

**ARIZONA FOOD BANK NETWORK**

**Report to the Board of Directors**

**June 30, 2023**



January 30, 2024

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

We have audited the financial statements of Arizona Food Bank Network (AzFBN) for the year ended June 30, 2023, and have issued our report thereon dated January 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 26, 2023. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by AzFBN are described in Note 1 to the financial statements. During the year ended June 30, 2023, AzFBN changed accounting policies related to operating leases as right-of-use assets by adopting ASU No. 2016-02, *Leases (Topic 842)*. We noted no transactions entered into by AzFBN during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

The estimated fair value of donated food is based on the per pound rate determined by Feeding America.

The expense allocations to program, general and administrative services, and fundraising in the Statements of Functional Expenses are based on the nature of the expenses and management's estimates of the amounts consumed by the respective functions.

Depreciation is based on management's estimate of the useful lives of depreciable assets.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, included as AJE 01 in the attached schedule. We have also included management's post-closing entries posted during the audit (CAJEs 01-02) for reference.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as of the date of this letter.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to AzFBN's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. We discussed the adjustment to operating lease right of use assets and liabilities with management and AzFBN's contracted CPA.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as AzFBN's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. We have reported in the Summary Schedule of Prior Audit Findings that the financial statement finding from the previous audit has been fully corrected.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We are required to communicate any audit risks that we identify to those charged with governance. We have identified the risks of management override of controls, improper revenue recognition, and the valuation of donated food as audit risks, and we have addressed those risks during the normal course of our audit.

This information is intended solely for the use of the Board of Directors and management of AzFBN and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Fester & Chapman, PLLC*

## Schedule of Adjusting Journal Entries

Number	Date	Name	Account No	Debit	Credit
AJE 01	6/30/2023	Right of Use:Phoenix Lease	1620		(18,343)
AJE 01	6/30/2023	Right of Use:Nogales Lease	1630		(47,681)
AJE 01	6/30/2023	Deferred Lease Liability:Phoenix Lease Liability	2710	15,880	
AJE 01	6/30/2023	Deferred Lease Liability:Nogales Lease Liability	2720	30,544	
AJE 01	6/30/2023	Facilities Expense:Building Leases	6410	2,462	
AJE 01	6/30/2023	Facilities Expense:Building Leases	6410	17,138	
		To true up year end ROU asset and liability.			
CAJE 01	6/30/2023	Accumulated Depreciation	1570		(2,628)
CAJE 01	6/30/2023	Depreciation	5800	2,628	
		To properly state depreciation.			
CAJE 02	6/30/2023	Equipment and Furniture	1500		(7,870)
CAJE 02	6/30/2023	Leasehold Improvements	1550	7,870	
		To reclass leasehold improvements.			

**ARIZONA FOOD BANK NETWORK**

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

**June 30, 2023 and 2022**

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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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AzFBN as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our 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 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.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in the year ended June 30, 2023, AzFBN changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), as amended, using the modified retrospective approach. Our opinion is not modified with respect to this matter.



### ***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 January 30, 2024, 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 the effectiveness of AzFBN's 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*

January 30, 2024

# ARIZONA FOOD BANK NETWORK

## Statements of Financial Position

June 30,

	2023	2022
<b>ASSETS</b>		
Current assets:		
Cash	\$ 3,592,895	\$ 4,763,952
Investments	1,413,292	1,292,755
Grants and contracts receivable	1,132,282	787,152
Inventory	661,802	
Prepaid expenses	49,609	58,871
Security deposits	33,941	10,841
Total current assets	6,883,821	6,913,571
Property and equipment, net	886,828	449,512
Endowment investments	213,429	172,351
Operating lease right-of-use assets	393,779	
Total assets	\$ 8,377,857	\$ 7,535,434

## LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 884,382	\$ 657,938
Payroll related liabilities	41,786	48,287
Refundable advances		437,308
Operating lease liabilities, current portion	321,560	
Total current liabilities	1,247,728	1,143,533
Operating lease liabilities, noncurrent portion	91,819	
Total liabilities	1,339,547	1,143,533
Net assets:		
Without donor restrictions	4,716,872	4,838,888
With donor restrictions	2,321,438	1,553,013
Total net assets	7,038,310	6,391,901
Total liabilities and net assets	\$ 8,377,857	\$ 7,535,434

