

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

(A NON-PROFIT CORPORATION)

REPORT ON AUDITED FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

Association of Arizona Food Banks, Inc.

June 30, 2019 and 2018

TABLE OF CONTENTS

Independent Auditor's Report	1 – 2
Comparative Statements of Financial Position	3
Comparative Statements of Activities and Changes in Net Assets	4
Statements of Functional Expense	5 – 6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 17

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C. P. A.'s
a professional corporation

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Association of Arizona Food Banks, Inc. (a non-profit organization), which comprise the comparative statements of financial position as of June 30, 2019 and 2018, and the related comparative statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our 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, 2019 and 2018, 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.

Grass Coffey & Scharlau, CPAs
Phoenix, Arizona
November 12, 2019

Grass Coffey & Scharlau, CPAs

Association of Arizona Food Banks, Inc.

COMPARATIVE STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,103,903	\$ 1,755,358
Grants, promises to give and trade receivables	166,578	101,805
Short term investments	1,163,402	1,091,525
Prepaid expenses	9,949	21,248
Total Current Assets	2,443,832	2,969,936
Property and equipment		
Furniture, fixtures and equipment	232,042	232,042
Less: Accumulated depreciation	(183,148)	(170,775)
Net Property and Equipment	48,894	61,267
Other Assets:		
Restricted cash and cash equivalents	676	82,313
Restricted long term investments	183,025	116,492
Security deposits	4,341	4,341
Total Other Assets	188,042	203,146
TOTAL ASSETS	\$ 2,680,768	\$ 3,234,349
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 89,128	\$ 32,431
Credit card payable	7,143	9,193
Accrued payroll	28,094	34,990
Total Current Liabilities	124,365	76,614
Total Liabilities	124,365	76,614
Net Assets:		
Without donor restrictions	2,213,059	2,450,507
With donor restrictions	343,344	707,228
Total Net Assets	2,556,403	3,157,735
TOTAL LIABILITIES AND NET ASSETS	\$ 2,680,768	\$ 3,234,349

See accompanying notes to financial statements

Association of Arizona Food Banks, Inc.

COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2019 and 2018

	<u>Unrestricted</u>	<u>Restricted</u>	<u>2019 Total</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>2018 Total</u>
Revenue and Support						
Contributions	\$ 655,615	\$ 362,814	\$ 1,018,429	\$ 1,071,887	\$ 681,857	\$ 1,753,744
Governmental grants	987,592	-	987,592	475,092	-	475,092
Fee for service	398,296	-	398,296	261,340	-	261,340
Membership	62,931	-	62,931	64,752	-	64,752
Investment income	58,276	-	58,276	40,314	-	40,314
Loss on fixed asset disposals	-	-	-	(446)	-	(446)
Miscellaneous revenue	38,331	-	38,331	17,369	-	17,369
Net assets released from restriction	<u>726,698</u>	<u>(726,698)</u>	<u>-</u>	<u>61,491</u>	<u>(61,491)</u>	<u>-</u>
 Total Revenue and Support	 2,927,739	 (363,884)	 2,563,855	 1,991,799	 620,366	 2,612,165
Expenses						
Program Expenses:	<u>2,842,181</u>	<u>-</u>	<u>2,842,181</u>	<u>1,690,226</u>	<u>-</u>	<u>1,690,226</u>
Total Program Expenses	<u>2,842,181</u>	<u>-</u>	<u>2,842,181</u>	<u>1,690,226</u>	<u>-</u>	<u>1,690,226</u>
Support Services:						
General and administrative	170,009	-	170,009	167,962	-	167,962
Fundraising	<u>152,997</u>	<u>-</u>	<u>152,997</u>	<u>144,958</u>	<u>-</u>	<u>144,958</u>
Total Support Services	<u>323,006</u>	<u>-</u>	<u>323,006</u>	<u>312,920</u>	<u>-</u>	<u>312,920</u>
 Total Expenses	 <u>3,165,187</u>	 <u>-</u>	 <u>3,165,187</u>	 <u>2,003,146</u>	 <u>-</u>	 <u>2,003,146</u>
Change in Net Assets	(237,448)	(363,884)	(601,332)	(11,347)	620,366	609,019
Net Assets, Beginning of Year	<u>2,450,507</u>	<u>707,228</u>	<u>3,157,735</u>	<u>2,461,854</u>	<u>86,862</u>	<u>2,548,716</u>
Net Assets, End of Year	<u>\$ 2,213,059</u>	<u>\$ 343,344</u>	<u>\$ 2,556,403</u>	<u>\$ 2,450,507</u>	<u>\$ 707,228</u>	<u>\$ 3,157,735</u>

See accompanying notes to financial statements

Association of Arizona Food Banks, Inc.

