

ARLINGTON FOOD ASSISTANCE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Arlington Food Assistance Center

We have audited the accompanying financial statements of **Arlington Food Assistance Center** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 **Arlington Food Assistance Center** as of June 30, 2018 and 2017, 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.

Kositzka, Wicks and Company

Alexandria, Virginia
November 15, 2018

Arlington Food Assistance Center

Statements of Financial Position

June 30,

2018

2017

Assets

Current assets

Cash and cash equivalents	\$ 637,371	\$ 564,417
Certificates of deposit	-	758,626
Accounts receivable	6,356	466
Pledges receivable	9,414	15,271
Prepaid expenses	38,102	75,090
Inventory of food available for distribution	81,167	69,770
Gift cards	3,012	6,940
	<u>775,422</u>	<u>1,490,580</u>

Other assets

Security deposits	5,218	5,218
Investments	409,683	416,929
	<u>414,901</u>	<u>422,147</u>

Property and equipment

Land	261,901	261,901
Property and equipment, net of accumulated depreciation	2,427,305	1,256,266
	<u>2,689,206</u>	<u>1,518,167</u>

Total assets

\$ 3,879,529	\$ 3,430,894
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Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 155,819	\$ 168,432
Building loan payable, current portion	17,537	-
	<u>173,356</u>	<u>168,432</u>

Long-term liabilities

Building loan payable	749,855	-
Total liabilities	<u>923,211</u>	<u>168,432</u>

Net assets

Unrestricted	2,935,931	3,218,263
Temporarily restricted	20,387	44,199
Total net assets	<u>2,956,318</u>	<u>3,262,462</u>
Total liabilities and net assets	<u>\$ 3,879,529</u>	<u>\$ 3,430,894</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Public support and revenue			
Contributions			
Arlington County grant	\$ 527,925	\$ -	\$ 527,925
General contributions	2,313,249	-	2,313,249
Grants	12,800	18,925	31,725
In-kind donations	2,373,706	629	2,374,335
Special events, net \$58,468 of expenses	180,961	-	180,961
Net assets released from restriction	43,366	(43,366)	-
	<u>5,452,007</u>	<u>(23,812)</u>	<u>5,428,195</u>
Rental income	17,171	-	17,171
Investment income, net of expenses	28,025	-	28,025
Loss on disposal of assets	(28,709)	-	(28,709)
	<u>16,487</u>	<u>-</u>	<u>16,487</u>
Total public support and revenue	5,468,494	(23,812)	5,444,682
Expenses			
Program services	4,973,700	-	4,973,700
Management and general	271,724	-	271,724
Fundraising	505,402	-	505,402
Total expenses	<u>5,750,826</u>	<u>-</u>	<u>5,750,826</u>
Change in net assets	(282,332)	(23,812)	(306,144)
Net assets, beginning of year	<u>3,218,263</u>	<u>44,199</u>	<u>3,262,462</u>
Net assets, end of year	<u>\$ 2,935,931</u>	<u>\$ 20,387</u>	<u>\$ 2,956,318</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Public support and revenue			
Contributions			
Arlington County grant	\$ 527,925	\$ -	\$ 527,925
General contributions	2,174,332	62,632	2,236,964
Grants	250,925	19,225	270,150
In-kind donations	2,595,756	4,395	2,600,151
Special events, net \$63,743 of expenses	138,752	-	138,752
Net assets released from restriction	122,027	(122,027)	-
	<u>5,809,717</u>	<u>(35,775)</u>	<u>5,773,942</u>
Rental income	6,244	-	6,244
Investment income, net of expenses	45,271	-	45,271
	<u>51,515</u>	<u>-</u>	<u>51,515</u>
Total public support and revenue	5,861,232	(35,775)	5,825,457
Expenses			
Program services	4,769,865	-	4,769,865
Management and general	274,344	-	274,344
Fundraising	537,005	-	537,005
Total expenses	<u>5,581,214</u>	<u>-</u>	<u>5,581,214</u>
Change in net assets	280,018	(35,775)	244,243
Net assets, beginning of year	<u>2,938,245</u>	<u>79,974</u>	<u>3,018,219</u>
Net assets, end of year	<u>\$ 3,218,263</u>	<u>\$ 44,199</u>	<u>\$ 3,262,462</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Functional Expenses for the year ended June 30, 2018

