

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

FINANCIAL STATEMENTS

AS OF JUNE 30, 2012

AND

FOR THE YEAR THEN ENDED

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

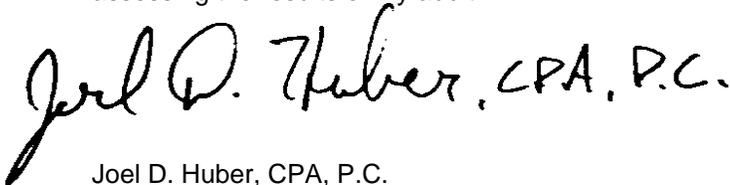
The Board of Directors
Association of Arizona Food Banks, Inc.
Phoenix, Arizona

I have audited the accompanying statements of financial position of Association of Arizona Food Banks, Inc. (An Arizona not-for-profit corporation) as of June 30, 2012, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of Association of Arizona Food Banks, Inc.'s Management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information has been derived from the Association of Arizona Food Banks, Inc. June 30, 2011 financial statements. Beauchamp & Coy, CPA's, PLLC expressed an unqualified opinion on those financial statements, their report was dated November 7, 2011.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Association of Arizona Food Banks, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *United States Government Auditing Standards*, I have also issued a report dated November 8, 2012, on my consideration of Association of Arizona Food Banks, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *United States Government Auditing Standards* and should be considered in assessing the results of my audit.



Joel D. Huber, CPA, P.C.
November 8, 2012

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012
(with comparative totals as of June 30, 2011)

	2012	2011
ASSETS		
Current assets		
Cash and equivalents	\$ 1,591,709	\$ 1,289,555
Grants and accounts receivable	141,323	109,540
Contributions receivable	27,953	27,953
Prepaid expenses and other assets	4,312	4,070
Total current assets	1,765,297	1,431,118
Member note receivable	17,318	17,318
Property and equipment, net	50,043	96,171
TOTAL ASSETS	\$ 1,832,658	\$ 1,544,607
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable	\$ 43,580	\$ 33,702
Accrued payroll and other accrued expenses	46,400	31,509
Total current liabilities	89,980	65,211
Noncurrent liabilities	-	-
Total liabilities	89,980	65,211
Net Assets		
Unrestricted, undesignated	1,544,076	1,406,154
Unrestricted, designated	121,747	12,288
Total unrestricted net assets	1,665,823	1,418,442
Temporarily restricted	76,855	60,954
Total net assets	1,742,678	1,479,396
TOTAL LIABILITIES AND NET ASSETS	\$ 1,832,658	\$ 1,544,607

See accompanying notes to the financial statements.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
STATEMENTS OF ACTIVITIES
Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
SUPPORT AND REVENUES				
Contributions	\$ 760,667	\$ 597,218	\$ 1,357,885	\$ 1,125,147
Governmental and other agency grants	375,092	-	375,092	397,092
Fee for service	767,664	-	767,664	938,879
Membership	55,600	-	55,600	53,932
Interest	3,290	-	3,290	3,071
Other	11,357	-	11,357	21,797
Net assets released from restriction	581,317	(581,317)	-	-
TOTAL SUPPORT AND REVENUES	<u>2,554,987</u>	<u>15,901</u>	<u>2,570,888</u>	<u>2,539,918</u>
EXPENSES				
Program services:	2,049,144	-	2,049,144	2,049,733
Supporting services				
Management and general	112,365	-	112,365	88,029
Fundraising	146,097	-	146,097	149,814
Total supporting services	<u>258,462</u>	<u>-</u>	<u>258,462</u>	<u>237,843</u>
TOTAL EXPENSES	<u>2,307,606</u>	<u>-</u>	<u>2,307,606</u>	<u>2,287,576</u>
CHANGE IN NET ASSETS	247,381	15,901	263,282	252,342
NET ASSETS, BEGINNING OF YEAR	<u>1,418,442</u>	<u>60,954</u>	<u>1,479,396</u>	<u>1,227,054</u>
NET ASSETS, END OF YEAR	<u>\$ 1,665,823</u>	<u>\$ 76,855</u>	<u>\$ 1,742,678</u>	<u>\$ 1,479,396</u>