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statements of Activities

Years Ended June 30,

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Contributions	\$ 1,082,042	\$ 3,074,688	\$ 4,156,730	\$ 1,750,428	\$ 2,059,722	\$ 3,810,150
Governmental grants	2,822,096		2,822,096	5,926,748		5,926,748
Fee for service	3,243,593		3,243,593	2,215,482		2,215,482
Memberships	388,820		388,820	64,380		64,380
Net investment income (loss)	96,450	13,429	109,879	(227,391)		(227,391)
In-kind contributions	58,072,786		58,072,786	54,636		54,636
Miscellaneous revenue	89,330		89,330	61,289		61,289
Net assets released from restrictions	<u>2,319,692</u>	<u>(2,319,692)</u>		<u>2,020,293</u>	<u>(2,020,293)</u>	
Total revenue and support	68,114,809	768,425	68,883,234	11,865,865	39,429	11,905,294
Expenses:						
Program services	67,389,200		67,389,200	10,777,998		10,777,998
Support services:						
General and administrative	483,970		483,970	332,329		332,329
Fundraising	<u>363,655</u>		<u>363,655</u>	<u>253,250</u>		<u>253,250</u>
Total support services	<u>847,625</u>		<u>847,625</u>	<u>585,579</u>		<u>585,579</u>
Total expenses	<u>68,236,825</u>		<u>68,236,825</u>	<u>11,363,577</u>		<u>11,363,577</u>
Change in net assets	(122,016)	768,425	646,409	502,288	39,429	541,717
Net assets, beginning 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>
Net assets, end of year	<u>\$ 4,716,872</u>	<u>\$ 2,321,438</u>	<u>\$ 7,038,310</u>	<u>\$ 4,838,888</u>	<u>\$ 1,553,013</u>	<u>\$ 6,391,901</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statement of Functional Expenses

Year Ended June 30, 2023

	<u>Program Services</u>			<u>Support Services</u>				
	<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	\$ 138,192	\$ 187,174	\$ 1,182,766	\$ 1,508,132	\$ 152,804	\$ 123,456	\$ 276,260	\$ 1,784,392
Taxes and employee related expenses	24,951	30,221	328,068	383,240	101,436	37,705	139,141	522,381
Food distribution			57,285,426	57,285,426				57,285,426
Food, freight, and related costs			3,076,660	3,076,660				3,076,660
Professional fees and outside services	33,804	131,778	1,798,171	1,963,753	10,496	47,946	58,442	2,022,195
Capacity building expenses	60,000		915,342	975,342				975,342
Materials and supplies	6,118	6,379	874,140	886,637	7,971	129,824	137,795	1,024,432
Equipment, rental, and repair	319	502	512,314	513,135	1,201	356	1,557	514,692
Operating services	4,940	18,478	353,864	377,282	5,885	19,454	25,339	402,621
Occupancy	3,931	8,845	337,916	350,692	6,388	4,914	11,302	361,994
Travel	7,777	9,615	51,509	68,901	252		252	69,153
Depreciation					197,537		197,537	197,537
Total expenses	<u>\$ 280,032</u>	<u>\$ 392,992</u>	<u>\$66,716,176</u>	<u>\$ 67,389,200</u>	<u>\$ 483,970</u>	<u>\$ 363,655</u>	<u>\$ 847,625</u>	<u>\$68,236,825</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			Total Expenses
	Advocacy	Innovation	Member Services	Total Program	General and Administrative	Fundraising	Total Support	
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