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 992	\$ -	\$ 1,370	\$ 2,362
Bank charges	123	2,072	20,340	22,535
Employee benefits	197,857	23,687	20,912	242,456
Depreciation	99,809	5,862	10,258	115,929
Donated goods	2,349,019	678		2,349,697
Equipment rental and maintenance	67,809	7,986	10,595	86,390
Food purchases	903,509	-	584	904,093
Insurance	11,599	9,827	1,137	22,563
Occupancy costs	139,587	8,501	-	148,088
Other expenses	26,035	16,139	8,089	50,263
Payroll taxes	74,721	6,669	20,564	101,954
Personnel	885,002	76,721	277,211	1,238,934
Postage and shipping	6,659	-	7,942	14,601
Printing and publications	13,416	12,612	40,185	66,213
Professional fees	46,285	91,488	73,399	211,172
Program transportation	57,563	-	-	57,563
Supplies	11,397	1,463	1,976	14,836
Taxes	19,253	561	2,239	22,053
Telecommunications	17,211	2,435	4,620	24,266
Travel and meetings	2,073	5,023	3,981	11,077
Warehouse supplies	43,781	-	-	43,781
Total functional expenses	<u>\$ 4,973,700</u>	<u>\$ 271,724</u>	<u>\$ 505,402</u>	<u>\$ 5,750,826</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Functional Expenses for the year ended June 30, 2017

	Program services	Management and general	Fundraising	Total
Advertising	\$ 3,960	\$ 5,080	\$ 13,740	\$ 22,780
Bank charges	32	892	17,371	18,295
Building expenses	-	54,977	-	54,977
Depreciation	47,746	1,429	5,153	54,328
Donated goods	2,617,327	-	-	2,617,327
Employee benefits	143,848	4,722	23,124	171,694
Equipment rental and maintenance	48,985	2,799	2,733	54,517
Food purchases	738,576	-	-	738,576
Insurance	10,228	2,258	211	12,697
Occupancy costs	43,760	4,368	1,504	49,632
Other expenses	14,599	59,398	10,462	84,459
Payroll taxes	73,859	3,521	28,037	105,417
Personnel	860,560	45,332	354,402	1,260,294
Postage and shipping	4,438	16	13,096	17,550
Printing and publications	14,547	12,209	30,393	57,149
Professional fees	27,212	65,522	24,304	117,038
Program transportation	47,891	-	-	47,891
Supplies	8,025	481	1,855	10,361
Taxes	9,322	332	562	10,216
Telecommunications	24,872	2,411	4,986	32,269
Travel and meetings	3,112	8,597	5,072	16,781
Warehouse supplies	26,966	-	-	26,966
Total functional expenses	\$ 4,769,865	\$ 274,344	\$ 537,005	\$ 5,581,214

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statements of Cash Flows for the years ended June 30,

2018

2017

Cash flows from operating activities

Change in net assets	\$ (306,144)	\$ 244,243
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized and unrealized gain on investments	(17,586)	(28,060)
Donated stock received	(33,397)	(36,328)
Loss on disposal of property and equipment	28,709	-
Depreciation	115,929	54,328
(Increase) decrease in operating assets		
Accounts receivable	(5,890)	267
Pledges receivable	5,857	56,012
Prepaid expenses	36,988	(57,054)
Inventory of food available for distribution	(11,397)	23,064
Gift cards	3,928	(2,513)
Security deposits held	-	(5,218)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(12,613)	43,121
Net cash provided by (used in) operating activities	<u>(195,616)</u>	<u>291,862</u>

Cash flows from investing activities

Proceeds from certificate of deposit maturity	758,626	-
Proceeds from stock sales	65,549	-
Purchase of investments and reinvestments	(7,320)	(16,527)
Purchase of property and equipment	<u>(1,315,677)</u>	<u>(711,439)</u>
Net cash used in investing activities	(498,822)	(727,966)

Cash flows from financing activities

Proceeds from building loan	<u>767,392</u>	<u>-</u>
Net cash provided by financing activities	<u>767,392</u>	<u>-</u>

Net change in cash and cash equivalents

72,954 (436,104)

Cash and cash equivalents, beginning of year

564,417 1,000,521

Cash and cash equivalents, end of year

\$ 637,371 \$ 564,417

Supplemental cash flow information

Interest paid \$ 12,736 \$ -

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

1. Organization

The Arlington Food Assistance Center (AFAC) is an independent, community-based non-profit food pantry that provides dignified access to nutritious supplemental groceries to all Arlington neighbors in need. AFAC relies on the support of numerous individuals, businesses, congregations, schools, community organizations, foundations, and Arlington County to provide the financial resources, donated food, and the services of over 2,500 dedicated volunteers to operate AFAC. AFAC works to relieve the food budget of clients, helps prevent homelessness, and allows families to make other necessary purchases without sacrificing their health, housing, or nutritional needs.

