

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

FINANCIAL STATEMENTS
Years Ended June 30, 2011 and 2010

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

Years Ended June 30, 2011 and 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, 2011, 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. The prior year summarized comparative information has been derived from the **Association of Arizona Food Banks, Inc.** June 30, 2010 financial statements, on which we expressed an unqualified opinion on those financial statements our report dated November 8, 2010.

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 2011 financial statements referred to above present fairly, in all material respects, the financial position of **Association of Arizona Food Banks, Inc.** at June 30, 2011, 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 7, 2011

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2011

(with comparative totals as of June 30, 2010)

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 1,289,555	\$ 856,180
Grants and accounts receivable	109,540	209,861
Contributions receivable	27,953	27,953
Prepaid expenses and other assets	4,070	4,155
TOTAL CURRENT ASSETS	<u>1,431,118</u>	<u>1,098,149</u>
Member note receivable	17,318	-
Property and equipment, net	<u>96,171</u>	<u>156,448</u>
TOTAL ASSETS	<u>\$ 1,544,607</u>	<u>\$ 1,254,597</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 33,702	\$ 3,398
Accrued payroll and other accrued expenses	31,509	24,145
TOTAL CURRENT LIABILITIES	<u>65,211</u>	<u>27,543</u>
NET ASSETS		
Unrestricted, undesignated	1,406,154	1,048,241
Unrestricted, designated	12,288	133,701
Total unrestricted net assets	<u>1,418,442</u>	<u>1,181,942</u>
Temporarily restricted net assets	<u>60,954</u>	<u>45,112</u>
TOTAL NET ASSETS	<u>1,479,396</u>	<u>1,227,054</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,544,607</u>	<u>\$ 1,254,597</u>

See Accompanying Notes to Financial Statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
SUPPORT AND REVENUES				
Contributions	\$ 543,830	\$ 581,317	\$ 1,125,147	\$ 910,420
Governmental and other agency grants	397,092	-	397,092	365,092
Fee for service	938,879	-	938,879	969,628
Membership	53,932	-	53,932	55,600
In-kind contributions	-	-	-	10,123
Interest	3,071	-	3,071	1,608
Other	21,797	-	21,797	642
Net assets released from restriction	<u>565,475</u>	<u>(565,475)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>2,524,076</u>	<u>15,842</u>	<u>2,539,918</u>	<u>2,313,113</u>
EXPENSES				
Program services:	<u>2,049,733</u>	<u>-</u>	<u>2,049,733</u>	<u>2,037,999</u>
Supporting services:				
Management and general	88,029	-	88,029	133,044
Fundraising	<u>149,814</u>	<u>-</u>	<u>149,814</u>	<u>124,439</u>
Total supporting services	<u>237,843</u>	<u>-</u>	<u>237,843</u>	<u>257,483</u>
TOTAL EXPENSES	<u>2,287,576</u>	<u>-</u>	<u>2,287,576</u>	<u>2,295,482</u>
CHANGE IN NET ASSETS	236,500	15,842	252,342	17,631
NET ASSETS, BEGINNING OF YEAR	<u>1,181,942</u>	<u>45,112</u>	<u>1,227,054</u>	<u>1,209,423</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,418,442</u></u>	<u><u>\$ 60,954</u></u>	<u><u>\$ 1,479,396</u></u>	<u><u>\$ 1,227,054</u></u>

See Accompanying Notes to Financial Statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Food Bank</u>		<u>Total</u>	<u>Management</u>		<u>Total</u>	<u>Total</u>
	<u>Coordination</u>	<u>Gleaning</u>		<u>Program</u>	<u>and</u>		
				<u>General</u>		<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 104,445	\$ 115,507	\$ 219,952	\$ 43,603	\$ 76,111	\$ 339,666	\$ 336,759
Taxes and employee related expenses	22,414	25,866	48,280	12,411	16,215	76,906	73,851
Food, freight and related costs	-	1,275,961	1,275,961	-	-	1,275,961	1,347,291
Professional fees and outside services	10,435	286,910	297,345	19,180	10,181	326,706	305,374
Travel	6,645	2,923	9,568	-	-	9,568	18,409
Occupancy	7,199	8,593	15,792	2,960	4,302	23,054	15,145
Equipment, rental and repair	970	62,520	63,490	81	133	63,704	46,692
Materials and supplies	18,804	15,108	33,912	3,552	38,023	75,487	38,435
Operating services	12,649	12,506	25,155	6,242	4,849	36,246	35,678
Depreciation	60,278	-	60,278	-	-	60,278	67,725
In-kind	-	-	-	-	-	-	10,123
TOTAL EXPENSES	\$ 243,839	\$ 1,805,894	\$ 2,049,733	\$ 88,029	\$ 149,814	\$ 2,287,576	\$ 2,295,482