Statements of Cash Flows

Years Ended June 30, 2023

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 646,409	\$ 541,717
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	197,537	30,053
Net change in operating lease right-of-use assets and operating lease liabilities	19,600	
Unrealized (gain) loss on investments	(109,879)	202,945
Donated inventory	(661,802)	
Change in:		
Grants and contracts receivable	(345,130)	462,687
Prepaid expenses	9,262	(35,103)
Security deposits	(23,100)	(6,500)
Accounts payable and accrued expenses	226,444	392,398
Payroll related liabilities	(6,501)	17,684
Refundable advances	<u>(437,308)</u>	<u>434,308</u>
Net cash (used) provided by operating activities	(484,468)	2,040,189
Cash flows from investing activities:		
Purchases of fixed assets	(634,853)	(379,365)
Purchases of investments	(51,736)	(198,598)
Proceeds from sales of investments	<u>217,173</u>	<u>217,173</u>
Net cash used by investing activities	<u>(686,589)</u>	<u>(360,790)</u>
Net (decrease) increase in cash	(1,171,057)	1,679,399
Cash, beginning of year	<u>4,763,952</u>	<u>3,084,553</u>
Cash, end of year	<u>\$ 3,592,895</u>	<u>\$ 4,763,952</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for operating lease payments	\$ 256,271	
Leased assets obtained in exchange for new operating lease liability	\$ 680,101	

The accompanying notes are an integral part of these statements.

# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### 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, 2023 and 2022

### 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.

Expanded Operations: In the fiscal year ending June 30, 2023, AzFBN assumed an operational role in produce sourcing through the ‘No Borders No Limits Produce Program’ based in Nogales/Rio Rico, Arizona through an agreement with food banks across the state. Previously, Community Food Bank of Southern Arizona (CFBSA) ran this operation; however, since the benefits of capturing excess produce (many times preventing this product from going to a landfill) reach far beyond CFBSA's service area, the transition of this work to AzFBN was approved by the AzFBN Board of Directors in November 2021. The effective date of the transition occurred on July 1, 2022.

This move represents a substantial expansion of AzFBN’s food banking operations, requiring increased levels of financial support. In addition, AzFBN began reporting large scale in-kind contributions of fresh produce in the financial statements. Nearly 38 million pounds of produce were channeled during the first year, (to which a wholesale value determined by Feeding America was applied) significantly impacting AzFBN’s expenses and revenue reported in the statement of activities due to the valuation of the donations.

The AzFBN team channels all donated product either directly to food banks in bulk, or to the AzFBN facility for processing (repacking product into family sized boxes, sorting produce to preserve quality product, and eliminating produce past its prime). AzFBN and its partners, distribute the product across the state. Daily load delivery is determined equitably by AzFBN staff in coordination with logistics partners at each food bank, and depends on the type and quality of product as well as available space and need. Product distribution is also included in AzFBN’s financial statements using the same valuation.



# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

*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.

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, 2023 and 2022, as amounts are considered to be fully collectible.

# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory: AzFBN maintains inventories of food for distribution. Donated food is valued at \$1.53 per pound, which is based on the average per pound rate established by Feeding America.

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 containers	5 years
Furniture and equipment	5 years
Vehicles and tractors	5 years
Leasehold Improvements	15 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, 2023 and 2022

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Change in Accounting Principle: In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. AzFBN has elected the package of practical expedients permitted in ASU 2016-02. Accordingly, AzFBN accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASU 2016-02, (b) whether classification of the operating leases would be different in accordance with ASU 2016-02, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2015) would have met the definition of initial direct costs in ASU 2016-02 at lease commencement. No changes to beginning net assets were necessary as AzFBN implemented this change in accounting principle on a modified retrospective basis.

### 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:

	2023	2022
Financial assets included in current assets:		
Cash	\$ 3,592,895	\$ 4,763,952
Investments	1,413,292	1,292,755
Grants and contracts receivable	1,132,282	787,152
Total financial assets included in current assets	6,138,469	6,843,859
Less amounts unavailable for general expenditure within one year:		
Net assets with donor restrictions	(2,321,438)	(1,553,013)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,817,031	\$ 5,290,846

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.

# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### 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, 2023, 50% of grants and contracts receivable were due from Arizona Department of Economic Security (ADES). At June 30, 2022, 44% of grants and contracts receivable were due from two State of Arizona agencies.

