires recognition of certain services received at estimated fair value if those services create or enhance long-lived assets, require specialized skills, and would typically need to be purchased if not provided by donation.

Property and Equipment: Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are stated at cost, or estimated fair value if donated. Depreciation is computed using the straight-line method based on estimated economic lives of the assets as follows:

Refrigerated trailers and storage equipment	5 years
Furniture and equipment	5 years
Vehicles	5 years

Refundable Advances: AzFBN records funds received from grant awards classified as conditional contributions as refundable advances until the related funds are expended and/or the services related to the awards are performed, at which time funds are recognized as revenue.

Income Taxes: AzFBN is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 2 - LIQUIDITY AND AVAILABILITY

AzFBN monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. AzFBN has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 4,763,952	\$ 3,084,553
Investments	1,292,755	1,461,094
Grants and contracts receivable	787,152	1,249,839
Endowment fund	<u>172,351</u>	<u>225,532</u>
Total financial assets	7,016,210	6,021,018
Less amounts unavailable for general expenditure within one year:		
Net assets with donor restrictions	(1,553,013)	(1,513,584)
Board-designated net assets	<u>(3,401,248)</u>	<u>(1,962,391)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,061,949</u>	<u>\$ 2,545,043</u>

In addition to financial assets available to meet general expenditures over the year, AzFBN operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants, and other revenues; and by utilizing donor-restricted resources from current and prior year gifts. AzFBN's Board of Directors may choose to remove designations of net assets with a majority vote from its members at any time.

NOTE 3 - CONCENTRATIONS

Credit Risk:

AzFBN maintains its cash and investments in various accounts at financial institutions. Accounts are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC) or covered by Securities Investment Protection Corporation (SIPC). AzFBN has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its cash or investments.

At June 30, 2022, 44% of grants and contracts receivable were due from two State of Arizona agencies. At June 30, 2021, 75% of grants and contracts receivable were due from Arizona Department of Economic Security (ADES) and another nonprofit organization.

Revenue:

During the years ended June 30, 2022 and 2021, AzFBN received 23% and 28%, respectively, of its total revenue and support from Maricopa County, Arizona.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Refrigerated trailers and storage containers	557,127	206,545
Furniture and equipment	31,008	31,008
Vehicles	<u>28,783</u>	<u> </u>
	616,918	237,553
Less accumulated depreciation	<u>(167,406)</u>	<u>(137,353)</u>
	<u>\$ 449,512</u>	<u>\$ 100,200</u>

At June 30, 2022, AzFBN had refrigerated trailers and storage containers costing \$379,365 that were not yet placed in service.

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. AzFBN's investments and endowment fund were valued based on Level 1 inputs at June 30, 2022 and 2021.

Level 2 inputs generally are available indirect information, such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. AzFBN did not have any investments it valued based on Level 2 inputs at June 30, 2022 and 2021.

Level 3 inputs are the most subjective, and are generally based on the entity's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances. AzFBN did not have any financial instruments it valued based on Level 3 inputs at June 30, 2022 and 2021.

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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

Equities/bond funds/short-term reserves/exchange-traded funds: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

Fair value of assets measured on a recurring basis at June 30:

	2022	2021
Investments:		
Equities	\$ 646,436	\$ 765,442
Bond funds	437,245	486,934
Money market funds	209,074	208,718
Total investments	\$ 1,292,755	\$ 1,461,094
Endowment funds:		
Exchange-traded funds	\$ 172,351	\$ 225,532

NOTE 6 - ENDOWMENT FUND

During the year ended June 30, 2018, AzFBN received a permanently restricted endowment donation of \$200,000. The earnings on the endowment were restricted by the donor through December 2020.

AzFBN has adopted investment and spending policies based on the requirements of the State Prudent Management of Institutional Funds Act (SPMIFA). As a result of AzFBN's interpretation of SPMIFA, and in accordance with donor restrictions, contributions to the endowment fund are classified as net assets with donor restrictions. Investment earnings available for distribution are recorded as net assets with donor restrictions until released from donor time restrictions and appropriated by the Board of Directors for expenditure.

