

ARIZONA FOOD BANK NETWORK

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

June 30, 2024 and 2023

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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 Arizona Food Bank Network (AzFBN, a nonprofit organization), which comprise the statements of financial position as of June 30, 2024 and 2023, 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, 2024 and 2023, 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 opinion.

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 October 17, 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 solely 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

October 17, 2024

ARIZONA FOOD BANK NETWORK

Statements of Financial Position

June 30,

	<u>2024</u>	<u>2023</u>
ASSETS		
Current assets:		
Cash	\$ 1,443,200	\$ 3,592,895
Investments	1,256,568	1,413,292
Grants and contracts receivable	2,079,329	1,132,282
Inventory	245,586	661,802
Prepaid expenses	236,932	49,609
Security deposits	<u>109,141</u>	<u>33,941</u>
Total current assets	5,370,756	6,883,821
Property and equipment, net	3,683,877	886,828
Restricted cash equivalents	333,750	
Endowment investments	261,739	213,429
Operating lease right-of-use assets	<u>80,977</u>	<u>393,779</u>
Total assets	<u><u>\$ 9,731,099</u></u>	<u><u>\$ 8,377,857</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 485,872	\$ 884,382
Payroll related liabilities	59,985	41,786
Operating lease liabilities, current portion	49,383	321,560
Current portion of long-term debt	<u>40,874</u>	
Total current liabilities	636,114	1,247,728
Operating lease liabilities, noncurrent portion	31,594	91,819
Long-term debt, noncurrent portion, net	<u>2,498,065</u>	
Total liabilities	3,165,773	1,339,547
Net assets:		
Without donor restrictions	5,943,800	4,716,872
With donor restrictions	<u>621,526</u>	<u>2,321,438</u>
Total net assets	<u>6,565,326</u>	<u>7,038,310</u>
Total liabilities and net assets	<u><u>\$ 9,731,099</u></u>	<u><u>\$ 8,377,857</u></u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statements of Activities

Years Ended June 30,

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Contributions	\$ 1,162,024	\$ 1,227,632	\$ 2,389,656	\$ 1,082,042	\$ 3,074,688	\$ 4,156,730
Governmental grants	6,843,199		6,843,199	2,822,096		2,822,096
Fee for service	4,689,290		4,689,290	3,243,593		3,243,593
Memberships	388,794		388,794	388,820		388,820
Net investment income	242,500		242,500	96,450	13,429	109,879
In-kind contributions	63,669,656		63,669,656	58,072,786		58,072,786
Miscellaneous revenue	21,773		21,773	89,330		89,330
Net assets released from restrictions	<u>2,927,544</u>	<u>(2,927,544)</u>		<u>2,319,692</u>	<u>(2,319,692)</u>	
Total revenue and support	<u>79,944,780</u>	<u>(1,699,912)</u>	<u>78,244,868</u>	<u>68,114,809</u>	<u>768,425</u>	<u>68,883,234</u>
Expenses:						
Program services	77,911,434		77,911,434	67,389,200		67,389,200
Support services:						
General and administrative	419,164		419,164	483,970		483,970
Fundraising	<u>387,254</u>		<u>387,254</u>	<u>363,655</u>		<u>363,655</u>
Total support services	<u>806,418</u>		<u>806,418</u>	<u>847,625</u>		<u>847,625</u>
Total expenses	<u>78,717,852</u>		<u>78,717,852</u>	<u>68,236,825</u>		<u>68,236,825</u>
Change in net assets	1,226,928	(1,699,912)	(472,984)	(122,016)	768,425	646,409
Net assets, beginning 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>
Net assets, end of year	<u>\$ 5,943,800</u>	<u>\$ 621,526</u>	<u>\$ 6,565,326</u>	<u>\$ 4,716,872</u>	<u>\$ 2,321,438</u>	<u>\$ 7,038,310</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statement of Functional Expenses