See accompanying notes to the financial statements.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Totals</u>	
	<u>Food Bank Coordination</u>	<u>Gleaning</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2012</u>	<u>2011</u>
	Salaries and wages	\$ 119,726	\$ 112,776	\$ 232,502	\$ 59,120	\$ 78,260	\$ 369,882
Taxes and employee related expenses	22,016	25,602	47,618	12,525	17,735	77,878	76,906
Food, freight and related costs	-	1,256,786	1,256,786	-	-	1,256,786	1,275,961
Professional fees and outside services	10,962	290,302	301,264	22,208	4,959	328,431	326,706
Travel	7,429	2,075	9,504	35	355	9,894	9,568
Occupancy	8,028	8,508	16,536	3,536	5,024	25,096	23,054
Equipment, rental and repair	561	76,931	77,492	142	202	77,836	63,704
Materials and supplies	24,569	8,631	33,200	6,150	34,383	73,733	75,487
Operating services	13,794	12,322	26,116	8,649	5,180	39,945	36,246
Depreciation	48,125	-	48,125	-	-	48,125	60,278
	<u>\$ 255,210</u>	<u>\$ 1,793,933</u>	<u>\$ 2,049,143</u>	<u>\$ 112,365</u>	<u>\$ 146,098</u>	<u>\$ 2,307,606</u>	<u>\$ 2,287,576</u>
Total expenses	<u>\$ 255,210</u>	<u>\$ 1,793,933</u>	<u>\$ 2,049,143</u>	<u>\$ 112,365</u>	<u>\$ 146,098</u>	<u>\$ 2,307,606</u>	<u>\$ 2,287,576</u>

See accompanying notes to the financial statements.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 263,282	\$ 252,342
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	48,125	60,278
Changes in operating assets and liabilities:		
Grants and accounts receivable	(31,783)	100,321
Prepaid expenses and other assets	(242)	84
Accounts payable	9,878	30,304
Accrued payroll and other accrued expenses	14,891	7,364
Rounding difference	3	-
	<u>304,154</u>	<u>450,693</u>
Net cash provided (used) by operating activities		
	<u>304,154</u>	<u>450,693</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of short-term notes receivable	-	(17,318)
Purchases of fixed assets	(2,000)	-
	<u>(2,000)</u>	<u>-</u>
Net cash provided (used) by investing activities		
	<u>(2,000)</u>	<u>(17,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET INCREASE IN CASH	302,154	433,375
CASH, BEGINNING OF YEAR	<u>1,289,555</u>	<u>856,180</u>
CASH, END OF YEAR	<u>\$ 1,591,709</u>	<u>\$ 1,289,555</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

No additional supplemental cash flow information.

See accompanying notes to the financial statements.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(with summarized comparative totals as of June 30, 2011)

NOTE 1 - ORGANIZATION

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 are concentrated primarily within the State of Arizona.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization's financial statements are presented in accordance with U.S. generally accepted accounting principles, as codified in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). Therefore, the financial statements are prepared in accordance with FASB ASC 958, under which AAFB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net asset, temporarily restricted net assets, and permanently restricted net assets. AAFB had no permanently restricted net assets at June 30, 2012 or 2011.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class or by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with AAFB's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Donated materials and services

Donated facilities, materials and services are recorded at their estimated values if they enhance AAFB's nonfinancial assets or require specialized skills that AAFB would normally purchase, if not provided by donation.

Volunteers donate a significant amount of time to AAFB's program services and its fund raising 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.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash on hand and checking, savings, and money market accounts with banks. For purposes of the statement of cash flows, AAFB considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

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

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(with summarized comparative totals as of June 30, 2011)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Grants from Government Agencies

AAFB receives grants from government agencies to coordinate the work of food banks throughout the state as they address the issue of hunger, and coordinates the efforts to glean food and other resources to deliver to food banks to use to serve hungry Arizonans. These grants from government agencies are generally considered by AAFB to be exchange transactions rather than contributions, and accordingly, are recognized as the services are performed.

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.

Fundraising Costs

All fundraising costs are expensed in the period incurred.

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

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(with summarized comparative totals as of June 30, 2011)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Grants, accounts and notes 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.

Income Taxes

The Corporation has received from the Internal Revenue Service an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is not classified as a private foundation. However, income from certain activities not directly related to AAFB's tax-exempt purpose may be subject to taxation as unrelated business income. During the years ended June 30, 2012 and 2011, AAFB had no unrelated business income; accordingly, the accompanying financial statements contain no provision for income taxes.

