

ARLINGTON FOOD ASSISTANCE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020



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, 2021 and 2020, 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, 2021 and 2020, 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
December 2, 2021

Arlington Food Assistance Center

Statements of Financial Position June 30,

2021

2020

Assets

Current assets

| | | |
|--|------------------|------------------|
| Cash and cash equivalents | \$ 5,120,491 | \$ 3,649,702 |
| Accounts receivable | 100 | 4,728 |
| Gift cards | 2,809 | 4,705 |
| Prepaid expenses | 21,129 | 21,681 |
| Inventory of food available for distribution | 127,278 | 141,806 |
| Investments | 362,160 | 577,469 |
| | <u>5,633,967</u> | <u>4,400,091</u> |

Property and equipment, net

| | | |
|---|------------------|------------------|
| Land | 697,401 | 261,901 |
| Property and equipment, net of accumulated depreciation | 3,028,463 | 2,218,115 |
| | <u>3,725,864</u> | <u>2,480,016</u> |

Other assets

| | | |
|-------------------|---------------------|---------------------|
| Security deposits | - | 5,218 |
| Total assets | <u>\$ 9,359,831</u> | <u>\$ 6,885,325</u> |

Liabilities and net assets

Current liabilities

| | | |
|--|----------------|----------------|
| Accounts payable and accrued expenses | \$ 164,409 | \$ 210,392 |
| Building loan payable, current portion | - | 25,271 |
| SBA Payroll Protection Program loan | - | 241,700 |
| | <u>164,409</u> | <u>477,363</u> |

Long-term liabilities

| | | |
|--|----------------|------------------|
| Building loan payable, long-term portion | - | 933,129 |
| Total liabilities | <u>164,409</u> | <u>1,410,492</u> |

Net assets

| | | |
|----------------------------------|---------------------|---------------------|
| Without donor restrictions | 9,192,613 | 5,396,040 |
| With donor restrictions | 2,809 | 78,793 |
| Total net assets | <u>9,195,422</u> | <u>5,474,833</u> |
| Total liabilities and net assets | <u>\$ 9,359,831</u> | <u>\$ 6,885,325</u> |

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2021

| | Without donor restrictions | With donor restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Public support and revenue | | | |
| Contributions | | | |
| Arlington County grant | \$ 550,000 | \$ - | \$ 550,000 |
| General contributions and grants | 6,569,392 | 6,400 | 6,575,792 |
| In-kind donations | 2,603,917 | 11,025 | 2,614,942 |
| Special events, net \$34,747 of expenses | 292,865 | - | 292,865 |
| Net assets released from restriction | 93,409 | (93,409) | - |
| | <u>10,109,583</u> | <u>(75,984)</u> | <u>10,033,599</u> |
| Rental income | 1,400 | - | 1,400 |
| Investment income, net of expenses | 120,437 | - | 120,437 |
| Other income | 241,700 | - | 241,700 |
| | <u>363,537</u> | <u>-</u> | <u>363,537</u> |
| Total public support and revenue | 10,473,120 | (75,984) | 10,397,136 |
| Expenses | | | |
| Food distribution | 5,714,868 | - | 5,714,868 |
| Management and general | 330,429 | - | 330,429 |
| Fundraising | 631,250 | - | 631,250 |
| Total expenses | <u>6,676,547</u> | <u>-</u> | <u>6,676,547</u> |
| Change in net assets | 3,796,573 | (75,984) | 3,720,589 |
| Net assets, beginning of year | <u>5,396,040</u> | <u>78,793</u> | <u>5,474,833</u> |
| Net assets, end of year | <u>\$ 9,192,613</u> | <u>\$ 2,809</u> | <u>\$ 9,195,422</u> |