Year Ended June 30, 2024

	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	\$ 157,235	\$ 162,870	\$ 1,523,449	\$ 1,843,554	\$ 190,656	\$ 130,479	\$ 321,135	\$ 2,164,689
Taxes and employee related expenses	36,318	32,907	430,379	499,604	106,438	26,417	132,855	632,459
Food distribution			64,027,457	64,027,457				64,027,457
Food, freight, and related costs			5,769,547	5,769,547				5,769,547
Professional fees and outside services	44,901	87,177	2,663,148	2,795,226	70,578	67,965	138,543	2,933,769
Capacity building expenses	43,000		813,196	856,196				856,196
Materials and supplies	7,746	8,739	877,192	893,677	11,068	123,249	134,317	1,027,994
Equipment, rental, and repair	382	445	290,430	291,257	729	410	1,139	292,396
Operating services	8,970	13,771	222,604	245,345	10,616	19,641	30,257	275,602
Occupancy	4,908	7,063	440,848	452,819	6,352	5,478	11,830	464,649
Travel	9,101	17,201	20,789	47,091	3,420	649	4,069	51,160
Depreciation	18,050	20,132	151,479	189,661	19,307	12,966	32,273	221,934
Total expenses	<u>\$ 330,611</u>	<u>\$ 350,305</u>	<u>\$77,230,518</u>	<u>\$ 77,911,434</u>	<u>\$ 419,164</u>	<u>\$ 387,254</u>	<u>\$ 806,418</u>	<u>\$78,717,852</u>

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statement of Functional Expenses

Year Ended June 30, 2023

	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	\$ 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

Statements of Cash Flows

Years Ended June 30,

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ (472,984)	\$ 646,409
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	221,934	197,537
Noncash operating lease expense	312,802	(393,779)
Net investment income	(242,500)	(109,879)
Donated inventory used (provided)	416,216	(661,802)
Change in:		
Grants and contracts receivable	(947,047)	(345,130)
Prepaid expenses	(187,323)	9,262
Security deposits	(75,200)	(23,100)
Accounts payable and accrued expenses	(398,510)	226,444
Payroll related liabilities	18,199	(6,501)
Operating lease liability	(332,402)	413,379
Refundable advances	<u>(437,308)</u>	<u>(437,308)</u>
Net cash used by operating activities	(1,686,815)	(484,468)
Cash flows from investing activities:		
Purchases of fixed assets	(480,044)	(634,853)
Deposits into restricted cash equivalents account	333,750	
Purchases of investments		(51,736)
Proceeds from sales of investments	<u>17,164</u>	<u>(686,589)</u>
Net cash used by investing activities	(129,130)	(686,589)
Net decrease in cash and restricted cash equivalents	(1,815,945)	(1,171,057)
Cash and restricted cash equivalents, beginning of year	<u>3,592,895</u>	<u>4,763,952</u>
Cash and restricted cash equivalents, end of year	<u>\$ 1,776,950</u>	<u>\$ 3,592,895</u>
<u>Reconciliation of cash and restricted cash equivalents:</u>		
Cash	\$ 1,443,200	
Restricted cash equivalents	<u>333,750</u>	
	<u>\$ 1,776,950</u>	

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Statements of Cash Flows

Years Ended June 30,

	2024	2023
<u>Supplemental disclosure of cash flow information:</u>		
Building acquired with proceeds for note payable	\$ 2,600,000	
Leased assets obtained in exchange for new operating lease liability		\$ 680,101
Cash paid during the period for interest	\$ 0	

The accompanying notes are an integral part of these statements.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2024 and 2023

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, 2024 and 2023

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, 2024 and 2023

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, 2024 and 2023, as amounts are considered to be fully collectible.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory: AzFBN maintains inventories of food for distribution. Donated food was valued at \$1.57 and \$1.53 per pound as of June 30, 2024 and 2023, respectively, which was 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:

Buildings	39 years
Refrigerated trailers and storage containers	5 years
Furniture and equipment	5 years
Vehicles and tractors	5 years
Leasehold improvements	Lesser of remaining lease term or estimated useful life of the underlying assets

Restricted Cash Equivalents: AzFBN is required to maintain a restricted cash account for replacement reserves under the terms of a promissory note. See Note 8.

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, 2024 and 2023

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>2024</u>	<u>2023</u>
Financial assets included in current assets:		
Cash	\$ 1,443,200	\$ 3,592,895
Investments	1,256,568	1,413,292
Grants and contracts receivable	<u>2,079,329</u>	<u>1,132,282</u>
Total financial assets included in current assets	4,779,097	6,138,469
Less amounts unavailable for general expenditure within one year:		
Net assets with donor restrictions	<u>(621,526)</u>	<u>(2,321,438)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,157,571</u>	<u>\$ 3,817,031</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.