While AFAC's mission is to provide groceries to families and individuals in Arlington County, AFAC works in cooperation with the Arlington County Department of Human Services, the Arlington Public Schools, and a number of other social safety net non-profits to refer families in need of food to AFAC. In addition to AFAC's primary Groceries Program, AFAC expanded its Backpack Buddies Program to serve additional students who frequently experience a lack of food resources during weekends and long holiday periods. AFAC operates out of its main warehouse at 2708 South Nelson Street and distributes food at 17 other locations to an average of 2,200 families each week - over 4,800 individuals, approximately a third of whom are children under the age of 18.

AFAC collects donated food from local grocery stores, farmer's markets, community gardens, local farms, and from numerous food drives conducted by or on behalf of AFAC. The food is brought to AFAC where it is weighed, sorted, and prepared for delivery to the many families that rely on AFAC for help. In addition to the 1.5 million pounds of donated food, AFAC distributes nearly 1.7 million pounds of food purchased from local and national wholesale and retail distributors.

During 2017 and 2018, AFAC utilized reserve funds and a loan to fully renovate the second floor offices and the first floor to improve client services, the handling of food, and doubled its refrigeration capacity.

AFAC is the sole owner of 2708 South Nelson Street LLC. This entity owns the facility in which AFAC operates. These financial statements include the accounts of 2708 South Nelson Street LLC and all intercompany transactions have been eliminated.

2. Summary of significant accounting policies

Basis of accounting

The financial statements of AFAC are prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenue and expenses which are applicable to future periods have been presented as deferred revenue or prepaid expenses on the accompanying statements of financial position.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

2. Summary of significant accounting policies (continued)

Financial statement presentation

AFAC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2018 and 2017, AFAC had no permanently restricted net assets.

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 of assets and liabilities and 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. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statements of cash flows, AFAC considers all cash and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certificates of deposit are not included in cash and cash equivalents. Investor's Deposit Accounts (IDA) are interest bearing checking accounts. FDIC insurance is \$250,000 per depositor, per insured bank. AFAC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. As of June 30, 2018, \$250,836 exceeded the FDIC limit.

Inventory

The majority of the food distributed by AFAC is donated. This activity is recorded in the financial statements as a contribution on per-pound (\$1.70/pound) value. AFAC also supplements its donated food supply by purchasing nutritious food items and perishable items not normally donated to AFAC, these items are valued at lower of cost or market.

Property and equipment

Property and equipment is recorded at cost if purchased and at fair value if donated. AFAC's policy is to capitalize purchases of property and equipment with a cost of \$1,000 or more. Depreciation is computed using the straight-line method over the useful lives.

Compensated absences

Employees of AFAC are entitled to paid vacation depending on job classification, length of service and other factors. As of June 30, 2018 and 2017, compensated absences of \$41,863 and \$34,739, respectively, are included in accounts payable and accrued expenses in the accompanying statements of financial position.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

2. Summary of significant accounting policies (continued)

Reclassifications of a general nature

Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously report change in net assets.

Contributions

Contributions received are measured at their fair values and are reported as an increase in net assets. AFAC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Pledges receivable

AFAC reports unconditional promises to give as contributions. Unconditional promises to give are recognized as revenue in the period pledged. Conditional promises to give are recognized as unrestricted revenue when the donor imposed conditions on which they depend are substantially met. If pledges are expected to be collected in less than one year, they are recorded at the estimated amount to be ultimately realized. If pledges are to be paid to the Organization over a period of years, they are recorded at the present value of their estimated cash flows using the prime rate as of the fiscal year-end in the year of the donation.

Management provides for potential uncollectible amounts through an allowance for doubtful accounts. Management considers past history, current economic conditions and overall viability of the third party when determining the allowance. No allowance was recorded for the years ended June 30, 2018 and 2017.