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2020

| | Without donor restrictions | With donor restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Public support and revenue | | | |
| Contributions | | | |
| Arlington County grant | \$ 615,425 | \$ - | \$ 615,425 |
| General contributions and grants | 5,336,782 | 47,505 | 5,384,287 |
| In-kind donations | 2,187,511 | 10,595 | 2,198,106 |
| Special events, net \$49,739 of expenses | 304,366 | - | 304,366 |
| Net assets released from restriction | 9,751 | (9,751) | - |
| | <u>8,453,835</u> | <u>48,349</u> | <u>8,502,184</u> |
| Rental income | 13,256 | - | 13,256 |
| Investment income, net of expenses | 23,464 | - | 23,464 |
| Loss on disposal of assets | (3,638) | - | (3,638) |
| Other income | 212 | - | 212 |
| | <u>33,294</u> | <u>-</u> | <u>33,294</u> |
| Total public support and revenue | 8,487,129 | 48,349 | 8,535,478 |
| Expenses | | | |
| Food distribution | 4,880,612 | - | 4,880,612 |
| Management and general | 247,008 | - | 247,008 |
| Fundraising | 656,408 | - | 656,408 |
| Total expenses | <u>5,784,028</u> | <u>-</u> | <u>5,784,028</u> |
| Change in net assets | 2,703,101 | 48,349 | 2,751,450 |
| Net assets, beginning of year | <u>2,692,939</u> | <u>30,444</u> | <u>2,723,383</u> |
| Net assets, end of year | <u>\$ 5,396,040</u> | <u>\$ 78,793</u> | <u>\$ 5,474,833</u> |

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Functional Expenses for the year ended June 30, 2021

| | Food distribution | Management and general | Fundraising | Total |
|--|----------------------|---------------------------|-------------|--------------|
| Expenses | | | | |
| Bank charges | \$ 2 | \$ 1,720 | \$ 73,382 | \$ 75,104 |
| Employee benefits | 238,123 | 27,624 | 72,650 | 338,397 |
| Depreciation | 211,804 | 6,057 | 4,892 | 222,753 |
| Direct fundraising expenses | - | - | 34,747 | 34,747 |
| Donated goods | 2,622,622 | - | - | 2,622,622 |
| Equipment rental and maintenance | 42,946 | 2,437 | 5,083 | 50,466 |
| Food purchases | 1,067,009 | - | - | 1,067,009 |
| Insurance | 12,709 | 1,923 | - | 14,632 |
| Mortgage interest | - | 25,194 | - | 25,194 |
| Occupancy costs | 87,266 | 319 | 737 | 88,322 |
| Other expenses | 38,370 | 15,240 | 2,403 | 56,013 |
| Payroll taxes | 92,029 | 8,093 | 29,656 | 129,778 |
| Personnel | 1,098,314 | 97,651 | 375,250 | 1,571,215 |
| Postage and shipping | 236 | - | 5,723 | 5,959 |
| Printing and publications | 9,353 | - | 41,820 | 51,173 |
| Professional fees | 546 | 126,638 | 5,954 | 133,138 |
| Program transportation | 61,422 | 44 | - | 61,466 |
| Supplies | 3,496 | 326 | 1,190 | 5,012 |
| Taxes | 57,117 | 3,642 | 7,543 | 68,302 |
| Telecommunications | 26,256 | 11,041 | 4,526 | 41,823 |
| Travel and meetings | 2,538 | 2,480 | 441 | 5,459 |
| Warehouse supplies | 42,710 | - | - | 42,710 |
| Total expenses by function | 5,714,868 | 330,429 | 665,997 | 6,711,294 |
| Less expenses included with revenues on the statement of activities | | | | |
| Direct fundraising expenses | - | - | (34,747) | (34,747) |
| Total expenses included in the expense section of the statement of activities | \$ 5,714,868 | \$ 330,429 | \$ 631,250 | \$ 6,676,547 |

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Functional Expenses for the year ended June 30, 2020

| | Food distribution | Management and general | Fundraising | Total |
|--|----------------------|---------------------------|-------------|--------------|
| Expenses | | | | |
| Advertising | \$ - | \$ - | \$ 300 | \$ 300 |
| Bank charges | - | 302 | 58,435 | 58,737 |
| Building repairs | 600 | - | - | 600 |
| Employee benefits | 179,327 | 26,311 | 63,612 | 269,250 |
| Depreciation | 176,582 | 5,493 | 21,361 | 203,436 |
| Direct fundraising expenses | - | - | 49,739 | 49,739 |
| Donated goods | 2,124,599 | - | - | 2,124,599 |
| Equipment rental and maintenance | 42,406 | 5,723 | - | 48,129 |
| Food purchases | 934,279 | - | - | 934,279 |
| Insurance | 1,933 | 60 | 234 | 2,227 |
| Mortgage interest | 37,480 | 1,166 | 4,534 | 43,180 |
| Occupancy costs | 111,287 | 3,462 | 13,462 | 128,211 |
| Other expenses | 10,606 | 8,500 | 1,564 | 20,670 |
| Payroll taxes | 79,804 | 8,224 | 32,016 | 120,044 |
| Personnel | 920,136 | 101,824 | 391,441 | 1,413,401 |
| Postage and shipping | - | 1,427 | 5,015 | 6,442 |
| Printing and publications | 8,114 | 1,662 | 30,578 | 40,354 |
| Professional fees | 50,469 | 64,273 | 29,226 | 143,968 |
| Program transportation | 85,732 | 35 | - | 85,767 |
| Supplies | 4,641 | 4,099 | 788 | 9,528 |
| Taxes | 14,846 | 462 | 1,796 | 17,104 |
| Telecommunications | 25,502 | 8,734 | 297 | 34,533 |
| Travel and meetings | 10,607 | 5,251 | 1,749 | 17,607 |
| Warehouse supplies | 61,662 | - | - | 61,662 |
| Total expenses by function | 4,880,612 | 247,008 | 706,147 | 5,833,767 |
| Less expenses included with revenues on the statement of activities | | | | |
| Direct fundraising expenses | - | - | (49,739) | (49,739) |
| Total expenses included in the expense section of the statement of activities | \$ 4,880,612 | \$ 247,008 | \$ 656,408 | \$ 5,784,028 |