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, 2024, 52% of grants and contracts receivable were due from Arizona Department of Economic Security (ADES). At June 30, 2023, 50% of grants and contracts receivable were due from Arizona Department of Economic Security (ADES).

Revenue:

During the year ended June 30, 2023, AzFBN received 13% of its total revenue and support from Feeding America.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2024 and 2023

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	2024	2023
Land	\$ 540,000	
Buildings	2,207,500	
Refrigerated trailers and storage containers	742,345	\$ 719,013
Furniture and equipment	254,915	116,560
Vehicles and tractors	491,129	390,835
Leasehold improvements	34,865	25,363
	4,270,754	1,251,771
Less accumulated depreciation	(586,877)	(364,943)
	<u>\$ 3,683,877</u>	<u>\$ 886,828</u>

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 were valued based on Level 1 inputs at June 30, 2024 and 2023.

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, 2024 and 2023.

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, 2024 and 2023.

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, 2024 and 2023

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, 2024 and 2023.

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>2024</u>	<u>2023</u>
Investments:		
Equities	\$ 615,016	\$ 757,358
Bond funds	457,890	438,983
Money market funds	<u>183,662</u>	<u>216,951</u>
Total investments	<u>\$ 1,256,568</u>	<u>\$ 1,413,292</u>
Endowment investments:		
Exchange-traded funds	\$ 261,739	\$ 213,429

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, 2024 and 2023

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:

	2024	2023
Donor-restricted endowment fund	\$ 200,000	\$ 172,351
Accumulated earnings	<u>61,739</u>	<u>41,078</u>
Total fair value of endowment fund	<u>\$ 261,739</u>	<u>\$ 213,429</u>

	2024	2023
	With Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 200,000	\$ 200,000
Investment income	48,310	13,429
Less: amounts appropriated for expenditures	<u>(48,310)</u>	<u>(13,429)</u>
Endowment net assets, end of year	<u>\$ 200,000</u>	<u>\$ 200,000</u>

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2024 and 2023

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. On June 7, 2024, the warehouse was purchased by AzFBN, terminating the lease.

The following operating lease cost is as follows for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Operating lease cost:		
Rent expense (included in occupancy on the statement of functional expense)	\$ 311,994	\$ 270,761

Supplemental information for the statement of financial position for the years ended June 30, 2024 and 2023, related to the leases were as follows:

	<u>2024</u>	<u>2023</u>
Operating lease right-of-use assets	\$ 80,977	\$ 393,779
Operating lease liabilities:		
Current portion of long-term debt	49,383	321,560
Long-term debt	31,594	91,819
Weighted average remaining lease term		
Operating leases	1.3 years	1.4 years

During the years ended June 30, 2024 and 2023, AzFBN had the following cash and non-cash activities associated with the leases:

Operating cash flows from operating leases	\$ 332,402	\$ 256,271
Non-cash investing and financing activities:		
Right-of-use asset obtained in exchange for lease obligation:		
Operating leases		\$ 680,101

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2024 and 2023

NOTE 7 - OPERATING LEASE - Continued

The future payments due under the remaining operating lease is as follows:

Years ending June 30:	
2025	\$ 51,831
2026	<u>31,416</u>
	83,247
Less: interest	<u>(2,270)</u>
Present value of lease liabilities	<u>\$ 80,977</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 2024, the weighted average discount rate on the operating lease was 5.09%.

NOTE 8 - LONG-TERM DEBT

Details of AzFBN's long-term debt at June 30, 2024 are as follows:

On June 7, 2024, AzFBN entered into a loan agreement with Local Initiatives Support Corporation in the amount of \$2,600,000, and interest of 5%. Proceeds were used to purchase a warehouse in Santa Cruz County, Arizona. The loan matures in 2031 with a balloon payment due for the remaining balance.	\$ 2,600,000
Less: unamortized loan issuance costs	(61,061)
Less: current portion	<u>(40,874)</u>
Total long-term debt, net	<u>\$ 2,498,065</u>

The future minimum payments on long-term debt are as follows:

Years ending June 30:	
2025	\$ 40,874
2026	51,535
2027	54,398
2028	57,432
2029	60,648
Thereafter	<u>2,335,113</u>
	<u>\$ 2,600,000</u>

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2024 and 2023

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

During the years ended June 30, 2024 and 2023, net assets released from time and purpose restrictions totaled \$2,927,544 and \$2,319,692, respectively.

