

Association of Arizona Food Banks, Inc.

Financial Statements

Years ended June 30, 2009 and 2008

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Functional Expenses.....	4-5
Statements of Cash Flows	6-7
Notes to Financial Statements.....	8-13



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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of Association of Arizona Food Banks, Inc. as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide 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, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Walker & Armstrong LLP

Phoenix, Arizona
October 30, 2009

Association of Arizona Food Banks, Inc.
Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 572,516	\$ 205,180
Short-term investments	208,311	255,951
Grants and accounts receivable	171,855	155,956
Contributions receivable	-	80,650
Prepaid expenses	5,440	3,324
Property and equipment, net	227,438	294,976
Total assets	\$ 1,185,560	\$ 996,037
Liabilities and Net Assets		
<i>Liabilities</i>		
Accounts payable	\$ 34,851	\$ 45,411
Accrued expenses	22,449	19,046
Capital lease obligation	-	23,007
Total liabilities	57,300	87,464
<i>Net Assets</i>		
Unrestricted		
Undesignated	830,255	670,640
Designated	119,725	117,844
Temporarily restricted	178,280	120,089
Total net assets	1,128,260	908,573
Total liabilities and net assets	\$ 1,185,560	\$ 996,037

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

Association of Arizona Food Banks, Inc.
Statements of Activities
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets:		
<i>Support and revenue</i>		
Fees for services	\$ 1,104,329	\$ 1,117,121
Government grants and contracts	356,618	744,968
Contributions revenue	509,090	562,245
Membership fees	54,346	56,017
Miscellaneous	6,706	15,406
Investment income	2,409	4,610
In-kind	5,125	8,752
Total unrestricted support and revenue	<u>2,038,623</u>	<u>2,509,119</u>
<i>Net assets released from restrictions</i>	<u>576,756</u>	<u>139,634</u>
Total unrestricted revenue and other support	2,615,379	2,648,753
Expenses		
<i>Program</i>		
Food bank coordination	312,016	302,562
Gleaning	1,918,692	1,753,970
<i>Supporting services</i>		
General and administrative	97,824	96,868
Fundraising	125,351	130,076
Total expenses	<u>2,453,883</u>	<u>2,283,476</u>
Increase in unrestricted net assets	161,496	365,277
Changes in temporarily restricted net assets:		
Temporarily restricted contributions	634,947	209,693
Net assets released from restriction	<u>(576,756)</u>	<u>(139,634)</u>
Net change in temporarily restricted net assets	<u>58,191</u>	<u>70,059</u>
Increase in net assets	219,687	435,336
Net assets at beginning of year	<u>908,573</u>	<u>473,237</u>
Net assets at end of year	<u><u>\$ 1,128,260</u></u>	<u><u>\$ 908,573</u></u>

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, 2009

	<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	\$ 98,071	\$ 124,903	\$ 59,857	\$ 78,252	\$ 361,083
Employee benefits	25,334	28,227	14,158	11,731	79,450
Total salaries and related	123,405	153,130	74,015	89,983	440,533
Professional and outside services	45,285	292,403	16,928	345	354,961
Occupancy	17,521	5,533	-	-	23,054
Food transport	-	408,880	-	-	408,880
Food	-	946,289	-	-	946,289
Operating services	8,520	14,178	4,575	3,219	30,492
Insurance	3,191	16,334	-	-	19,525
Depreciation	67,538	-	-	-	67,538
Travel	5,208	5,799	-	27	11,034
Repairs and maintenance	683	66,133	-	-	66,816
Materials and supplies	29,782	4,043	2,306	31,777	67,908
Other	-	-	-	-	-
Telephone	5,758	5,177	-	-	10,935
In-kind	5,125	-	-	-	5,125
Interest expense	-	793	-	-	793
Total	<u>\$ 312,016</u>	<u>\$ 1,918,692</u>	<u>\$ 97,824</u>	<u>\$ 125,351</u>	<u>\$ 2,453,883</u>

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 and outside services	17,994	332,727	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
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>\$ 302,562</u>	<u>\$ 1,753,970</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.
Statements of Cash Flows
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from grants, fees for services and other revenues	\$ 1,502,835	\$ 2,003,205
Cash received from contributions	1,224,687	691,288
Investment income	2,409	4,610
Cash paid to suppliers	(1,952,567)	(1,892,561)
Cash paid to employees	(433,868)	(406,636)
Interest paid	(793)	(3,333)
Net cash provided by operating activities	<u>342,703</u>	<u>396,573</u>
Cash flows from financing activities:		
Payments on capital lease obligation	(23,007)	(8,266)
Cash flows from investing activities:		
Purchase of property and equipment	-	(241,516)
Purchase of investments	(52,360)	(141,595)
Proceeds from the maturity of investments	100,000	-
Net cash provided by (used for) investing activities	<u>47,640</u>	<u>(383,111)</u>
Net increase in cash and cash equivalents	367,336	5,196
Cash and cash equivalents at beginning of year	<u>205,180</u>	<u>199,984</u>
Cash and cash equivalents at end of year	<u>\$ 572,516</u>	<u>\$ 205,180</u>

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

Association of Arizona Food Banks, Inc.
Statements of Cash Flows - Continued
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 219,687	\$ 435,336
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	67,538	31,691
(Increase) decrease in grants and accounts receivable	(15,899)	69,693
(Increase) decrease in contributions receivable	80,650	(80,650)
(Increase) decrease in prepaid expenses	(2,116)	(659)
Increase (decrease) in accounts payable	(10,560)	(65,163)
Increase (decrease) in accrued expenses	3,403	6,325
Net cash provided by operating activities	<u>\$ 342,703</u>	<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
Years ended June 30, 2009 and 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 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. Designated net assets are invested in short-term investments.

