

Association of Arizona Food Banks, Inc.

Financial Statements

Year ended June 30, 2008

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Independent Auditor's Report

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

We have audited the accompanying statement of financial position of Association of Arizona Food Banks, Inc. as of June 30, 2008, 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 U.S. generally accepted auditing standards. 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 our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Walker & Armstrong LLP
Phoenix, Arizona
September 29, 2008

Association of Arizona Food Banks, Inc.
Statement of Financial Position
June 30, 2008

Assets

Cash and cash equivalents	\$ 205,180
Short-term investments	255,951
Grants and accounts receivable	155,956
Contributions receivable	80,650
Prepaid expenses	3,324
Property and equipment, net of accumulated depreciation	<u>294,976</u>
Total assets	<u><u>\$ 996,037</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 45,411
Accrued expenses	19,046
Capital lease obligation	<u>23,007</u>
Total liabilities	87,464

Net Assets

Unrestricted	
Undesignated	670,640
Designated	117,844
Temporarily restricted	<u>120,089</u>
Total net assets	<u>908,573</u>
Total liabilities and net assets	<u><u>\$ 996,037</u></u>

The accompanying notes are an integral
part of these financial statements.

Association of Arizona Food Banks, Inc.
Statement of Activities
Year ended June 30, 2008

Changes in unrestricted net assets:

Support and revenue

Fees for services	\$ 1,117,121
Government grants and contracts	744,968
Contributions revenue	562,245
Membership fees	56,017
Miscellaneous	15,406
Investment income	4,610
In-kind	8,752
	2,509,119
Total unrestricted support and revenue	2,509,119
<i>Net assets released from restrictions</i>	139,634
	139,634
Total unrestricted revenue and other support	2,648,753

Expenses

Food bank coordination	469,211
Gleaning	1,587,321
General and administrative	96,868
Fundraising	130,076
	130,076
Total expenses	2,283,476

Increase in unrestricted net assets 365,277

Changes in temporarily restricted net assets:

Temporarily restricted contributions	209,693
Net assets released from restriction	(139,634)
	(139,634)
Net change in temporarily restricted net assets	70,059

Increase in net assets 435,336

Net assets at beginning of year 473,237

Net assets at end of year **\$ 908,573**

The accompanying notes are an integral
part of these financial statements.

Association of Arizona Food Banks, Inc.
Statement of Functional Expenses
Year ended June 30, 2008

	<u>Program Expenses</u>		<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Food Bank Coordination</u>	<u>Gleaning</u>	<u>General and Administrative</u>	<u>Fund-Raising</u>	
Salaries and wages	\$ 109,245	\$ 105,527	\$ 51,957	\$ 67,646	\$ 334,375
Employee benefits	29,784	25,158	12,542	11,104	78,588
Total salaries and related	139,029	130,685	64,499	78,750	412,963
Professional services	184,643	166,078	25,449	2,070	378,240
Occupancy	17,521	5,533	-	-	23,054
Food transport	-	373,787	-	-	373,787
Food	-	834,450	-	-	834,450
Operating services	6,854	5,443	2,468	5,469	20,234
Insurance	2,618	11,467	-	-	14,085
Depreciation	31,691	-	-	-	31,691
Food bank direct assistance	-	-	-	-	-
Travel	6,046	4,110	-	-	10,156
Repairs and maintenance	3,447	42,790	-	-	46,237
Materials and supplies	58,151	3,692	4,452	43,787	110,082
Other	1,052	-	-	-	1,052
Telephone	9,407	5,953	-	-	15,360
In-kind	8,752	-	-	-	8,752
Interest expense	-	3,333	-	-	3,333
Total	<u>\$ 469,211</u>	<u>\$ 1,587,321</u>	<u>\$ 96,868</u>	<u>\$ 130,076</u>	<u>\$ 2,283,476</u>

The accompanying notes are an integral part of these financial statements.

Association of Arizona Food Banks, Inc.
Statement of Cash Flows
Year ended June 30, 2008

Cash flows from operating activities:

Cash received from grants, fees for services and other revenues	\$ 2,003,205
Cash received from contributions	691,288
Investment income	4,610
Cash paid to suppliers	(1,892,561)
Cash paid to employees	(406,636)
Interest paid	(3,333)
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Net cash provided by operating activities	396,573

Cash flows from financing activities:

Payments on capital lease obligation	(8,266)
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Cash flows from investing activities:

Purchase of property and equipment	(241,516)
Purchase of investments	(141,595)
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Net cash used for investing activities	(383,111)

Net increase in cash and cash equivalents	5,196
Cash and cash equivalents at beginning of year	199,984
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Cash and cash equivalents at end of year	<u>\$ 205,180</u>

The accompanying notes are an integral
part of these financial statements.

Association of Arizona Food Banks, Inc.
Statement of Cash Flows - Continued
Year ended June 30, 2008

**Reconciliation of increase in net assets
to net cash provided by operating activities:**

Increase in net assets	\$ 435,336
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	31,691
(Increase) decrease in grants and accounts receivable	69,693
(Increase) decrease in contributions receivable	(80,650)
(Increase) decrease in prepaid expenses	(659)
Increase (decrease) in accounts payable and accrued expenses	(65,163)
Increase (decrease) in accrued expenses	6,325
Net cash provided by operating activities	<u>\$ 396,573</u>

The accompanying notes are an integral
part of these financial statements.

Association of Arizona Food Banks, Inc.
Notes to Financial Statements
Year ended June 30, 2008

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

Association of Arizona Food Banks, Inc. (hereinafter referred to as the “Association”) is an Arizona not-for-profit organization established in 1984. The Association was organized 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.