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statements of Cash Flows for the years ended June 30,

2021

2020

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 3,720,589 | \$ 2,751,450 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 222,753 | 203,436 |
| Donated stock received | (104,345) | (86,198) |
| Forgiveness of SBA Payroll Protection Program loan | (241,700) | - |
| Loss on disposal of property and equipment | - | 3,638 |
| Realized and unrealized gain on investments | (108,971) | (7,553) |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 4,628 | (2,495) |
| Prepaid expenses | 552 | (11,021) |
| Inventory of food available for distribution | 14,528 | (96,655) |
| Gift cards | 1,896 | (1,268) |
| Security deposits | 5,218 | - |
| Increase (decrease) in operating liabilities | | |
| Accounts payable and accrued expenses | (45,983) | 72,864 |
| Net cash provided by operating activities | <u>3,469,165</u> | <u>2,826,198</u> |
| Cash flows from investing activities | | |
| Sale of investments and reinvestments | 428,625 | (12,914) |
| Purchase of property and equipment | (1,468,601) | (135,575) |
| Net cash used in investing activities | <u>(1,039,976)</u> | <u>(148,489)</u> |
| Cash flows from financing activities | | |
| Payments on building loan | (958,400) | (24,063) |
| Proceeds from SBA Payroll Protection Program loan | - | 241,700 |
| Net cash provided by financing activities | <u>(958,400)</u> | <u>217,637</u> |
| Net change in cash and cash equivalents | 1,470,789 | 2,895,346 |
| Cash and cash equivalents, beginning of year | <u>3,649,702</u> | <u>754,356</u> |
| Cash and cash equivalents, end of year | <u>\$ 5,120,491</u> | <u>\$ 3,649,702</u> |
| Supplemental disclosure of cash flow information | | |
| Interest paid | <u>\$ 25,194</u> | <u>\$ 43,180</u> |
| Noncash investing and financing transactions | | |
| Donated stock received | <u>\$ 104,345</u> | <u>\$ 86,198</u> |

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2021 and 2020

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 1.7 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, 2021 and 2020

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 (formerly Promontory Interfinancial 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, 2021 and 2020, cash balances exceeded the FDIC limits by \$76,826 and \$114,889, respectively.

Inventory

Approximately 70 percent of the food distributed by AFAC in fiscal year 2021 was donated. This activity is recorded in the financial statements as a contribution at a per pound value of \$1.70. 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.

Investments

Investments consist of equity securities that are carried at their fair values, 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.

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, 2021 and 2020, compensated absences of \$43,829 and \$43,677, respectively, are included in accounts payable and accrued expenses in the accompanying statements of financial position.

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.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2021 and 2020

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 statement 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.

AFAC records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

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 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, 2021 and 2020.

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. GAAP. Donated property is reflected as a revenue or asset at the fair market value of the property on the date of donation. In-kind donations are detailed in Note 10 of these financial statements.

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 and changes in net assets. 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 tele-communications.

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, accounts receivable, 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, 2021 and 2020.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2021 and 2020

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 2018 through 2021.

New accounting pronouncements

The FASB (ASU) No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, requires not-for-profits (NFPs) to present contributed nonfinancial assets as a separate line item in the statement activities and provide additional disclosures about contributions of nonfinancial assets. Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The ASU is effective for annual periods beginning after June 15, 2021. The Organization plans to adopt this standard for the year ended June 30, 2022.