In accordance with SPMIFA, AzFBN considers the following factors in making a determination to appropriate endowment funds for expenditures: the duration and preservation of the fund; general economic conditions; the possible effect of inflation and deflation of endowment investments; the expected total return from income and appreciation of endowment investments; other financial resources of AzFBN; and the investment policies of AzFBN.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 6 - ENDOWMENT FUND - Continued

AzFBN's investment goal is to achieve a total return (income and appreciation) of 5% after inflation, over a full market cycle (3-5 years). The mix of investments are over the allowable ranges (of total assets):

1.	Money market funds	5 - 45%
2.	Equities	20 - 60%
3.	Fixed income	35 - 75%

Endowments consisted of the following at June 30:

	2022	2021
Donor-restricted endowment fund	\$ 200,000	\$ 200,000
Accumulated earnings		25,532
Underwater endowment	(27,649)	
Total fair value of endowment fund	\$ 172,351	\$ 225,532

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires AzFBN to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets without donor restrictions.

A summary of endowment fund activity is as follows for the years ended June 30:

	2022	2021
	With Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 225,532	\$ 161,097
Investment income		64,435
Released from time restrictions	(25,532)	
Endowment net assets, end of year	\$ 200,000	\$ 225,532

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

During the years ended June 30, 2022 and 2021, net assets released from time and purpose restrictions totaled \$2,020,293 and \$1,494,331, respectively.

Donor restricted net assets were comprised of the following as of June 30:

	2022	2021
Purpose restrictions:		
Member services	\$ 975,319	\$ 980,560
Advocacy	240,309	98,340
Innovation	50,816	158,907
Other	86,569	50,245
Endowment	200,000	225,532
Total restricted net assets	\$ 1,553,013	\$ 1,513,584

NOTE 8 - PAYCHECK PROTECTION PROGRAM

On April 30, 2020, AzFBN was approved for a \$143,900 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). On February 11, 2021, the SBA forgave 100% of the PPP loan, which was recognized as revenue in the statement of activities during the year ended June 30, 2021.

NOTE 9 - IN-KIND CONTRIBUTIONS

AzFBN's in-kind contributions were comprised of the following for the years ended June 30:

	2022	2021
Advertising	\$ 53,683	\$ 41,211
Other	953	450
	\$ 54,636	\$ 41,661

Donated advertising is used in program services and is included in operating services on the statement of functional expenses. Other in-kind is used in supporting services and consists of donated accounting services, which is included in professional fees and outside services on the statement of functional expenses. In-kind contributions are valued based on the donors' estimates of the value of services that would be charged to the general public.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 10 - CONDITIONAL CONTRIBUTIONS

AzFBN received conditional contributions during the year ended June 30, 2022. Conditional contributions are recorded as refundable advances when received, until the donor-imposed conditions are substantially met and/or barriers are overcome. Certain conditions are required to be met by AzFBN in the subsequent years in order to earn and receive these amounts.

As of June 30, 2022 and 2021, AzFBN had conditional contributions totaling \$1,136,395 and \$3,000, respectively. As conditions for recognizing revenue had not been met as of June 30, 2022 and 2021, no amounts have been recorded as revenue or receivables in these financial statements for these amounts.

NOTE 11 - SUBSEQUENT EVENTS

AzFBN has evaluated subsequent events through December 7, 2022, the date which the financial statements were available to be issued.

In July 2022, through an agreement with food banks across the state, AzFBN assumed an operational role in produce-sourcing through the 'No Borders No Limits Produce Program' based in Nogales/Rio Rico, Arizona.

This move represents a substantial expansion of AzFBN's food banking operations and requires increased levels of financial support. In addition, AzFBN management will begin reporting large scale in-kind contributions of fresh produce on the financial statements. As the amount of produce to be channeled in year one is estimated at 50 million pounds, (to which a wholesale value determined by Feeding America is applied), this will have a significant impact to AzFBN's in-kind contributions and expenses in subsequent fiscal years due to the valuation of these donations.

