

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2010

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of **Association of Arizona Food Banks, Inc.** (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of **Association of Arizona Food Banks, Inc.'s** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of **Association of Arizona Food Banks, Inc.** at June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles accepted in the United States of America.

Beauchamp & Coy, CPA's, PLLC

Beauchamp & Coy, CPA's, PLLC

Gilbert, AZ

November 8, 2010

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2010

ASSETS

Cash and equivalents	\$	856,180
Grants and accounts receivable		209,861
Contributions receivable		27,953
Prepaid expenses and other assets		4,155
Property and equipment, net		156,448
TOTAL ASSETS	\$	<u>1,254,597</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$	3,398
Accrued payroll and other accrued expenses		<u>24,145</u>
TOTAL LIABILITIES		27,543
NET ASSETS		
Unrestricted, undesignated		1,048,241
Unrestricted, designated		<u>133,701</u>
Total unrestricted net assets		1,181,942
Temporarily restricted net assets		<u>45,112</u>
TOTAL NET ASSETS		<u>1,227,054</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,254,597</u>

See Accompanying Notes to Financial Statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Contributions	\$ 821,967	\$ 88,453	\$ 910,420
Governmental and other agency grants	365,092	-	365,092
Fee for service	969,628	-	969,628
Membership	55,600	-	55,600
In-kind contributions	10,123	-	10,123
Interest	1,608	-	1,608
Other	642	-	642
Net assets released from restriction	236,621	(236,621)	-
TOTAL SUPPORT AND REVENUES	2,461,281	(148,168)	2,313,113
EXPENSES			
Program services:	2,037,999	-	2,037,999
Supporting services:			
Management and general	133,044	-	133,044
Fundraising	124,439	-	124,439
Total supporting services	257,483	-	257,483
TOTAL EXPENSES	2,295,482	-	2,295,482
CHANGE IN NET ASSETS	165,799	(148,168)	17,631
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	1,016,143	193,280	1,209,423
NET ASSETS, END OF YEAR	\$ 1,181,942	\$ 45,112	\$ 1,227,054

See Accompanying Notes to Financial Statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010

	Program Services			Supporting Services		
	Food Bank		Total Program	Management and		Total
	Coordination	Gleaning		General	Fundraising	
Salaries and wages	\$ 84,697	\$ 109,781	\$ 194,478	\$ 81,691	\$ 60,590	\$ 336,759
Taxes and employee related expenses	18,534	24,115	42,649	17,915	13,287	73,851
Food, frieght and related costs	-	1,326,916	1,326,916	17,718	2,657	1,347,291
Professional fees and outside services	6,533	297,774	304,307	-	1,067	305,374
Travel	7,499	2,712	10,211	3,177	5,021	18,409
Occupancy	5,879	8,977	14,856	112	177	15,145
Equipment, rental and repair	7,090	811	7,901	3,568	35,223	46,692
Materials and supplies	22,580	4,852	27,432	6,407	4,596	38,435
Operating services	12,050	23,628	35,678	-	-	35,678
Depreciation	67,725	-	67,725	-	-	67,725
In-kind	-	5,846	5,846	2,456	1,821	10,123
	<u>\$ 232,587</u>	<u>\$ 1,805,412</u>	<u>\$ 2,037,999</u>	<u>\$ 133,044</u>	<u>\$ 124,439</u>	<u>\$ 2,295,482</u>
TOTAL EXPENSES	<u>\$ 232,587</u>	<u>\$ 1,805,412</u>	<u>\$ 2,037,999</u>	<u>\$ 133,044</u>	<u>\$ 124,439</u>	<u>\$ 2,295,482</u>

See Accompanying Notes to Financial Statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

Cash flows from operating activities:	
Net income (loss)	\$ 17,631
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation	67,725
Changes in operating assets and liabilities:	
Grants and accounts receivable	(38,006)
Contributions receivable	53,147
Prepaid expenses and other assets	1,286
Accounts payable	(31,452)
Accrued payroll and other accrued expenses	1,694
Net cash provided (used) by operating activities	<u>72,025</u>
Cash flows from investing activities:	
Disposal of fixed assets	<u>3,264</u>
Net cash provided (used) by investing activities	3,264
Net increase (decrease) in cash	75,289
Cash at the beginning of the year	<u>780,891</u>
Cash at the end of the year	<u>\$ 856,180</u>
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	\$ <u>-</u>
Taxes	\$ <u>-</u>

See Accompanying Notes to Financial Statements

ASSOCIATION OR ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(1) Organization operations and summary of significant accounting policies

Nature of operations – Association of Arizona Food Banks, Inc. (“AAFB”) was established and incorporated in 1984 in the State of Arizona as a non-profit organization to promote and coordinate the activities of member food banks located in the State of Arizona, including the coordination of the purchase of food from local, state and federal programs and agencies. The services and programs provided by AAFB’s are concentrated primarily within the State of Arizona.

The significant accounting policies followed by AAFB are as follows:

Basis of presentation - The financial statement presentation follows *Financial Statements of Not-for-Profit Organizations*. Under this standard, AAFB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2010, AAFB had no permanently restricted net assets.