3. Liquidity and availability

The following table reflects AFAC's financial assets as of June 30, 2021 and 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 5,120,491 | \$ 3,649,702 |
| Accounts receivable | 100 | 4,728 |
| Gift cards | 2,809 | 4,705 |
| Investments | <u>362,160</u> | <u>577,469</u> |
| | 5,485,560 | 4,236,604 |
| Less amounts unavailable for general expenditures within one year, due to: | | |
| Restricted by donors with purpose restrictions | (2,809) | (78,793) |
| Total financial assets available for general expenditure within one year | <u>\$ 5,482,751</u> | <u>\$ 4,157,811</u> |

See Note 5 regarding investments and how they help AFAC manage liquidity. Gift cards are not considered available for general use.

4. Building loan

AFAC obtained a \$1,000,000 construction loan commitment to be used for expenses relating to the building renovation. The loan required monthly interest payments during the construction period, and those payments were capitalized with the building improvements.

The interest rate was fixed at 4.375 percent with fixed monthly loan repayment amounts of \$5,606 for five years repayable over 300 monthly installments. The terms of the loan required a balloon payment for the remaining balance on July 4, 2028. AFAC paid the loan off in January 2021.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2021 and 2020

5. 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.

Arlington Food Assistance Center 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.

Until August 2020, 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 were considered Level 3 measurements for the year ended June 30, 2020.

Fair value measurements on a recurring basis at June 30, 2021 and 2020 consisted of the following:

| | 2021 | | | Total assets at fair value |
|-------------------------------|-------------------|------------------|-------------------|-------------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Cash | \$ 23,286 | \$ - | \$ - | \$ 23,286 |
| Equities | 177,340 | - | - | 177,340 |
| Exchange traded funds | 44,316 | - | - | 44,316 |
| Real estate investment trusts | - | 15,007 | - | 15,007 |
| Mutual funds | 102,211 | - | - | 102,211 |
| | <u>\$ 347,153</u> | <u>\$ 15,007</u> | <u>\$ -</u> | <u>\$ 362,160</u> |
| | 2020 | | | |
| | Level 1 | Level 2 | Level 3 | Total assets at fair value |
| Cash | \$ 19,021 | \$ - | \$ 4,141 | \$ 23,162 |
| Domestic equity stocks | 88,162 | - | 153,510 | 241,672 |
| International equity stocks | - | - | 41,758 | 41,758 |
| Real estate investment trusts | - | - | 53,589 | 53,589 |
| Mutual funds | | | | |
| Large cap growth | 43,349 | - | - | 43,349 |
| Large value | 12,840 | - | - | 12,840 |
| Bonds | | | | |
| Intermediate bonds | - | - | 125,073 | 125,073 |
| Interim-term | - | - | 36,026 | 36,026 |
| | <u>\$ 163,372</u> | <u>\$ -</u> | <u>\$ 414,097</u> | <u>\$ 577,469</u> |

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2021 and 2020

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>2021</u> | <u>2020</u> |
|-------------------------|-------------|-------------------|
| Beginning balance | \$ 414,097 | \$ 402,471 |
| Purchases/contributions | - | - |
| Investment return, net | 14,499 | 11,626 |
| Distributions | (428,596) | - |
| Ending balance | <u>\$ -</u> | <u>\$ 414,097</u> |

6. Inventory of food available for distribution

At June 30, 2021 and 2020, inventory consisted of \$127,278 and \$141,806, respectively. Inventory consists of both donated and purchased food. See Note 11 for the fair market value of the donated food.

7. 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 was for two years, April 1, 2017 through March 31, 2019, with a base rental expense of \$2,700 per month. The lease was extended through December 31, 2021, but the lease was terminated and 2704 South Nelson Street was purchased on September 16, 2020 by AFAC for \$800,000. There is no associated loan on the property.

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 \$43,518 and \$87,564 for the years ended June 30, 2021 and 2020, respectively, and are included in occupancy costs on the accompanying statements of functional expenses. Future minimum payments due for the year ended June 30, 2022 will be \$23,508.

AFAC sublet a portion of 2706 South Nelson Street to the Shirlington Employment & Education Center (SEEC). The sublease was for five years, February 1, 2017 through March 31, 2021, but terminated early and ended on October 13, 2019. Base rental income was \$1,400 per month. For the year ended June 30, 2020, total rental income received was \$13,256. The security deposit of \$1,400 was not returned and was recognized as rental income for the year June 30, 2021.