STATEMENT OF FUNCTIONAL EXPENSE

For the Year Ended June 30, 2019

	<u>Programs</u>			<u>Support Services</u>			
	<u>Advocacy</u>	<u>Children's Programs</u>	<u>Member Services</u>	<u>Total Programs</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 107,834	\$ 78,809	\$ 276,737	\$ 463,380	\$ 87,661	\$ 72,436	\$ 623,477
Taxes and employee related expenses	13,104	19,831	41,725	74,660	43,478	16,090	134,228
Food, freight and related costs	-	-	584,082	584,082	-	-	584,082
Professional fees and outside services	45,994	5,879	440,886	492,759	7,149	2,832	502,740
Agency capacity building expenses	-	-	896,258	896,258	-	-	896,258
Materials and supplies	8,038	2,854	27,991	38,883	5,776	49,897	94,556
Equipment, rental and repair	284	388	188,423	189,095	506	166	189,767
Operating services	3,528	7,551	37,917	48,996	4,561	7,926	61,483
Occupancy	6,206	8,491	17,640	32,337	8,431	3,650	44,418
Travel	7,857	6,849	7,025	21,731	74	-	21,805
Depreciation	-	-	-	-	12,373	-	12,373
Total expenses	\$ 192,845	\$ 130,652	\$ 2,518,684	\$ 2,842,181	\$ 170,009	\$ 152,997	\$ 3,165,187

See accompanying notes to financial statements

Association of Arizona Food Banks, Inc.

STATEMENT OF FUNCTIONAL EXPENSE

For the Year Ended June 30, 2018

	<u>Programs</u>			<u>Support Services</u>			
	<u>Advocacy</u>	<u>Children's Programs</u>	<u>Member Services</u>	<u>Total Programs</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 91,729	\$ 128,136	\$ 221,657	\$ 441,522	\$ 59,439	\$ 72,761	\$ 573,722
Taxes and employee related expenses	14,244	26,586	31,718	72,548	41,094	16,356	129,998
Food, freight and related costs	-	-	433,960	433,960	-	-	433,960
Professional fees and outside services	28,198	5,290	407,868	441,356	35,099	3,906	480,361
Agency capacity building expenses	-	-	-	-	-	-	-
Materials and supplies	3,501	3,737	14,534	21,772	8,512	38,381	68,665
Equipment, rental and repair	2,046	323	182,642	185,011	227	150	185,388
Operating services	2,907	19,078	25,075	47,060	9,615	8,652	65,327
Occupancy	5,185	7,735	12,444	25,364	6,806	4,489	36,659
Travel	5,982	8,234	7,417	21,633	478	263	22,374
Depreciation	-	-	-	-	6,692	-	6,692
Total expenses	\$ 153,792	\$ 199,119	\$ 1,337,315	\$ 1,690,226	\$ 167,962	\$ 144,958	\$ 2,003,146

See accompanying notes to financial statements

Association of Arizona Food Banks, Inc.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

Reconciliation of changes in net assets to net cash (used) provided by operating activities

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
(Decrease) increase in net assets	\$ (601,332)	\$ 609,019
Adjustments to reconcile (decrease)increase in net assets to net cash (used)provided by operating activities:		
Depreciation	12,373	6,692
Noncash donations (stock)	(2,832)	(205,472)
Loss on sale of fixed assets	-	446
Unrealized gain on investments	(36,773)	(16,075)
Realized loss (gain) on investments	30,289	(954)
(Increase)/decrease in :		
Accounts receivable	(64,773)	156,330
Prepaid expenses	11,299	(1,860)
Increase/(decrease) in:		
Accounts payable	56,697	26,836
Credit cards payable	(2,050)	2,317
Accrued expenses	(6,896)	(16,142)
Total adjustments	<u>(2,666)</u>	<u>(47,882)</u>
<i>Net cash (used) provided by operating activities</i>	(603,998)	561,137
Cash Flows From Investing Activities		
Purchases of fixed assets	-	(67,663)
Purchase of investments	(381,268)	(1,191,941)
Proceeds from sale of investments	<u>252,174</u>	<u>206,425</u>
<i>Net cash (used) in investing activities</i>	<u>(129,094)</u>	<u>(1,053,179)</u>
<i>Net decrease in cash and cash equivalents</i>	(733,092)	(492,042)
Cash and cash Equivalents, beginning of year	<u>1,837,671</u>	<u>2,329,713</u>
Cash and cash Equivalents, end of year	<u><u>\$ 1,104,579</u></u>	<u><u>\$ 1,837,671</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -
Cash and cash equivalents:		
Cash and cash equivalents-current asset	\$ 1,103,903	\$ 1,755,358
Restricted cash-non current	676	82,313
Total cash	<u><u>\$ 1,104,579</u></u>	<u><u>\$ 1,837,671</u></u>