Managements’ use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions - AAFB recognizes contributions and support in accordance with *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated materials and services - Donated facilities, materials and services are recorded at their estimated values if they enhance the Organization’s nonfinancial assets or require specialized skills that AAFB would normally purchase, if not provided by donation. During 2010, AAFB received donated facilities, materials and services with an estimated value of \$10,123, which is included in the accompanying statement of activities.

Volunteers donate a significant amount of time to AAFB’s program services and its fundraising activities. No amounts have been reflected in the financial statements for these services, since they did not meet the recognition requirements under generally accepted accounting principles.

Contributions receivable - Unconditional promises to give (pledges) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received.

ASSOCIATION OR ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(1) **Nature of operations and summary of significant accounting policies (continued)**

Grants and accounts receivable – Grants receivable consists primarily of amounts due from members and from various federal, state and local government agencies under grant agreements. AAFB depends on grants to provide the source of funds necessary to operate. Each year, AAFB competes with other agencies for funding; its continued accomplishment of the programs and objectives does not guarantee continued support from the same funding sources. During the year ended June 30, 2010, AAFB received approximately 30% of its total support and revenue in the form of grants and in the form of in-kind facilities, services and materials from the Maricopa County Sheriff's Office.

Cash and equivalents - Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at cash institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). From time to time, these deposits may exceed the insurance amounts provided by the FDIC.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost and donated property and equipment is recorded at the fair value at the date of the gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over estimated useful lives of five to ten years.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of *Accounting for the Impairment of Long-Lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows to be expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no long-lived assets have any impairment of value.

Functional allocation of expenses - The costs of providing programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the program and supporting services benefited based on management's estimate of time devoted to each activity.

ASSOCIATION OR ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(1) Nature of operations and summary of significant accounting policies (continued)

Income tax status - The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

Subsequent events - The Organization evaluated subsequent events after the statement of financial position date of June 30, 2010 through November 8, 2010, which was the date the Association's financial statements were available to be issued. No conditions were noted that did not exist as of June 30, 2010, but arose subsequent to that date.

(2) Grants and accounts receivable

Grants and accounts receivable at June 30, 2010 consist of:

Governmental agencies	\$ 183,505
Members	20,779
Other	<u>5,577</u>
Total grants and accounts receivable	<u>\$ 209,861</u>

Grants and accounts receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Grants and accounts receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

At June 30, 2010, approximately 53% of the grants and accounts receivable are due from the Arizona Department of Economic Security and approximately 35% of the grants and accounts receivable are due from the Maricopa County Sheriff's Office.

(3) Contributions receivable

Contributions receivable at June 30, 2010, consist of a time restricted pledge receivable from Valley of the Sun United Way due in full during the year ended June 30, 2011, accordingly, a discount on those pledges is not considered necessary. Contributions receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

(4) Property and equipment

Property and equipment consists of the following:

Cost or donated value:	
Refrigerated trailers and storage containers	\$ 407,172
Furniture and equipment	20,268
Building improvements	8,365
Accumulated depreciation	<u>(279,357)</u>
Net property and equipment	<u>\$ 156,448</u>

For the year ended June 30, 2010, depreciation expense charged to operations was \$67,725.

ASSOCIATION OR ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(6) Operating leases

The Organization leases office space under an operating lease agreements expiring in June 2011. The rental expense related to these leases is recorded on a straight-line basis over the lease term. Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year at June 30, 2010 are as follows:

Years Ending June 30.

2011	<u>\$ 23,054</u>
Total minimum future lease payments	<u>\$ 23,054</u>

Total rental expense was \$23,054 for the year. In the normal course of business, operating leases are generally renewed or replaced by other leases.

On June 1, 2009 AAFB entered into a sublease agreement to lease a portion of its administrative facility on a month-to-month basis to an unrelated not-for-profit organization for \$50 per month. Total sublease revenue for the year ended June 30, 2010 is \$600.

(7) Designated net assets

Designated net assets at June 30, 2010, consist of unrestricted net assets that have designated by the executive committee of the board of directors to be used for the following purposes:

Halle Foundation	\$ 70,851
Homelessness and Hunger Funders Collaborative	57,785
Other	<u>5,065</u>
Total	<u>\$ 133,701</u>

(9) Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

Purpose restrictions:	
Advocacy	\$ 12,287
Transportation and fuel	2,858
Other	2,014
Time restrictions:	
Contribution receivable	<u>27,953</u>
Total temporarily restricted net assets	<u>\$ 45,112</u>

(10) Employee benefit plans

AAFB has a simplified employee pension plan (SEP) for all employees who meet specified service requirements. Under the provisions of the plan, contributions of 3% of each participating employee's salary are made to individual retirement account help in the employee's name. AAFB made a contribution to the plan in the amount of \$9,803 for the year ended June 30, 2010.

ASSOCIATION OR ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(11) Restatement of net assets

The Organization has restated net assets at July 1, 2009 to correct for certain errors related to the classification of temporarily restricted net assets, contributions receivable and refundable advances. The impact of these restatements is as follows:

	As Originally Stated	Restatement Adjustments	As Restated
Contributions receivable	\$ -	\$ 15,000	\$ 15,000
Temporarily restricted net assets	(178,280)	(15,000)	(193,280)