#### Revenue:

During the year ended June 30, 2022, AzFBN received 23% of its total revenue and support from Maricopa County, Arizona. During the year ended June 30, 2023, AzFBN received 13% of its total revenue and support from Feeding America, which included approximately \$2.2 million in grants and food valued at \$6,804,499.

### NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Refrigerated trailers and storage containers	719,013	557,127
Furniture and equipment	116,560	31,008
Vehicles and tractors	390,835	28,783
Leasehold improvements	<u>25,363</u>	<u>        </u>
	1,251,771	616,918
Less accumulated depreciation	<u>(364,943)</u>	<u>(167,406)</u>
	<u>\$ 886,828</u>	<u>\$ 449,512</u>

At June 30, 2023 and 2022, AzFBN had refrigerated trailers and storage containers costing \$105,772 and \$379,365, respectively, 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).

# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

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 were valued based on Level 1 inputs at June 30, 2023 and 2022.

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, 2023 and 2022.

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, 2023 and 2022.

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.

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, 2023 and 2022.

*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:

	<u>2023</u>	<u>2022</u>
Investments:		
Equities	\$ 757,358	\$ 646,436
Bond funds	438,983	437,245
Money market funds	<u>216,951</u>	<u>209,074</u>
Total investments	<u>\$ 1,413,292</u>	<u>\$ 1,292,755</u>
Endowment investments:		
Exchange-traded funds	\$ 213,429	\$ 172,351

# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### 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.

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:

	2023	2022
Donor-restricted endowment fund	\$ 172,351	\$ 200,000
Accumulated earnings	41,078	
Underwater endowment		(27,649)
Total fair value of endowment fund	<u>\$ 213,429</u>	<u>\$ 172,351</u>

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.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2023 and 2022

NOTE 6 - ENDOWMENT FUND - Continued

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

	<u>2023</u>	<u>2022</u>
	With Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 200,000	\$ 225,532
Investment income	13,429	
Less: amounts appropriated for expenditures	(13,429)	
Released from time restrictions		(25,532)
Endowment net assets, end of year	<u>\$ 200,000</u>	<u>\$ 200,000</u>

NOTE 7 - OPERATING LEASE

AzFBN has lease agreements for its existing facility site and warehouse under the provisions of long-term lease agreements classified as operating leases, which expire on October 31, 2025 and July 31, 2024, respectively.

Operating lease cost:	
Rent expense	\$ 270,761

Supplemental information for the statement of financial position for the year ended June 30, 2023, related to the leases were as follows:

Operating lease right-of-use assets	\$ 393,779
Operating lease liabilities:	
Current portion of long-term debt	321,560
Long-term debt	91,819
Weighted average remaining lease term	
Operating leases	1.4 years

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2023 and 2022

NOTE 7 - OPERATING LEASE - Continued

During the year ended June 30, 2023, AzFBN had the following cash and non-cash activities associated with the leases:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 256,271
Non-cash investing and financing activities:	
Right-of-use asset obtained in exchange for lease obligation:	
Operating leases	680,101

The future payments due under the operating leases are as follows:

Years ending June 30:	
2024	\$ 329,961
2025	74,933
2026	<u>23,076</u>
	427,970
Less: interest	<u>(14,591)</u>
Present value of lease liabilities	<u>\$ 413,379</u>

Because AzFBN does not have access to the rates implicit in the leases, AzFBN utilizes the appropriate US Treasury Bill rates relative to each of the lease terms as the discount rates. As of June 30, 2023, the weighted average discount rate on the operating leases were 5.25%.



# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

During the years ended June 30, 2023 and 2022, net assets released from time and purpose restrictions totaled \$2,319,692 and \$2,020,293, respectively.

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

	2023	2022
Purpose restrictions:		
Member services	\$ 1,789,737	\$ 975,319
Advocacy	263,615	240,309
Innovation	4,538	50,816
Other	63,548	86,569
Endowment	200,000	200,000
Total restricted net assets	\$ 2,321,438	\$ 1,553,013

### NOTE 9 - DEFINED CONTRIBUTION RETIREMENT PLAN

AzFBN has a 403(b) defined contribution retirement plan which allows all employees to participate. Under the plan, AzFBN contributes 3 percent of each participating employee's salary, and provides an additional matching contribution of up to 2 percent. AzFBN's contributions to the plan were \$79,089 and \$35,591 for the years ended June 30, 2023 and 2022, respectively.

