

ARLINGTON FOOD ASSISTANCE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022



Certified Public Accountants

Table of Contents

Independent Auditor's Report

Financial Statements

Statements of Financial Position	5
Statements of Activities	6 - 7
Statements of Functional Expenses	8 - 9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 19



Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Arlington Food Assistance Center

Opinion

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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Arlington Food Assistance Center** and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Arlington Food Assistance Center's** ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Arlington Food Assistance Center's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Arlington Food Assistance Center's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Kositzka, Wicks and Company

Alexandria, Virginia
December 8, 2023

Arlington Food Assistance Center

Statements of Financial Position June 30,

2023

2022

Assets

Current assets

Cash and cash equivalents	\$ 1,107,305	\$ 823,109
Certificates of deposit	151,856	-
Investments	6,201,947	5,934,729
Accounts receivable	-	112
Employee advances	2,733	1,693
Prepaid expenses	22,901	56,157
Gift cards	1,875	2,120
Inventory of food available for distribution	67,951	88,011
	<u>7,556,568</u>	<u>6,905,931</u>

Property and equipment, net

Land	697,401	697,401
Property and equipment, net of accumulated depreciation	3,138,536	3,319,805
	<u>3,835,937</u>	<u>4,017,206</u>

Other assets

Operating lease right-of-use asset	5,505	-
Total assets	<u>\$ 11,398,010</u>	<u>\$ 10,923,137</u>

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 301,840	\$ 227,615
Deferred revenue	30,000	10,700
Operating lease liability, current portion	3,863	-
	<u>335,703</u>	<u>238,315</u>

Other liabilities

Operating lease liability, net of current portion	1,642	-
Total liabilities	<u>337,345</u>	<u>238,315</u>

Net assets

Without donor restrictions	11,060,665	10,682,702
With donor restrictions	-	2,120
Total net assets	<u>11,060,665</u>	<u>10,684,822</u>
Total liabilities and net assets	<u>\$ 11,398,010</u>	<u>\$ 10,923,137</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Public support and revenue			
Contributions			
Arlington County grant	\$ 754,200	\$ -	\$ 754,200
General contributions and grants	4,368,878	-	4,368,878
In-kind donations	2,733,700	-	2,733,700
Special events, net \$95,475 of expenses	288,793	-	288,793
Net assets released from restriction	2,120	(2,120)	-
	<u>8,147,691</u>	<u>(2,120)</u>	<u>8,145,571</u>
Investment income, net of expenses	189,096	-	189,096
Other income	38	-	38
	<u>189,134</u>	<u>-</u>	<u>189,134</u>
Total public support and revenue	8,336,825	(2,120)	8,334,705
Expenses			
Food distribution	6,956,351	-	6,956,351
Management and general	362,755	-	362,755
Fundraising	639,756	-	639,756
Total expenses	<u>7,958,862</u>	<u>-</u>	<u>7,958,862</u>
Change in net assets	377,963	(2,120)	375,843
Net assets, beginning of year	<u>10,682,702</u>	<u>2,120</u>	<u>10,684,822</u>
Net assets, end of year	<u>\$ 11,060,665</u>	<u>\$ -</u>	<u>\$ 11,060,665</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Public support and revenue			
Contributions			
Arlington County grant	\$ 755,500	\$ -	\$ 755,500
General contributions and grants	5,058,002	4,075	5,062,077
In-kind donations	2,441,243	-	2,441,243
Special events, net \$62,219 of expenses	300,922	-	300,922
Net assets released from restriction	4,764	(4,764)	-
	<u>8,560,431</u>	<u>(689)</u>	<u>8,559,742</u>
Investment loss, net of expenses	(156,459)	-	(156,459)
Other income	16	-	16
	<u>(156,443)</u>	<u>-</u>	<u>(156,443)</u>
Total public support and revenue	8,403,988	(689)	8,403,299
Expenses			
Food distribution	5,947,750	-	5,947,750
Management and general	341,348	-	341,348
Fundraising	624,801	-	624,801
Total expenses	<u>6,913,899</u>	<u>-</u>	<u>6,913,899</u>
Change in net assets	1,490,089	(689)	1,489,400
Net assets, beginning of year	9,192,613	2,809	9,195,422
Net assets, end of year	<u>\$ 10,682,702</u>	<u>\$ 2,120</u>	<u>\$ 10,684,822</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Functional Expenses for the year ended June 30, 2023