See Accompanying Notes to Financial Statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 252,342	\$ 17,631
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	60,278	67,725
Changes in operating assets and liabilities:		
Grants and accounts receivable	100,321	(38,006)
Contributions receivable	-	53,147
Prepaid expenses and other assets	84	1,286
Accounts payable	30,304	(31,452)
Accrued payroll and other accrued expenses	7,364	1,694
Net cash provided (used) by operating activities	450,693	72,025
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of short-term notes receivable	(17,318)	-
Disposal of fixed assets	-	3,264
Net cash provided (used) by investing activities	(17,318)	3,264
NET INCREASE IN CASH	433,375	75,289
CASH, BEGINNING OF YEAR	856,180	780,891
CASH, END OF YEAR	\$ 1,289,555	\$ 856,180
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	\$ -	\$ -
Taxes	\$ -	\$ -

See Accompanying Notes to Financial Statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2011 and 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, 2011 and 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. AAFB received donated facilities, materials and services with an estimated value of \$0 and \$10,123, during 2011 and 2010, respectively, which are 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 OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2011 and 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 years ended June 30, 2011 and 2010, AAFB received approximately 26% and 30%, respectively, 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. Improvements 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.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2011 and 2010

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

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.

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.

The Organization has adopted *Accounting for Uncertainty in Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The tax years ended 2008, 2009, and 2010 are still open to audit for both federal and state purposes. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; its group exemption; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Association has determined there is no impact on the accompanying financial statements related to the adoption of this standard.

Subsequent events - The Organization evaluated subsequent events after the statement of financial position date of June 30, 2011 through November 7, 2011, 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, 2011, but arose subsequent to that date.

(2) **Grants, accounts and notes receivable**

Grants and accounts at June 30, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>
Governmental Agencies	\$ 109,540	\$ 183,505
Members	-	20,779
Other	-	5,577
Total Grants and accounts receivable	<u>\$ 109,540</u>	<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.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2011 and 2010

(2) Grants, accounts and notes receivable (continued)

The member note receivable of \$17,318 is due from a member food bank. The note is non-interest bearing and due in full on or before June 1, 2013, and may be paid, in part or whole, prior to the due date without penalty.

At June 30, 2011 and 2010, approximately 65% and 53% of the grants and accounts receivable are due from the Arizona Department of Economic Security and approximately 29% and 35% of the grants and accounts receivable are due from the Maricopa County Sheriff's Office, respectively.

(3) Contributions receivable

Contributions receivable at June 30, 2011 and 2010, consist of a time restricted pledge receivable from Valley of the Sun United Way due in full during the year ended June 30, 2012, 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:	<u>2011</u>	<u>2010</u>
Refrigerated trailers and storage containers	\$ 407,172	\$ 407,172
Furniture and equipment	16,749	20,268
Building improvements	8,365	8,365
Accumulated depreciation	(336,115)	(279,357)
Net property and equipment	<u>\$ 96,171</u>	<u>\$ 156,448</u>

For the year ended June 30, 2011 and 2010, depreciation expense charged to operations was \$60,278 and \$67,725, respectively.

(5) Operating leases

The Organization leases office space under an operating lease agreement expiring in 2014. 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, 2011 are as follows:

Years Ending June 30,

2012	\$ 25,096
2013	25,096
2014	<u>25,096</u>
Total minimum future lease payments	<u>\$ 75,286</u>

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2011 and 2010

(5) Operating leases (continued)

Total rental expense was \$23,054 and \$23,054 for the years 2011 and 2010, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

(6) Designated net assets

Designated net assets at June 30, 2011 and 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:

	2011	2010
Hildebrand Foundation	\$ 10,639	\$ -
Other	1,649	5,065
Halle Foundation	-	70,851
Homelessness and Hunger Funders Collaborative	-	57,785
Total	\$ 12,288	\$ 133,701

(7) Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

	2011	2010
Purpose restrictions:		
Disaster	\$ 21,497	\$ -
Food Research & Action Center	5,394	-
Hunger Free Communities	6,000	-
Advocacy	-	12,287
Transportation and fuel	110	2,858
Other	-	2,014
Time restrictions:		
Contribution receivable	27,953	27,953
Total temporarily restricted net assets	\$ 60,954	\$ 45,112

(8) 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 \$10,040 and \$9,803 for the years ended June 30, 2011 and 2010, respectively.