See accompanying notes to financial statements

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

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. AAFB receives support from their programs, contributions, grants and service fees.

AAFB’s programs include the following:

Member Services: AAFB was instrumental in the development of the Arizona Statewide Gleaning Project in 1993. The program was created to rescue and redistribute food to hungry Arizonans that would otherwise go to waste. AAFB 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 assistance in developing a statewide sourcing strategy. AAFB also supported food banks in Arizona by providing technical assistance and capacity building. This included help writing and reviewing policies/procedures, developing inventory tracking processes, holding trainings, and providing resources for various regulations and processes. This support was provided to both member food banks as well as agency partners throughout the year.

Advocacy: Through public education/advocacy efforts, AAFB works to protect public programs and fight for the 1 in 6 Arizona adults (1 in 4 children) that struggle with hunger. AAFB advocates for policies at the state and federal level that support clients that member food banks serve. AAFB educates the public about hunger in local communities to get them involved in solutions. AAFB works with elected officials to encourage them to find solutions to hunger and push back on budget cuts to health and human services.

Children and Youth Program: AAFB worked with community partners to promote greater access to school meals and summer feeding programs. AAFB promoted school breakfast expansion and worked with the Arizona School Breakfast Coalition in Maricopa County. Additionally, AAFB hosted an online awareness campaign in Maricopa County to promote summer meal programs to parents via Google and Facebook.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (FASB ASU 2016-14) *Presentation of Financial Statements of Not-for-Profit Entities*. Under the standard, the Organization is required to report information regarding their financial position and activities according to two classes of net assets: unrestricted net assets and restricted net assets. In addition, the Organization is required to present information regarding its liquidity.

Basis of Accounting

The financial statements of AAFB have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Revenues from services are reported in the period in which services are provided.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all unrestricted monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. As of June 30, 2019 and 2018 there were cash equivalents of \$676 and \$82,313 in brokerage accounts.

Property and Equipment

Property and equipment is recorded at cost and includes expenditures for new additions and repairs which substantially increase the useful lives of existing assets. Donated property and equipment is recorded at the fair value at the date

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

of the gift to AAFB. It is the AAFB's policy to capitalize only those fixed asset additions that exceed \$5,000 in cost (effective 11/14/18). Depreciation expense was \$12,373 and \$6,692 for the years ended June 30, 2019 and 2018. Depreciation is provided using the straight-line method with estimated useful lives as follows:

Trailers	5 Years
Furniture and equipment	5 Years

Expenditures for normal repairs, maintenance and replacement items are charged to operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts in the year of disposition with the resulting gain or loss reflected in earnings or in the cost of the replacement asset.

Fair Market Measurements:

AAFB has adopted the provision of FAAB ASC 820, *Fair Value Measurements*, which establishes a framework for measuring fair value. The standard requires that certain assets and liabilities be carried at fair values in one of three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

Recent Accounting Pronouncements

In May, 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

revenue is recognized. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date for non-public entities is for annual reporting periods beginning after December 15, 2018, with earlier application permitted. Management is currently evaluating the potential effect that the adoption of this standard will have on its financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, (Topic 842). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the potential effect that the adoption of this standard will have on its financial reporting.

Grants from Government Agencies and Others

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.

AAFB entered into a produce grant agreement with the Arizona Department of Economic Security (\$500,000 less allowed administrative fees of \$30,000) and United Healthcare (\$240,000) to make grants to other hunger relief organizations to provide refrigeration and transportation equipment. During the year ended June 30, 2019, AAFB distributed grant awards of \$892,258 related to this program.