Expenses	Food distribution	Management and general	Fundraising	Total
Bank charges	\$ -	\$ 1,681	\$ 35,797	\$ 37,478
Depreciation	244,916	6,573	5,841	257,330
Direct fundraising expenses	-	-	95,475	95,475
Donated goods	2,756,224	-	-	2,756,224
Employee benefits	317,965	32,557	75,207	425,729
Equipment rental and maintenance	45,360	2,795	5,831	53,986
Food purchases	1,942,105	-	-	1,942,105
Insurance	2,190	23,156	493	25,839
Occupancy costs	60,842	221	512	61,575
Other expenses	45,286	16,698	1,232	63,216
Payroll taxes	95,569	8,394	35,392	139,355
Personnel	1,247,480	111,442	427,928	1,786,850
Postage and shipping	477	2,688	2,601	5,766
Printing and publications	5,614	-	21,905	27,519
Professional fees	2,637	133,120	14,526	150,283
Program transportation	46,471	12,579	-	59,050
Supplies	9,361	475	1,341	11,177
Taxes	44,178	2,246	4,587	51,011
Telecommunications	23,825	5,205	4,951	33,981
Travel and meetings	5,252	2,925	1,612	9,789
Warehouse supplies	60,599	-	-	60,599
Total expenses by function	6,956,351	362,755	735,231	8,054,337
Less expenses included with revenues on the statement of activities				
Direct fundraising expenses	-	-	(95,475)	(95,475)
Total expenses included in the expense section of the statement of activities	\$ 6,956,351	\$ 362,755	\$ 639,756	\$ 7,958,862

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Functional Expenses for the year ended June 30, 2022

Expenses	Food distribution	Management and general	Fundraising	Total
Bank charges	\$ -	\$ 1,354	\$ 43,217	\$ 44,571
Depreciation	263,454	6,542	6,025	276,021
Direct fundraising expenses	-	-	62,219	62,219
Donated goods	2,445,561	-	-	2,445,561
Employee benefits	299,418	29,951	84,173	413,542
Equipment rental and maintenance	44,262	2,757	5,753	52,772
Food insecurity study	35,000	-	-	35,000
Food purchases	1,362,409	-	-	1,362,409
Insurance	2,640	33,122	595	36,357
Occupancy costs	81,114	149	344	81,607
Other expenses	26,239	9,014	250	35,503
Payroll taxes	92,329	7,672	30,791	130,792
Personnel	1,118,465	109,432	409,365	1,637,262
Postage and shipping	11	-	2,398	2,409
Printing and publications	10,671	-	24,149	34,820
Professional fees	534	127,600	7,398	135,532
Program transportation	43,610	59	-	43,669
Supplies	8,532	1,452	1,802	11,786
Taxes	37,310	1,333	2,785	41,428
Telecommunications	22,981	4,140	4,498	31,619
Travel and meetings	1,764	6,771	1,258	9,793
Warehouse supplies	51,446	-	-	51,446
Total expenses by function	5,947,750	341,348	687,020	6,976,118
Less expenses included with revenues on the statement of activities				
Direct fundraising expenses	-	-	(62,219)	(62,219)
Total expenses included in the expense section of the statement of activities	\$ 5,947,750	\$ 341,348	\$ 624,801	\$ 6,913,899

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statements of Cash Flows for the years ended June 30,

2023

2022

Cash flows from operating activities

Change in net assets	\$ 375,843	\$ 1,489,400
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	257,330	276,021
Donated stock received	(103,644)	(137,016)
Realized and unrealized (gain) loss on investments	(64,289)	164,432
(Increase) decrease in operating assets		
Accounts receivable	112	(12)
Employee advances	(1,040)	(1,693)
Prepaid expenses	33,256	39,267
Gift cards	245	(35,028)
Inventory of food available for distribution	20,060	689
Increase in operating liabilities		
Accounts payable and accrued expenses	74,225	63,206
Deferred revenue	19,300	10,700
Net cash provided by operating activities	<u>611,398</u>	<u>1,869,966</u>

Cash flows from investing activities

Purchase of investments and reinvestments	(99,285)	(5,599,984)
Purchase of property and equipment	(76,061)	(567,364)
Purchase of certificates of deposit	(150,000)	-
Reinvestment of interest in certificates of deposit	(1,856)	-
Net cash used in investing activities	<u>(327,202)</u>	<u>(6,167,348)</u>