Basis of Presentation

The Association prepares its financial statements on the accrual basis of accounting. Revenues are recognized and recorded when earned, and expenses are recognized and recorded when incurred.

Unrestricted Net Assets

The Association reports its revenue and other support as unrestricted if there are no donor-imposed restrictions, which limit their use. Designated net assets as of June 30, 2008 consists of those amounts that have been designated by the board of directors to manage undesignated bequests contributions of \$50,000 or more, or surpluses from operations. The designated net assets shall not drop below a minimum of \$30,000, nor exceed a maximum of \$800,000. Interest earned on designated net assets may be used for general operating purposes of the Association without board approval.

Temporarily Restricted Net Assets

The Association reports grants and contributions as temporarily restricted if received with grantor/donor-imposed stipulations that limit the use of the amount received. When the grantor/donor-imposed restrictions expire, that is, when a stipulated time restriction ends or the purpose of the 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.

Notes to Financial Statements – Continued

Note 1 – Organization and Summary of Significant Accounting Policies - Continued

Donated Assets and Services

Donated assets received directly by the Association for which a valuation can be determined, are recorded at fair value when received.

No objective basis for estimating the fair value of donated services by volunteers who contribute their time to the Association is available and accordingly, no contribution for these services is reflected in the financial statements of the Association as of June 30, 2008.

Income Taxes

The Association has been granted exemption from the payment of federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and under Section 43-147(a)(4) of the Arizona Revised Statutes of 1956, as amended.

Cash and Cash Equivalents

For purpose of reporting cash flows, cash and cash equivalents includes cash on hand, cash held in a bank and money market accounts with original maturities of three months or less.

Investments

Investments are recorded at fair market value as determined by quoted market prices. Investment income or loss (including realized and unrealized gains and loss on investments, interest and dividends) is included in the change in net assets in the accompanying statement of activities unless the income or loss is restricted.

Promises to Give

Promises to give received by the Association are recorded as revenue when there is sufficient evidence that the promise is valid and legally enforceable. The revenue is unrestricted unless the donor stipulates otherwise.

Notes to Financial Statements – Continued

Note 1 – Organization and Summary of Significant Accounting Policies - Continued

Property and Equipment

Property and equipment are recorded at cost and donated assets are recorded at fair value when received. Depreciation is provided on a straight-line basis over estimated useful lives ranging from three to ten years.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized whereas major betterments are capitalized.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Instruments

The carrying value of cash, investments, receivables and payables approximates fair value due to the short maturity of those instruments.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2 – Investments

At June 30, 2008, the Association held short-term investments in money market mutual funds and certificates of deposit as follows:

Money market mutual funds	\$ 196,030
Certificates of deposit	<u>59,921</u>
	<u>\$ 255,951</u>

Investment earnings for the year ended June 30, 2008 consists of interest earnings on cash and interest and dividends earned on the money market mutual funds and certificates of deposit.

Notes to Financial Statements – Continued

Note 3 – Grants and Accounts Receivable

Grants and accounts receivable are reported at their outstanding principal balance and are allowed for as of June 30, 2008 based on the Association's evaluation of uncollectibility. Interest income is not recognized by the Association on its accounts receivable. Receivables outstanding for more than 90 days are considered past due. Uncollectible receivables are reviewed on a case-by-case manner and charged to bad debts expense upon approval by management. Subsequent collection of these receivables is recorded by the Association as revenue.

Note 4 – Contributions Receivable

Contributions receivable consists of promises to give made by donors that will be received during the following year. The entire amount of the receivable is considered collectible and therefore no allowance for uncollectible receivables has been established.

Note 5 – Property and Equipment

As of June 30, 2008, property and equipment consisted of the following:

Refrigerated trailers and storage containers	\$ 410,436
Building improvements	8,365
Furniture and equipment	<u>20,268</u>
	439,069
Less accumulated depreciation	<u>(144,093)</u>
Net book value	<u>\$ 294,976</u>

Note 6 – Commitments

The Association leases office space and equipment under non-cancelable operating leases. Lease terms generally are for three to five years. Lease expense for the year ended June 30, 2008 was \$24,352. In June 2008, the Association extended its office space lease to June 30, 2011 with annual rent totaling \$23,054.

Note 7 – Retirement Plan

The Association has a simplified employee pension (SEP) plan. Under the provisions of the plan, contributions of 3% of each employee's salary are made to an individual retirement account in his or her name. During the year ended June 30, 2008, total contributions of \$9,597 were made to the Plan.

Notes to Financial Statements – Continued

Note 8 – Line of Credit

The Association has a revolving line of credit totaling \$50,000 with a bank. The interest rate on the line is 12.25% and there was no balance outstanding as of June 30, 2008.

Note 9 – Capital Lease

The Association entered into a capital lease agreement for a refrigerated trailer in October 2000. The following is the cost and accumulated depreciation related to this asset:

Leased asset	\$ 55,594
Less: accumulated amortization	(42,622)
	<u>\$ 12,972</u>

In October 2008, the Association purchased the refrigerated trailer for \$20,000 and canceled its lease agreement.

Note 10 – Concentrations of Credit Risk

Financial instruments that subject the Association to potential concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Association maintains its cash in a bank which at times may exceed federally insured limits. At June 30, 2008, the Association's bank balances had exceeded federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances. Concentrations of credit risk with respect to receivables are limited due to the fact that they are due from various government agencies and private contributors in which there is substantial evidence of subsequent cash collection.