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Notes to Financial Statements June 30, 2021 and 2020

8. Property and equipment

A summary of information relative to property and equipment as of June 30, 2021 and 2020 was as follows:

| | <u>2021</u> | <u>2020</u> | <u>Useful life</u> |
|--------------------------|---------------------|---------------------|--------------------|
| Land | \$ 697,401 | \$ 261,901 | |
| Building | 1,056,728 | 669,660 | 39 years |
| Capital improvements | 2,259,680 | 1,680,564 | 15 years |
| Vehicles | 202,639 | 202,639 | 5 years |
| Equipment | 392,969 | 350,795 | 5 - 10 years |
| Software | 166,255 | 141,512 | 3 years |
| | <u>4,775,672</u> | <u>3,307,071</u> | |
| Accumulated depreciation | <u>(1,049,808)</u> | <u>(827,055)</u> | |
| | <u>\$ 3,725,864</u> | <u>\$ 2,480,016</u> | |

9. 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 totaled \$43,022 and \$39,453 to the plan in fiscal years 2021 and 2020 which is included in employee benefits in the statements of functional expenses.

10. 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, 2021 and 2020, the approximate wholesale value of one pound of donated food was \$1.70. AFAC collected 1,494,421 and 1,304,503 pounds of food in 2021 and 2020, respectively. AFAC also receives gift cards and other items to assist in its day-to-day operations.

During the years ended June 30, 2021 and 2020, AFAC recorded the following in-kind donations:

| | <u>2021</u> | <u>2020</u> |
|--------------------|---------------------|---------------------|
| Food, net spoilage | \$ 2,458,916 | \$ 2,121,569 |
| Gift cards | 11,025 | 1,360 |
| Other in-kind | 145,001 | 75,177 |
| | <u>\$ 2,614,942</u> | <u>\$ 2,198,106</u> |

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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 2021 and 2020, 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, 2021 and 2020, volunteer hours and value of hours were as follows:

| | 2021 | | 2020 | |
|------------------------|---------------------------|---------------------|---------------------------|---------------------|
| | Hours worked (rounded) | Value of hours | Hours worked (rounded) | Value of hours |
| Food distribution | 36,920 | \$ 1,218,360 | 41,437 | \$ 1,367,421 |
| Management and general | 349 | 11,517 | 425 | 14,025 |
| Fundraising | 52 | 1,716 | 85 | 2,805 |
| | <u>37,321</u> | <u>\$ 1,231,593</u> | <u>41,947</u> | <u>\$ 1,384,251</u> |

Donated stock

AFAC received \$104,345 and \$86,198 in donated stock during the years ended June 30, 2021 and 2020, respectively. Donated stock is included in general contributions on the statements of activities.

11. 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, 2021 and 2020:

| | 2020 | Additions | Releases | 2021 |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Contributions for specific projects | \$ 497 | \$ - | \$ 497 | \$ - |
| Grants for specific projects | 73,591 | 6,400 | 79,991 | - |
| Gift cards | 4,705 | 11,025 | 12,921 | 2,809 |
| | <u>\$ 78,793</u> | <u>\$ 17,425</u> | <u>\$ 93,409</u> | <u>\$ 2,809</u> |
| | 2019 | Additions | Releases | 2020 |
| Contributions for specific projects | \$ 497 | \$ - | \$ - | \$ 497 |
| Grants for specific projects | 26,510 | 47,505 | 424 | 73,591 |
| Gift cards | 3,437 | 10,595 | 9,327 | 4,705 |
| | <u>\$ 30,444</u> | <u>\$ 58,100</u> | <u>\$ 9,751</u> | <u>\$ 78,793</u> |

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Notes to Financial Statements June 30, 2021 and 2020

12. SBA Paycheck Protection Program

Under the “Coronavirus Aid, Relief, and Economic Security (CARES) Act” funds were appropriated for the SBA Paycheck Protection Program (PPP) loans that are forgivable in certain situations to promote continued employment. The Organization obtained a \$241,700 CARES Act Paycheck Protection Program loan in May 2020. The loan was fully forgiven in the year ended June 30, 2021 and is recognized on the statement of activities as other income.

13. Subsequent events

AFAC assessed events occurring subsequent to June 30, 2021 through December 2, 2021, 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 statements.