Net change in cash and cash equivalents

Cash and cash equivalents, beginning of year

Cash and cash equivalents, end of year

Net change in cash and cash equivalents	284,196	(4,297,382)
Cash and cash equivalents, beginning of year	<u>823,109</u>	<u>5,120,491</u>
Cash and cash equivalents, end of year	<u>\$ 1,107,305</u>	<u>\$ 823,109</u>

Supplemental disclosure of cash flow information

Interest paid	<u>\$ -</u>	<u>\$ -</u>
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Noncash investing and financing transactions

Donated stock received	<u>\$ 103,644</u>	<u>\$ 137,016</u>
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See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

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.

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.

AFAC's food distribution includes Backpack Buddies, serving students who frequently experience a lack of food resources during weekends and over long holiday periods. AFAC operates out of the 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 1.4 million pounds of donated food, AFAC distributes nearly 1.5 million pounds of food purchased from local and national wholesale and retail distributors.

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, while doubling 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 accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of restrictions imposed by donors or grantors. Accordingly, net assets and changes therein are classified and reported in two categories as described below.

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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. FDIC insurance is \$250,000 per depositor, per insured bank. AFAC's excess funds are swept into an ICS (Insured Cash Sweep) account provided by IntraFi Network. AFAC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. On June 30, 2023 and 2022, cash balances exceeded the FDIC limits by \$49,143 and \$30,142, respectively.

Certificates of deposit

Certificates of deposit have an initial maturity of more than three months and are recorded at cost. The certificate of deposit currently earns interest at a rate of 4.889% and matures on June 30, 2024.

Investments

Investments in equity securities with readily determinable fair values, debt securities and cash in the investment accounts are measured at fair value in the statements of financial position, which are based on publicly available market data obtained from services independent of AFAC. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect amounts reported in future statements of activities. Management believes that AFAC's investments do not represent significant concentrations of market risk as the investment portfolios are adequately diversified among issuers.

Inventory

Approximately 59 and 66 percent of the food distributed by AFAC in the years ended June 30, 2023, respectively, was donated. This activity is recorded in the financial statements as a contribution at a per pound value of \$1.93 and \$1.70, respectively. 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. During the years ended June 30, 2023 and 2022, management has assessed its inventory for obsolescence and has determined that no impairment was necessary given the nature of the items held as inventory.

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 life of the asset.

Compensated absences

Employees of AFAC are entitled to paid vacation depending on job classification, length of service and other factors. As of June 30, 2023 and 2022, compensated absences of \$50,482 and \$45,013, 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, 2023 and 2022

Revenue and revenue recognition

AFAC recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

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, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions.

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. AFAC recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. AFAC recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

Receivables

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 revenue without donor restrictions 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 AFAC 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, 2023 and 2022.

In-kind donations

Contributed nonfinancial assets include donated food, donated gift cards and other in-kind contributions which are recorded at the respective fair value of the goods or services received. AFAC does not sell donated gifts-in-kind. In addition to contributed non-financial assets, volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of the donation.

Functional classification of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supported services benefitted. A portion of general and administrative expenses that benefit multiple functional areas have been allocated across the programs and supporting services based on the proportion of time spent by personnel on each activity or use of building space. The allocated expenses include: depreciation, insurance, taxes, occupancy costs, other expenses, and telecommunications.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, accounts receivable, employee advances, prepaid expenses, inventory of food available for distribution, and gift cards. Financial liabilities with carrying values approximating fair value include accounts payable, accrued expenses, and deferred revenue. 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.

Lease arrangements

In the ordinary course of business, AFAC can enter into a variety of lease arrangements, including operating and financing leases. Effective July 1, 2022, AFAC determines if an arrangement is a lease at inception. The operating lease right-of-use (ROU) assets are included within AFAC's non-current other assets and lease liabilities are included in current or non-current other liabilities on AFAC's statements of financial position. AFAC had no financing leases as of June 30, 2023. ROU assets represent AFAC's right to use, or control the use of, a specified asset for the lease term. Lease liabilities are AFAC's obligation to make lease payments arising from a lease and are measured on a discounted basis. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term on the commencement date. As most of AFAC's leases do not provide an implicit rate, AFAC assesses the magnitude of the discount and if material, the risk-free Treasury rate for the lease term would be used based on the information available on the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and initial direct costs incurred and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that AFAC will exercise that option. Lease expense for minimum lease payments continues to be recognized on a straight-line basis over the lease term.