### NOTE 10 - IN-KIND CONTRIBUTIONS

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

	2023	2022
Food	\$ 57,947,228	
Advertising	118,708	\$ 53,683
Other	6,850	953
	\$ 58,072,786	\$ 54,636

Donated food expense is recognized when the donated food is distributed. The largest percentage of food donations was provided through Feeding America, contributing approximately 12% of total food donations. 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.

# ARIZONA FOOD BANK NETWORK

## Notes to Financial Statements

June 30, 2023 and 2022

### NOTE 11 - CONDITIONAL CONTRIBUTIONS

AzFBN received conditional contributions during the year ended June 30, 2023. 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, 2023 and 2022, AzFBN had conditional contributions totaling \$228,217 and \$1,136,395, respectively. As conditions for recognizing revenue had not been met as of June 30, 2023 and 2022, no amounts were recorded as revenue or receivables in these financial statements for these amounts.

### NOTE 12 - SUBSEQUENT EVENTS

AzFBN has evaluated subsequent events through January 30, 2024, the date which the financial statements were available to be issued.

On January 25, 2024, the AzFBN signed a letter of intent to purchase the warehouse property in Rio Rico, Arizona, for \$2.7 million. Management was in the process of finalizing financing for the purchase as of the date these financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

ARIZONA FOOD BANK NETWORK

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Agency/ Federal Assistance Listings Number	Federal Program Name	Pass-Through Grantor	Pass-Through Grantor's Number	Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Agriculture</b>					
10.182	COVID-19: Pandemic Relief Activities: Local Food Purchase Agreements with States, Tribes, and Local Governments	Arizona Department of Economic Security	LFP0000-22-001	\$ 387,147	
<b>U.S. Department of Housing and Urban Development</b>					
14.228	COVID-19: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Arizona Department of Housing	113-22	54,022	
<b>U.S. Department of the Treasury</b>					
21.019	COVID-19: Coronavirus Relief Fund	City of Phoenix	S-48543	82,702	
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds	Pima County, Arizona	SLFRP0180	316,782	
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds	Arizona Department of Economic Security	CTR055798	<u>169,120</u>	
	<i>Total FAL 21.027</i>			<u>485,902</u>	
<b>Total U.S. Department of the Treasury</b>				568,604	
<b>U.S. Department of Health and Human Services</b>					
93.667	Social Services Block Grant	Arizona Department of Economic Security	ADES 17-138736	247,541	
<b>Corporation for National and Community Service</b>					
94.013	AmeriCorps Volunteers In Service to America	N/A	N/A	<u>97,660</u>	
<b>Total Expenditures of Federal Awards</b>				<u>\$ 1,354,974</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, 2023

#### 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 2023 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, 2023.

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, 2023, 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 January 30, 2024.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on 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*.

### **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*

January 30, 2024





## **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 June 30, 2023. 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 June 30, 2023.

#### ***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 AzFBN'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 AzFBN'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.

*Fester & Chapman, PLLC*

January 30, 2024

ARIZONA FOOD BANK NETWORK

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

**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?	_____	yes	<u>  X  </u> 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:

Unmodified

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

<u>Federal Assistance Listings Number</u>	<u>Name of Federal Programs or Cluster</u>
10.182	COVID-19: Pandemic Relief Activities: Local Food Purchase Agreements with States, Tribes, and Local Governments

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

\$750,000

Auditee qualified as low-risk auditee?	<u>  X  </u>	yes	_____	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)?

<u>  X  </u>	yes	_____	no
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ARIZONA FOOD BANK NETWORK

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2023

**Section II - Financial Statement Findings**

None noted.

**Section III - Federal Award Findings and Questioned Costs**

None noted.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2023

**Status of Financial Statement Findings**

Finding No: 2022-001 Revenue Recognition for Conditional Promises to Give

Status: Fully corrected.