In-kind donations

A substantial number of volunteers donate time to AFAC's program services. The donated services are an integral part of AFAC's purpose but are not reflected in the financial statements because the services do not require specialized skills as defined by U.S. generally accepted accounting principles. Donated property is reflected as a revenue or asset at the fair market value of the property on date of donation. In-kind donations are detailed in Note 11 of these financial statements.

Functional classification of expenses

The costs of providing program services are summarized on a functional basis in the accompanying financial statements. Expenses have been charged to programs and supporting services directly, if applicable, or on the basis of periodic time and expense studies.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

2. Summary of significant accounting policies (continued)

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, pledges receivable, accounts receivables, prepaid expenses, inventory of food available for distribution, and gift cards. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

Income taxes

Arlington Food Assistance Center is exempt from federal income tax as a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation. AFAC did not have a liability for unrelated business income for the years ended June 30, 2018 and 2017.

AFAC is subject to taxation in the U.S. and a small number of state and local jurisdictions. The material jurisdictions subject to potential examination by taxing authorities include the U.S. and Virginia. Management does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the AFAC's results of operations. Tax years that remain subject to examination by the IRS are fiscal years 2015 through 2018.

New accounting pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information on liquidity, retains the option to present the cash flow statement on a direct or indirect method, and includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for Arlington Food Assistance Center for the year ending June 30, 2019. AFAC has not evaluated the impact of this statement.

The FASB has issued Accounting Standards Update (ASU) 2014-09 (as amended by ASU 2015-14), which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2019. The Organization has not evaluated the impact of this statement.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

2. Summary of significant accounting policies (continued)

New accounting pronouncements

The FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies how entities will determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2019. The Organization has not evaluated the impact of this statement.

The FASB has issued ASU 2016-02, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2020. The Organization has not evaluated the impact of this statement.

3. Certificates of deposits

As of June 30, 2017, AFAC held five certificate of deposit accounts with various expiration dates from July 2017 through June 2018. Interest rates ranged between 0.70% and 1.242%. The accounts have matured and were transferred to cash in the year ended June 30, 2018.

4. Line of credit

AFAC had a \$100,000 business line of credit, secured by the land and building. Interest is applied at a variable rate of the Bank's Prime Rate plus 0.5 percent per annum to be adjusted monthly, not to decrease below a fixed minimum rate of 4.75 percent. Payments are required monthly. No amounts were outstanding at June 30, 2018 and 2017 and the line of credit was closed.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

5. Building loan

AFAC obtained a \$1,000,000 construction loan commitment to be used for expenses relating to the building renovation. As of June 30, 2018, \$767,392 of the loan was received and outstanding. The remaining available loan was drawn during July 2018. The loan required monthly interest payments during the construction period, and those payments were capitalized with the building improvements. The loan provided a "Conversion Date" when AFAC had the option to select a fixed interest rate and repayment term. This "Conversion Date" was originally June 4th, 2018 and was amended to October 4, 2018.

At the conclusion of construction, AFAC selected a fixed interest rate option with fixed monthly loan repayment for 5 years repayable over 300 monthly installments. The interest rate and the monthly repayment amount will be adjusted at the end of 5 years and then in 5 year increments. The terms of the loan require a balloon payment for the remaining balance on July 4, 2028. Future minimum principal payments for the fiscal years ending June 30 are as follows:

2019	\$	17,537
2020		24,063
2021		25,271
2022		26,415
2023		27,611
Thereafter		879,103
Total	\$	<u>1,000,000</u>

6. Investments

AFAC maintains its investments at fair market value, based on quoted prices in active markets, and accordingly, recognizes the gains or losses that result from market fluctuations for the period in which fluctuations occur. Purchased investments are initially recorded at cost and donated investments at fair value on date of receipt. Unrealized gains and losses are included in the statement of activities. Investment income for the years ended June 30, 2018 and 2017 consisted of the following:

<u>2018</u>	<u>2017</u>
\$ 17,586	\$ 28,060
13,166	19,699
(2,727)	(2,488)
<u>\$ 28,025</u>	<u>\$ 45,271</u>

Arlington Food Assistance Center classifies its investment into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

6. Investments (continued)

A portion of AFAC's investments are held in a community foundation. The fair value of the beneficial interest in assets held by the community foundation is based on the fair value of the fund investments as reported by the community foundation. These are considered Level 3 measurements.