Income taxes

AFAC 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, 2023 and 2022.

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 2020 through 2023.

Recently adopted accounting pronouncements

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2016-02, which requires lessees to recognize on the statements of financial position, the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 was adopted by AFAC on its effective date, which was July 1, 2022. There was no impact to AFAC's beginning net assets as a result of the adoption because of the election of the practical expedients. AFAC has elected to utilize the package of practical expedients that allows entities to not reassess (1) the classification of leases existing at the date of adoption, (2) the initial direct costs for any existing leases, and (3) whether any expired or existing contracts are or contain leases.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

Impact on transition

At the date of adoption, AFAC applied the modified retrospective approach under which all leases were valued and recognized in the financial statements as of the beginning of the period of adoption. The lease liabilities were measured at the present value of the remaining lease payments at July 1, 2022, discounted using the risk interest free rate or 2.84%. At July 1, 2022, the Organization recorded "Operating lease right-of-use asset," "Operating lease liability, current portion" and "Operating lease liability, net of current portion" of \$9,260, \$3,755, and \$5,505, respectively on the statements of financial position. The adoption of this standard did not have a material impact on the Organization's statements of activities. Refer to Note 7 for further information regarding lease periods and the weighted average discount rates used.

Upcoming accounting pronouncements

The FASB has issued ASU 2016-13 which adopts the current expected credit loss (CECL) model. The CECL model requires a financial asset or a group of financial assets (including trade receivables, contract assets, lease receivables, financial guarantees, loans and loan commitments, and held-to-maturity debt securities) measured at amortized cost basis to be presented at the net amount expected to be collected. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022 and the Organization plans to adopt this standard on its effective date, July 1, 2023. Management is assessing the impact that the standard will have on the financial statements.

3. Liquidity and availability

The following table reflects AFAC's financial assets as of June 30, 2023 and 2022, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,107,305	\$ 823,109
Certificates of deposit	151,856	-
Investments	6,201,947	5,934,729
Accounts receivable	-	112
Employee advances	2,733	1,693
Gift cards	1,875	2,120
	<u>7,465,716</u>	<u>6,761,763</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	<u>-</u>	<u>(2,120)</u>
Total financial assets available for general expenditure within one year	<u>\$ 7,465,716</u>	<u>\$ 6,759,643</u>

See Note 4 regarding investments and how they help AFAC manage liquidity.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

4. 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 statements of activities.

AFAC classifies its investments 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.

Fair value measurements on a recurring basis at June 30, 2023 and 2022 consisted of the following:

	2023			Total assets at fair value
	Level 1	Level 2	Level 3	
Cash	\$ 135,037	\$ -	\$ -	\$ 135,037
Equities	1,448,634	-	-	1,448,634
Exchange traded funds	2,889,144	-	-	2,889,144
Fixed income	-	1,729,132	-	1,729,132
	<u>\$ 4,472,815</u>	<u>\$ 1,729,132</u>	<u>\$ -</u>	<u>\$ 6,201,947</u>

	2022			Total assets at fair value
	Level 1	Level 2	Level 3	
Cash	\$ 1,272,152	\$ -	\$ -	\$ 1,272,152
Equities	1,024,879	-	-	1,024,879
Exchange traded funds	1,772,486	-	-	1,772,486
Fixed income	-	1,865,212	-	1,865,212
	<u>\$ 4,069,517</u>	<u>\$ 1,865,212</u>	<u>\$ -</u>	<u>\$ 5,934,729</u>

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.

5. Inventory of food available for distribution

At June 30, 2023 and 2022, AFAC had inventory balances of \$67,951 and \$88,011, respectively. Inventory consists of both donated and purchased food. See Note 9 for the fair market value of the donated food.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

6. Property and equipment

A summary of property and equipment as of June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>	<u>Useful life</u>
Land	\$ 697,401	\$ 697,401	
Building	1,056,728	1,056,728	39 years
Capital improvements	2,763,685	2,763,685	15 years
Vehicles	252,906	202,638	5 years
Equipment	432,635	431,585	5 - 10 years
Software	215,741	190,998	3 years
	<u>5,419,096</u>	<u>5,343,035</u>	
Accumulated depreciation	<u>(1,583,159)</u>	<u>(1,325,829)</u>	
	<u>\$ 3,835,937</u>	<u>\$ 4,017,206</u>	