Net Assets

AAFB's net assets, as well as its revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those resources available for current operation, with no donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a restriction expires, restricted net assets are reclassified to unrestricted net assets and are reported in the statement of operations as net assets released from restrictions.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Donated Materials and Services

Donated materials and services are recorded at their estimated fair value upon receipt. During the years ended June 30, 2019 and 2018 the Organization recorded \$19,422 and \$17,901 in donated advertising space and \$500 and \$5,450 in donated professional services. Donated services and time are recognized as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by AAFB. AAFB pays for most services requiring specific expertise. However, if such services are donated and the value is ascertainable, the fair market value is reflected in the financial statements as revenue and expense.

Advertising

AAFB uses advertising and marketing to promote its programs and services. Marketing and outreach costs are charged to operations as incurred. Marketing and outreach expense for the years ended June 30, 2019 and 2018 was \$ 77,333 and \$63,212.

Functional Expenses

AAFB allocates expenses on a functional basis among three categories: program, management and general, and fundraising. Most expenses are allocated directly to a function but some expenses are allocated among the various programs and supporting services benefited. If direct allocation is not feasible, expenses are allocated in proportion to estimated employee time spent on various programs and support services.

Income Taxes

AAFB is exempt from Federal and Arizona income taxes under Internal Revenue Code Section 501(c)(3) and Arizona Revenue and Taxation Code Section 17.22(a). In addition, AAFB qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and is classified as an organization other than a private foundation under Section 509(a)(2).

As of June 30, 2019 and 2018, AAFB had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements, nor did AAFB have any penalties or interest related to income taxes.

With few exceptions, AAFB is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2015.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Subsequent Events

Subsequent events have been evaluated through November 12, 2019 which was the date AAFB's financials were available to be issued.

3. GRANTS, PROMISES TO GIVE AND TRADE RECEIVABLES:

Receivables as of June 30 was comprised of:

	<u>2019</u>	<u>2018</u>
Governmental grant receivables	\$ 93,141	\$ 76,898
Accounts receivable for service fees	<u>73,437</u>	<u>24,907</u>
Total receivables	<u>\$166,578</u>	<u>\$ 101,805</u>

Receivables are recorded at fair market value and are unsecured. Based on management's review of receivables, no allowance for uncollectible accounts is considered necessary. Accounts that are over ninety days past due are considered delinquent and are reviewed by management. At the time management determines a receivable uncollectible, the receivable is charged to bad debt expense. There were grant or trade accounts receivable over 90 days past due of \$209 and \$446 as of June 30, 2019 and 2018.

As of June 30, 2019 and 2018 there were no outstanding promises to give.

4. CONCENTRATIONS OF CREDIT RISK:

AAFB occasionally maintains deposits in excess of federally insured limits. Financial Accounting Standards identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high-quality financial institutions. At June 30, 2019 and 2018, AAFB had \$290,545 and \$811,795 in cash deposits in excess of FDIC insurance limits.

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Refrigerated trailers and storage containers	\$ 197,648	\$ 197,648
Furniture and equipment	34,394	34,394
Less: accumulated depreciation	<u>(183,148)</u>	<u>(170,775)</u>
Property and equipment (net)	<u>\$ 48,894</u>	<u>\$ 61,267</u>

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018

6. OPERATING LEASES:

AAFB signed a new lease for office space during the year ended June 30, 2018. The commencement date would begin upon substantial completion of tenant improvements and the lease term was for five years. In November of 2017, AAFB moved into the new office space so the lease will expire on October 1, 2022. The monthly lease payments increase annually over the five years from \$3,845 to \$4,341 and include one month of free rent each year. Total lease rent paid under this lease during the years ended June 30, 2019 and 2018 was \$43,166 and \$26,917. In addition, \$9,606 was paid under the former lease during 2018.