Fair value measurements at June 30, 2018 and 2017 consisted of the following:

	2018			Total assets at fair value
	Level 1	Level 2	Level 3	
Cash	\$ 5,517	\$ -	\$ 1,063	\$ 6,580
Domestic equity stocks	21,885	-	149,361	171,246
International equity stocks		-	38,806	38,806
Real estate investment trusts		-	37,744	37,744
Mutual funds				
Large cap growth	5,957	-		5,957
Large value	1,013	-		1,013
Bonds				
High yield	-	-	33,663	33,663
Interim-term	-	-	114,674	114,674
	<u>\$ 34,372</u>	<u>\$ -</u>	<u>\$ 375,311</u>	<u>\$ 409,683</u>
	2017			Total assets at fair value
	Level 1	Level 2	Level 3	
Cash	\$ 16,175	\$ -	\$ 5,500	\$ 21,675
Domestic equity stocks	32,301	-	157,847	190,148
International equity stocks	-	-	34,860	34,860
Real estate investment trusts	-	-	35,817	35,817
Mutual funds				
Large cap growth	4,410	-	-	4,410
Mid cap growth	7,463	-	-	7,463
Small cap growth	5,160	-	-	5,160
Bonds				
High yield	-	-	29,509	29,509
Interim-term	-	-	87,887	87,887
	<u>\$ 65,509</u>	<u>\$ -</u>	<u>\$ 351,420</u>	<u>\$ 416,929</u>

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

6. Investments (continued)

In general, the primary objectives of AFAC's investment funds are (1) to provide a stable source of liquidity and financial resources to support AFAC's mission and (2) to maintain the real purchasing power of the Fund's assets, after inflation and net of investment costs.

The following table presents activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 351,420	\$ 321,915
Purchases/contributions	-	-
Investment return, net	23,891	29,505
Distributions	-	-
Ending balance	<u>\$ 375,311</u>	<u>\$ 351,420</u>

7. Inventory of food available for distribution

At June 30, 2018 and 2017, inventory consisted of \$81,167 and \$69,770, respectively. Inventory consists of both donated and purchased food. See Note 11 for the fair market value of the donated food.

8. Commitments

During the year ended June 30, 2017, AFAC began renovations to 2708 South Nelson Street. In order to continue its programs without interruption and consolidate off-site storage, AFAC signed lease agreements for additional warehouse space in 2704 and 2706 South Nelson Street. The lease agreement for 2704 South Nelson Street is for two years, April 1, 2017 through March 31, 2019, with a base rental expense of \$2,700 per month. The lease agreement for 2706 South Nelson Street is for five years, January 1, 2017 through December 31, 2021, with a base rental expense of \$3,918 per month. Total rental expense for both leases was \$79,808 and \$29,584 for the year ended June 30, 2017 and is included in occupancy costs on the accompanying statement of functional expenses.

AFAC subleases a portion of 2706 South Nelson Street to the Shirlington Employment & Education Center (SEEC). The sublease is for five years, February 1, 2017 through March 31, 2021. Base rental income is \$1,400 per month. Total rental income received for the years ended June 30, 2018 and 2017 was \$17,171 and \$6,244, respectively.

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Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

8. Commitments (continued)

A summary of future minimum rental expenses and rental income for the fiscal years ending June 30, is as follows:

	<u>2704 rental expenses</u>	<u>2706 rental expenses</u>	<u>Rental income</u>
2019	25,029	49,148	17,475
2020	-	50,623	18,001
2021	-	52,141	18,541
2022	-	26,456	12,606
	<u>\$ 25,029</u>	<u>\$ 178,368</u>	<u>\$ 66,623</u>

9. Property and equipment

A summary of information relative to property depreciation as of June 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>	<u>Useful life</u>
Land	\$ 261,901	\$ 261,901	
Building	669,660	669,660	39 years
Capital improvements			
Original improvements	38,314	38,314	15 years
Phase One	577,239	577,239	15 years
Phase Two	1,002,495	34,608	15 years
	<u>1,618,048</u>	<u>650,161</u>	
Vehicles	156,929	178,929	5 years
Equipment	366,369	88,627	5 - 10 years
Software	75,912	75,912	3 years
	<u>3,148,819</u>	<u>1,925,190</u>	
Accumulated depreciation	<u>(459,613)</u>	<u>(407,023)</u>	
	<u>\$ 2,689,206</u>	<u>\$ 1,518,167</u>	

During the year ended June 30, 2017, AFAC began capital improvements to its existing building. Phase One included renovations of the second story office space and was completed in April of 2017. Phase Two, the renovation of the first floor warehouse and client services space, was started in May of 2017 and was completed in 2018.