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.

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, 2009 and 2008.

Notes to Financial Statements – Continued

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

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.

During 2009, the Association adopted the provisions of FASB Interpretation No. 48, as codified by the Financial Accounting Standards Board. This Interpretation requires entities, including nonprofit organizations, to evaluate uncertain tax provisions and record a liability for those positions in which it is more-likely-than-not that the position would result in an additional tax liability pursuant to an examination by the Internal Revenue Service. Management evaluates annually its tax positions related to unrelated business income, and if applicable, adjusts its income tax provision accordingly. As of June 30, 2009, no uncertain tax positions have been identified and accordingly, no provision has been made.

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. 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.

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.

Notes to Financial Statements – Continued

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

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.

Reclassifications

Certain reclassifications to functional expenses were made from the previous year's presentation. These reclassifications had no effect on beginning net assets or changes in net assets.

Note 2 – Investments

The Association held short-term investments in money market mutual funds and certificates of deposit as follows at June 30:

	<u>2009</u>	<u>2008</u>
Money market mutual funds	\$ 168,315	\$ 196,030
Certificates of deposit	<u>39,996</u>	<u>59,921</u>
	<u>\$ 208,311</u>	<u>\$ 255,951</u>

Investment earnings for the years ended June 30, 2009 and 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 – Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as codified by the Financial Accounting Standards Board, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB Statement No. 157, are used to measure fair value.

The fair value hierarchy prioritizes valuation techniques used to measure fair value into three broad levels:

- ***Level 1 investments*** - Valuation based on unadjusted quoted prices within active markets for identical assets accessible by the Plan (e.g., prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade). Level 1 investments consists of the Association's money market mutual funds.
- ***Level 2 investments*** - Valuation based on quoted market prices for similar assets within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset. Level 2 investments consist of the Association's certificates of deposits.
- ***Level 3 investments*** - Valuation based on inputs other than quoted market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances. The Association has no such investments.

Note 4 – Grants and Accounts Receivable

Grants and accounts receivable are reported at their outstanding principal balance and are allowed for as of June 30, 2009 and 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 5 – Contributions Receivable

Contributions receivable consists of promises to give made by donors that will be received during the following year.

Notes to Financial Statements – Continued

Note 6 – Grant and Contract Revenue

During 2009, grant and contract revenue decreased by \$388,350 from prior year due to a reduction in the amount awarded by the State of Arizona which resulted from the overall economic decline. Also, during 2008, \$228,000 was received by the State of Arizona related to a one-time grant for the purchase of refrigerated trailers. No amounts were received in 2009 related to this grant.

Note 7 - Concentrations

During the years ended June 30, 2009 and 2008, the Association received 37% and 55%, respectively, of its total revenues from grants and contracts with two unrelated entities. Receivables from these entities as of June 30, 2009 and 2008 totaled 58% and 69%, respectively.

Note 8 – Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2009</u>	<u>2008</u>
Refrigerated trailers and storage containers	\$ 410,436	\$ 410,436
Building improvements	8,365	8,365
Furniture and equipment	20,268	20,268
	<u>439,069</u>	<u>439,069</u>
Less accumulated depreciation	(211,631)	(144,093)
Net book value	<u>\$ 227,438</u>	<u>\$ 294,976</u>

Note 9 – 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 years ended June 30, 2009 and 2008 was \$23,054 and \$24,352, respectively. In June 2008, the Association extended its office space lease to June 30, 2011 with annual rent totaling \$23,054.

In January 2009, the Association entered into an agreement to sublease space to a nonprofit organization for \$100 per month. The term of this lease is 12 months and is renewable annually based on mutual consent by both parties.

Notes to Financial Statements – Continued

Note 10 – 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 years ended June 30, 2009 and 2008, total contributions of \$9,602 and \$9,597 were made to the Plan, respectively.

Note 11 – Capital Lease

The Association entered into a capital lease agreement for a refrigerated trailer in October 2000. As of June 30, 2009 and 2008, the book value on the refrigerated trailer was \$11,119 and \$12,972, respectively.

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

Note 12 – Line of Credit

The Association has a revolving line of credit totaling \$50,000 with a bank. The interest rate on the line is 8.25% and there was no balance outstanding as of June 30, 2009 and 2008.

Note 13 – Concentrations of Credit Risk

Financial instruments that subject the Association to potential concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and receivables.

As of June 30, 2009 and 2008, the Association's bank demand deposits had balances exceeding federally insured limits by \$414,608 and \$227,243, respectively. The uninsured deposits are not covered by collateral, however, the Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances. During 2009 and 2008, the certificates of deposit were fully covered by federal insurance.

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.