AAFB applies provisions of FASB ASC 740 *Income Taxes*, which provides guidance on uncertainty in income taxes. Under that guidance, uncertain tax positions are accounted for based on whether it is "more-likely-than-not" that the position will be upheld by the taxing authority upon examination. AAFB routinely evaluates potential uncertain tax positions. AAFB has identified its status as an exempt organization as a tax position; however, AAFB has determined that such tax position does not result in an uncertainty that requires recognition. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed. As of June 30, 2012 and 2011, AAFB had not accrued interest or penalties related to uncertain tax positions.

AAFB files annual informational returns in the U.S. federal jurisdiction and in the state of Arizona. U.S. informational returns for years ending prior to September 30, 2008 and state returns for years ending prior to September 30, 2007 are generally closed to assessment.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(with summarized comparative totals as of June 30, 2011)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3 – GRANTS, ACCOUNTS AND NOTES RECEIVABLE

Grants, accounts and notes receivable at June 30, 2012 and 2011 consist of:

	<u>2012</u>	<u>2011</u>
Governmental Agencies	\$ 141,323	\$ 109,540
Members	17,318	17,318
Other	-	-
Total grants, accounts and notes receivable	<u>\$ 158,641</u>	<u>\$ 126,858</u>

Grants, accounts and notes 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, accounts and notes receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

The member note receivable of \$17,318 is due from a member food bank. The note is noninterest bearing and was originally due in full on or before June 1, 2013, and could have been paid, in part or whole, prior to the due date without penalty.

At June 30, 2012 and 2011, approximately 66% and 65% of the grants and accounts receivable are due from the Arizona Department of Economic Security and approximately 7% and 29% of the grants and accounts receivable are due from the Maricopa County Sheriff's Office, respectively.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(with summarized comparative totals as of June 30, 2011)

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2012 and 2011, consist of a time restricted pledge receivable from an outside entity. It is 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.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

Cost or donated value:	2012	2011
Refrigerated trailers and storage containers	\$ 407,172	\$ 407,172
Furniture and equipment	18,748	16,749
Building improvements	8,365	8,365
Accumulated depreciation	(384,242)	(336,115)
Property and equipment, net	<u>50,043</u>	<u>96,171</u>

Depreciation expense was \$48,125 and \$60,278 for the years ended June 30, 2012 and 2011, respectively.

NOTE 6 – 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, 2012 are as follows:

Years Ending June 30,

2013	\$ 25,096
2014	<u>25,096</u>
Total minimum future lease payments	<u>\$ 50,192</u>

Total rental expense was \$25,096 and \$23,054 for the years 2012 and 2011, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(with summarized comparative totals as of June 30, 2011)

NOTE 7 – DESIGNATED NET ASSETS

Designated net assets at June 30, 2012 and 2011, consist of unrestricted net assets that have designated by the executive committee of the board of directors to be used for the following purposes:

	2012	2011
Other	\$ 111,108	\$ 1,649
Hildebrand Foundation	10,639	10,639
Total	<u>\$ 121,747</u>	<u>\$ 12,288</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Purpose restrictions:	2012	2011
Disaster	\$ 21,497	\$ 21,497
Other	20,272	110
Hunger Free Communities	6,000	6,000
Food Research & Action Center	1,133	5,394
Time restrictions:		
Contribution receivable	27,953	27,953
	<u>\$ 76,855</u>	<u>\$ 60,954</u>

NOTE 9 – 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 in the employee's name. AAFB made contributions to the plan in the amounts of \$10,365 and \$10,040 for the years ended June 30, 2012 and 2011, respectively.

SPECIAL AUDIT REPORT

Joel D. Huber, CPA, P.C.

Certified Public Accountant

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

I have audited the financial statements of Association of Arizona Food Banks, Inc. as of and for the year ended June 30, 2012, and have issued my report thereon dated November 8, 2012. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Association of Arizona Food Banks, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Association of Arizona Food Banks, Inc.'s internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

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 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Association of Arizona Food Banks, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *United States Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, Management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joel D. Huber, CPA, P.C.

Joel D. Huber, CPA, P.C.
November 8, 2012