Future minimum lease payments for the office space is as follows:

Years Ending June 30:

2019	\$ 26,917
2020	43,166
2021	44,531
2022	45,895
2023	47,260
Thereafter	<u>17,366</u>
Total minimum future lease payments	<u>\$ 225,135</u>

7. DESIGNATED NET ASSETS:

Included in unrestricted net assets as of June 30, 2019 and 2018 are funds that have been designated by the executive committee of the board of directors to be used for the following purposes:

Agency capacity grants	\$ 100,000
Operating reserves (6 months)	<u>1,058,000</u>
Total designated net assets	<u>\$1,158,000</u>

8. RESTRICTED NET ASSETS:

Restricted net assets were comprised of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Purpose restrictions:		
Disaster	\$ 21,497	\$ 21,497
Hildebrand fund	3,874	3,874
Member services	104,704	447,102
Advocacy	13,269	34,755
Endowment fund	<u>200,000</u>	<u>200,000</u>
Total restricted net assets	<u>\$ 343,344</u>	<u>\$ 707,228</u>

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018

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, AAFB contributes 3% of each participating employee's salary to an individual retirement account held in the employee's name. AAFB made contributions to the plan in the amount of \$17,307 and \$16,718 for the years ended June 30, 2019 and 2018.

10. RELATED PARTY TRANSACTIONS:

AAFB is related to several other food banks in Arizona by common board members. This relationship allows AAFB to coordinate services with the other food banks to provide transportation, storage and other services that may not be available without this relationship.

11. CONCENTRATIONS:

AAFB received approximately 38% and 18% of its total revenue from grants awarded by the Arizona Department of Economic Security (DES) during the years ended June 30, 2019 and 2018. The amount receivable from DES as of June 30, 2019 and 2018 was \$93,141 and \$76,898. Discontinuation of the grant funding could have a severe near term impact on AAFB and its operations. Management does not anticipate discontinuation of funding by this source.

12. ENDOWMENT FUNDS AND INVESTMENTS:

During the year ended June 30, 2018 AAFB received a permanently restricted endowment donation of \$200,000. The donation was received in stock which was sold and transferred to a separate brokerage account in June, 2018. The earnings on the endowment are also restricted for a period of three years.

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%

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018

12. ENDOWMENT FUNDS AND INVESTMENTS (continued):

At June 30 the balances of the endowment fund and net investment loss were as follows:

<u>Balances:</u>	<u>2019</u>	<u>2018</u>
Restricted cash	\$ 676	\$ 82,313
Equities	<u>183,025</u>	<u>116,492</u>
	<u>\$183,701</u>	<u>\$ 198,805</u>
<u>Net Gain (Loss):</u>		
Interest and dividends	\$2,010	\$ 9
Unrealized gains (loss)	10,843	(1,195)
Realized gains (loss)	(30,290)	0
Investment fees	<u>(976)</u>	<u>0</u>
	<u>\$(18,413)</u>	<u>\$ (1,186)</u>

Investments in equity securities, bond funds and mutual funds with readily determinable fair values are carried at fair value. Fair values for investments are determined by reference to quoted market prices or other relevant information generated by market transactions also known as Level 1 inputs. All of the fair values for AAFB's investments were determined by using Level 1 inputs.

At June 30, the balance and activity in short-term investments were:

<u>Balances:</u>	<u>2019</u>	<u>2018</u>
Bond investments	\$ 452,102	\$ 419,273
Equities	<u>711,300</u>	<u>672,252</u>
	<u>\$1,163,402</u>	<u>\$1,091,525</u>
<u>Net Gain (Loss)</u>		
Interest and dividends	\$ 45,948	\$ 22,080
Unrealized gain	<u>30,741</u>	<u>19,383</u>
	<u>\$ 76,689</u>	<u>\$ 41,463</u>

The investments are subject to credit risk due to market price fluctuations and only the cash deposits are covered by FDIC insurance.

ASSOCIATION OF ARIZONA FOOD BANKS, INC.

**NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2019 and 2018**

13. LIQUIDITY AND AVAILABILITY:

The Board of Directors of AAFB regularly monitors the availability of resources required to meet its operating needs and contractual commitments, while also striving to maximize the investment of its available funds. Financial assets available for general expenditure within one year of June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
<u>Financial assets at year-end:</u>		
Cash and cash equivalents	\$ 1,103,903	\$ 1,837,671
Grants receivable and other receivables	166,578	101,805
Investments	<u>1,347,103</u>	<u>1,208,017</u>
Total financial assets:	\$ 2,617,584	\$ 3,147,493
 <u>Less amounts not available to be used within one year:</u>		
Donor imposed restricted funds (Financial assets not available to be used within one year)	(343,344)	(707,228)
Board designated funds (Note 7)	<u>(1,158,000)</u>	<u>(786,597)</u>
 Financial assets available to meet general expenditures within one year	<u>\$1,116,240</u>	<u>\$ 1,653,668</u>