SUPPLEMENTARY INFORMATION

ARIZONA FOOD BANK NETWORK

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

<u>Federal Agency/ Federal Assistance Listings Number</u>	<u>Federal Program Name</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Housing and Urban Development					
14.228	COVID-19: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Arizona Department of Housing	113-22	\$ 945,978	
U.S. Department of the Treasury					
21.019	COVID-19: Coronavirus Relief Fund	City of Phoenix	S-48543	1,349,798	
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds	Pima County, Arizona	SLFRP0180	<u>200,035</u>	
Total U.S. Department of the Treasury				<u>1,549,833</u>	
Corporation for National and Community Service					
94.013	AmeriCorps Volunteers In Service to America	N/A	N/A	<u>14,900</u>	
Total Expenditures of Federal Awards				<u>\$ 2,510,711</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

ARIZONA FOOD BANK NETWORK

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Arizona Food Bank Network and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - FEDERAL ASSISTANCE LISTINGS NUMBERS

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2022 Federal Assistance Listings. When no Federal Assistance Listings number had been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the 2-digit federal agency identifier and the word "unknown" were used.

NOTE 3 - INDIRECT COST RATE

AzFBN did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

NOTE 4 - SUBRECIPIENTS

AzFBN did not pass through federal funding to subrecipients during the fiscal year ended June 30, 2022.

SINGLE AUDIT REPORTS



**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
Arizona Food Bank Network
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arizona Food Bank Network (AzFBN, a nonprofit 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, and have issued our report thereon dated December 7, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AzFBN's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AzFBN's internal control. Accordingly, we do not express an opinion on the effectiveness of AzFBN's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AzFBN's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

AzFBN's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on AzFBN's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. AzFBN's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AzFBN's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AzFBN's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman, PLLC

December 7, 2022



Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors of
Arizona Food Bank Network
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited AzFBN's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of AzFBN's major federal programs for the year ended. AzFBN's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, AzFBN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended .

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of AzFBN's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to AzFBN's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on 's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about 's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 AzFBN's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of AzFBN's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of AzFBN's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.^s

Fester & Chapman, PLLC

December 7, 2022

ARIZONA FOOD BANK NETWORK

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:		<u>Unmodified</u>		
Internal control over financial reporting:				
Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiency(ies) identified?	<u> X </u>	yes	_____	none reported
Noncompliance material to the financial statements noted?	_____	yes	<u> X </u>	no

Federal Awards:

Internal control over major programs:				
Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiency(ies) identified?	_____	yes	<u> X </u>	none reported

Type of auditors' report on compliance for major programs:

		<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance 2 CFR §200.516(a)?	_____	yes	<u> X </u>	no

Identification of major programs:

Federal Assistance Listings Number	Name of Federal Programs or Cluster
14.228	COVID-19: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?	_____	yes	<u> X </u>	no
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Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR §200.511(b)?	_____	yes	<u> X </u>	no
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ARIZONA FOOD BANK NETWORK

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2022

Section II - Financial Statement Findings

2022-001 Revenue Recognition for Conditional Promises to Give

Criteria: The Uniform Guidance requires organizations to prepare financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Financial Accounting Standards Board Accounting Standards Update (FASB ASU) 2018-08 requires that conditional promises to give are recognized as revenue only after conditions and barriers specified by donors have been overcome. For cost-reimbursement type government grants, this generally occurs when qualifying expenditures for allowable costs have been incurred.

Condition: Government grants that were received as lump sums rather than as monthly reimbursements from the granting agencies were accounted for as unconditional promises to give instead of as conditional promises to give.

Cause: FASB ASU 2018-08 was not applied correctly to government grant revenue.

Effect: Government grant revenue was overstated by approximately \$437,000 prior to management posting a correcting journal entry.

Recommendation: AzFBN's management should review each grant award with the contracted CPA when it is received and document the proper accounting treatment. This should help to ensure that revenue is recognized in the proper period.

Management's Corrective Action Plan is included at the end of this report.

Section III - Federal Award Findings and Questioned Costs

None noted.

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2022

We have prepared the following corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Findings - Financial Statement Audit

2022-001 Revenue Recognition for Conditional Promises to Give

Recommendation: AzFBN's management should review each grant award with the contracted CPA when it is received and document the proper accounting treatment. This should help to ensure that revenue is recognized in the proper period.

Action Taken: AzFBN concurs and has implemented the recommendation.

Completion Date: During fiscal year 2023

Contact Person: Angie Rodgers, President and Chief Executive Officer