7. Lease obligations

AFAC has operating leases for office equipment. The amount of operating lease right-of-use assets and related lease obligations recorded within AFAC's statements of financial position as of June 30, are as follows:

	<u>2023</u>
Operating lease right-of-use asset	\$ 5,505
Current portion of long-term lease obligation	3,863
Long-term lease obligation	<u>1,642</u>
Total operating lease liabilities	<u>\$ 5,505</u>

The total lease expense for the year ended June 30, 2023 was \$3,960 and is included with the equipment rental and maintenance expenses in the statements of functional expenses.

For the year ending June 30, AFAC had the following cash and non-cash activities associated with leases:

	<u>2023</u>
Cash paid for amount included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 3,960

The lease term and discount rates elected by AFAC as of June 30, include:

	<u>2023</u>
Weighted-average remaining lease term:	
Operating leases	1.42 years
Weighted-average discount rate:	
Operating leases	2.84%

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

As of June 30, 2023, the future payments due under operating leases were as follows:

	<u>2023</u>
2024	\$ 3,960
2025	1,650
Total undiscounted cash flows	<u>5,610</u>
Less present value discount	(105)
Total lease liabilities	<u>\$ 5,505</u>

AFAC does not have any finance leases as of June 30, 2023.

8. Service providing agreements

AFAC has a client service agreement with Insperty PEO Services LP (Insperty) 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 401(k) 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 Insperty. As such, individuals who work at AFAC are considered "co-employed" under the agreement.

Based on the service offerings from Insperty, employees are able to participate in Insperty'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 percent of an employee's wage. AFAC's matching contributions to the plan totaled \$53,205 and \$48,543 for the years ended June 30, 2023 and 2022, respectively, and are included in employee benefits in the statements of functional expenses.

9. 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, 2023 and 2022, AFAC collected 1,464,425 and 1,483,771 pounds of food, respectively, and the approximate wholesale value of one pound of donated food was \$1.93 and \$1.70, respectively. AFAC also periodically receives other items to assist in its day-to-day operations or special activities, such as seeds for local gardens.

During the years ended June 30, 2023 and 2022, AFAC recorded the following in-kind donations:

	<u>2023</u>	<u>2022</u>
Food, net spoilage	\$ 2,733,700	\$ 2,440,811
Other in-kind	-	432
	<u>\$ 2,733,700</u>	<u>\$ 2,441,243</u>

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2023 and 2022

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. For the years ended June 30, 2023 and 2022, AFAC volunteer hours were valued at \$33.00 per hour. No amounts have been recognized in the financial statements for these volunteer hours because they do not meet the criteria for recognition under U.S. GAAP. For the years ended June 30, 2023 and 2022, volunteer hours and value of hours were as follows:

	2023		2022	
	Hours worked (rounded)	Value of hours	Hours worked (rounded)	Value of hours
Food distribution	43,596	\$ 1,438,668	37,387	\$ 1,233,771
Management and general	332	10,956	330	10,890
Fundraising	16	528	39	1,287
	<u>43,944</u>	<u>\$ 1,450,152</u>	<u>37,756</u>	<u>\$ 1,245,948</u>

Donated stock

AFAC received \$103,644 and \$137,016 in donated stock during the years ended June 30, 2023 and 2022, respectively. Donated stock is included in general contributions on the statements of activities.

Gift cards

Gift cards of \$1,100 and \$4,075 are included with general contributions and grants on the statement of activities for the years ended June 30, 2023 and 2022, respectively.

10. Net assets with donor restrictions

Net assets with donor restrictions are for specific events or programs as well as for future periods. Restrictions on these assets are removed when expenses are incurred. Net assets with donor restrictions activity included the following for the years ended June 30, 2023 and 2022:

	2022	Additions	Releases	2023
Gift cards	\$ 2,120	\$ -	\$ 2,120	\$ -
	<u>2021</u>	<u>Additions</u>	<u>Releases</u>	<u>2022</u>
Gift cards	\$ 2,809	\$ 4,075	\$ 4,764	\$ 2,120

11. Subsequent events

AFAC assessed events occurring subsequent to June 30, 2023 through December 8, 2023, 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 year end that would require adjustment to or disclosure in the financial statements.

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