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

	2024	2023
Purpose restrictions:		
Member services	\$ 146,022	\$ 1,789,737
Advocacy	221,134	263,615
Innovation	54,370	4,538
Other		63,548
Endowment	200,000	200,000
Total restricted net assets	<u>\$ 621,526</u>	<u>\$ 2,321,438</u>

NOTE 10 - 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 \$98,725 and \$79,089 for the years ended June 30, 2024 and 2023, respectively.

NOTE 11 - IN-KIND CONTRIBUTIONS

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

	2024	2023
Food	\$ 63,611,240	\$ 57,947,228
Advertising	57,416	118,708
Other	1,000	6,850
	<u>\$ 63,669,656</u>	<u>\$ 58,072,786</u>

Donated food expense is recognized when the donated food is distributed. The largest percentage of food donations during the year ended June 30, 2024 was provided through TruFresh, contributing approximately 9% of total food donations. During the year ended June 30, 2023, Feeding America contributed approximately 12% of total food donations.

ARIZONA FOOD BANK NETWORK

Notes to Financial Statements

June 30, 2024 and 2023

NOTE 11 - IN-KIND CONTRIBUTIONS - Continued

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. Advertising and other in-kind contributions are valued based on estimates provided by donors.

NOTE 12 - RELATED PARTY TRANSACTIONS

Certain members of AzFBN's Board of Directors are employees of member food banks with which AzFBN is also a member. AzFBN supplies food donations in exchange for a member fee, which may include donations from member food banks. At June 30, 2024, net receivables from Community Food Bank of Southern AZ and St. Mary's Food Bank Alliance were \$236,830 and \$138,338, respectively.

NOTE 13 - SUBSEQUENT EVENTS

AzFBN has evaluated subsequent events through October 17, 2024, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended June 30, 2024 that would require an adjustment or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

ARIZONA FOOD BANK NETWORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Agency/ Federal Assistance Listings Number (FAL)	Federal Program Name	Cluster Title	Pass-Through Grantor	Pass-Through Grantor's Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture						
10.182	COVID-19: Pandemic Relief Activities: Local Food Purchase Assistance Cooperative Agreement with States, Tribes, and Local Governments	N/A	Arizona Department of Economic Security	LFPA0000-22-001	\$ 3,021,003	
U.S. Department of the Treasury						
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds	N/A	Pima County, Arizona	SLFRP0180	83,183	
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds	N/A	Arizona Department of Economic Security	CTR055798	<u>1,192,367</u>	
	<i>Total FAL 21.027</i>				<u>1,275,550</u>	
U.S. Department of Health and Human Services						
93.667	Social Services Block Grant	N/A	Arizona Department of Economic Security	ADES 17-138736	247,541	
Corporation for National and Community Service						
94.013	AmeriCorps Volunteers In Service to America 94.013	N/A	N/A	N/A	<u>83,599</u>	
Total Expenditures of Federal Awards					<u>\$ 4,627,693</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, 2024

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 2024 *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, 2024.

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, 2024, 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 October 17, 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 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

October 17, 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, 2024. 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, 2024.

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 AzFBN 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

October 17, 2024

ARIZONA FOOD BANK NETWORK

Schedule of Findings and Questioned Costs

Year Ended June 30, 2024

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:		<u>Unmodified</u>	
Is a going concern emphasis-of-matter paragraph included in the auditors' report?	<u> </u>	<u> X </u>	no
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u>	no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u>	none reported
Noncompliance material to the financial statements noted?	<u> </u> yes	<u> X </u>	no

Federal Awards:

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u>	no
Significant deficiency(ies) identified?	<u> </u> 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)?	<u> </u> yes	<u> X </u>	no

Identification of major programs:

<u>Federal Assistance Listings Number</u>	<u>Name of Federal Programs or Cluster</u>
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

Other Matters:

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2024

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.