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Notes to Financial Statements June 30, 2018 and 2017

10. Service providing agreements

AFAC has a client service agreement with Insuperity PEO Services LP (Insuperity) to provide full-service outsourced human resources which includes payroll and employee administration, workers' compensation, health and welfare benefits and administration, employment liability insurance, human resource services, and 401K retirement plan services. In accordance with this agreement, all personnel related decisions are determined by the AFAC management team but all payroll and benefits are managed by Insuperity. As such, individuals who work at AFAC are considered "co-employed" under the agreement.

Based on the service offerings from Insuperity, employees are able to participate in Insuperity's multi-employer defined contribution 401(k) plan that covers substantially all employees. Employee contributions are voluntary. AFAC will match an employee's contribution to the Plan up to 4% of an employee's wage. The Company's matching contributions totaled \$32,349 and \$35,150 to the Plan in fiscal years 2018 and 2017 which is included in employee benefits in the Statement of Functional Expenses.

11. In-kind donations

Donated food and assets

Food donations are received from local groceries, bakeries, and food bank distributors. Donated food is valued based upon the fair market value of the foods. For the years ended June 30, 2018 and 2017, the approximate wholesale value of one pound of donated food was \$1.70. AFAC collected 1,574,014 and 1,514,803 pounds of food in 2018 and 2017, respectively. AFAC receives gift cards and other items to assist in its day to day operations, and those items are reported as other in-kind in the chart below. Other in-kind also includes a vehicle donation for the year ended June 30, 2016.

During the years ended June 30, 2018 and 2017, AFAC recorded the following in-kind donations:

	<u>2018</u>	<u>2017</u>
Food, net spoilage	\$ 2,370,201	\$ 2,594,224
Gift cards	629	4,395
Other in-kind	3,505	1,532
	<u>\$ 2,374,335</u>	<u>\$ 2,600,151</u>

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

11. In-kind donations (continued)

Donated services

Many individuals volunteer their time and perform a variety of tasks that assist AFAC. Volunteers assisted in food collection, distribution, and administrative assistance. In 2018 and 2017, AFAC volunteer hours were valued at \$30.00 and \$25.00 per hour, respectively. No amounts have been recognized in the financial statements for these volunteer hours because they do not meet the criteria for recognition. For the years ended June 30, 2018 and 2017, volunteer hours and value of hours were as follows:

	2018		2017	
	Hours worked (rounded)	Value of hours	Hours worked (rounded)	Value of hours
Program	49,000	\$ 1,470,000	43,029	\$ 1,075,725
Administrative	45	1,350	702	17,550
Fundraising	545	16,350	52	1,300
	<u>49,590</u>	<u>\$ 1,487,700</u>	<u>43,783</u>	<u>\$ 1,094,575</u>

12. Temporarily restricted net assets

Net assets are temporarily restricted for specific events or programs as well as for future periods. Restrictions on these assets are removed when expenses are incurred. Temporarily restricted net asset activity included the following for the years ended June 30, 2018 and 2017:

	2017	Additions	Releases	2018
Contributions for specific projects	\$ 497	\$ -	\$ -	\$ 497
Grants for specific projects	36,762	18,925	38,809	16,878
Gift cards	6,940	629	4,557	3,012
	<u>\$ 44,199</u>	<u>\$ 19,554</u>	<u>\$ 43,366</u>	<u>\$ 20,387</u>
	2016	Additions	Releases	2017
Contributions for specific projects	\$ 8,500	\$ 62,632	\$ 70,635	\$ 497
Grants for specific projects	67,047	19,225	49,510	36,762
Gift cards	4,427	4,395	1,882	6,940
	<u>\$ 79,974</u>	<u>\$ 86,252</u>	<u>\$ 122,027</u>	<u>\$ 44,199</u>

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2018 and 2017

13. Subsequent events

AFAC assessed events occurring subsequent to June 30, 2018 through November 15, 2018, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred subsequent to the fiscal year end that would require adjustment to or disclosure in the statements.

See independent auditor's report.