

ARLINGTON FOOD ASSISTANCE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018



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, 2019 and 2018, 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, 2019 and 2018, 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 19, 2019

Arlington Food Assistance Center

Statements of Financial Position June 30,

2019

2018

Assets

Current assets

Cash and cash equivalents	\$ 754,356	\$ 637,371
Accounts receivable	2,233	6,356
Gift cards	3,437	3,012
Pledges receivable	-	9,414
Prepaid expenses	10,660	38,102
Inventory of food available for distribution	45,151	81,167
Investments	470,804	409,683
	<u>1,286,641</u>	<u>1,185,105</u>

Property and equipment, net

Land	261,901	261,901
Property and equipment, net of accumulated depreciation	2,289,614	2,427,305
	<u>2,551,515</u>	<u>2,689,206</u>

Other assets

Security deposits	5,218	5,218
Total assets	<u>\$ 3,843,374</u>	<u>\$ 3,879,529</u>

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 137,528	\$ 155,819
Building loan payable, current portion	982,463	17,537
	<u>1,119,991</u>	<u>173,356</u>

Long-term liabilities

Building loan payable, long-term portion	-	749,855
Total liabilities	<u>1,119,991</u>	<u>923,211</u>

Net assets

Without donor restrictions	2,692,939	2,935,931
With donor restrictions	30,444	20,387
Total net assets	<u>2,723,383</u>	<u>2,956,318</u>
Total liabilities and net assets	<u>\$ 3,843,374</u>	<u>\$ 3,879,529</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Public support and revenue			
Contributions			
Arlington County grant	\$ 477,925	\$ -	\$ 477,925
General contributions	2,266,081	-	2,266,081
Grants	140,445	28,579	169,024
In-kind donations	2,138,465	1,360	2,139,825
Special events, net \$58,489 of expenses	243,615	-	243,615
Net assets released from restriction	19,882	(19,882)	-
	<u>5,286,413</u>	<u>10,057</u>	<u>5,296,470</u>
Rental income	19,443	-	19,443
Investment income, net of expenses	34,674	-	34,674
	<u>54,117</u>	<u>-</u>	<u>54,117</u>
Total public support and revenue	5,340,530	10,057	5,350,587
Expenses			
Food distribution	4,655,072	-	4,655,072
Management and general	364,485	-	364,485
Fundraising	563,965	-	563,965
Total expenses	<u>5,583,522</u>	<u>-</u>	<u>5,583,522</u>
Change in net assets	(242,992)	10,057	(232,935)
Net assets, beginning of year	2,935,931	20,387	2,956,318
Net assets, end of year	<u>\$ 2,692,939</u>	<u>\$ 30,444</u>	<u>\$ 2,723,383</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statement of Activities for the year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total
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 \$63,743 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			
Food distribution	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	3,218,263	44,199	3,262,462
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 Functional Expenses for the year ended June 30, 2019

	Food distribution	Management and general	Fundraising	Total
Expenses				
Advertising	\$ 99	\$ -	\$ -	\$ 99
Bank charges	1	299	22,283	22,583
Employee benefits	180,539	32,686	49,914	263,139
Depreciation	157,984	13,073	14,110	185,167
Direct fundraising expenses	-	-	58,489	58,489
Donated goods	2,171,251	2,410	-	2,173,661
Equipment rental and maintenance	30,424	-	11,153	41,577
Food purchases	883,677	21	622	884,320
Fundraising and public relations	-	-	11,975	11,975
Insurance	11,336	-	513	11,849
Mortgage interest	-	43,090	-	43,090
Occupancy costs	147,352	589	1,320	149,261
Other expenses	36,340	47,295	2,274	85,909
Payroll taxes	67,809	8,110	28,616	104,535
Personnel	824,692	108,889	361,371	1,294,952
Postage and shipping	-	50	4,570	4,620
Printing and publications	3,700	1,060	38,087	42,847
Professional fees	6,072	86,760	8,934	101,766
Program transportation	50,255	52	-	50,307
Supplies	9,007	814	1,059	10,880
Taxes	15,059	443	1,792	17,294
Telecommunications	20,373	14,677	4,181	39,231
Travel and meetings	2,600	4,167	1,191	7,958
Warehouse supplies	36,502	-	-	36,502
Total expenses by function	4,655,072	364,485	622,454	5,642,011
Less expenses included with revenues on the statement of activities				
Direct fundraising expenses	-	-	(58,489)	(58,489)
Total expenses included in the expense section of the statement of activities	\$ 4,655,072	\$ 364,485	\$ 563,965	\$ 5,583,522

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

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

	Food distribution	Management and general	Fundraising	Total
Expenses				
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
Direct fundraising expenses	-	-	58,468	58,468
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 expenses by function	4,973,700	271,724	563,870	5,809,294
Less expenses included with revenues on the statement of activities				
Direct fundraising expenses	-	-	(58,468)	(58,468)
Total expenses included in the expense section of the statement of activities	\$ 4,973,700	\$ 271,724	\$ 505,402	\$ 5,750,826

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Statements of Cash Flows for the years ended June 30,

2019

2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (232,935)	\$ (306,144)
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized and unrealized gain on investments	(21,666)	(17,586)
Donated stock received	(30,150)	(33,397)
Loss on disposal of property and equipment	-	28,709
Depreciation	185,167	115,929
(Increase) decrease in operating assets		
Accounts receivable	4,123	(5,890)
Pledges receivable	9,414	5,857
Prepaid expenses	27,442	36,988
Inventory of food available for distribution	36,016	(11,397)
Gift cards	(425)	3,928
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(18,291)	(12,613)
Net cash used in operating activities	<u>(41,305)</u>	<u>(195,616)</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	(9,305)	(7,320)
Purchase of property and equipment	(47,476)	(1,315,677)
Net cash used in investing activities	<u>(56,781)</u>	<u>(498,822)</u>
Cash flows from financing activities		
Proceeds from building loan	232,608	767,392
Payments on building loan	(17,537)	-
Net cash provided by financing activities	<u>215,071</u>	<u>767,392</u>
Net change in cash and cash equivalents	116,985	72,954
Cash and cash equivalents, beginning of year	637,371	564,417
Cash and cash equivalents, end of year	<u>\$ 754,356</u>	<u>\$ 637,371</u>
Supplemental cash flow information		
Interest paid	<u>\$ 40,028</u>	<u>\$ 12,736</u>

See accompanying notes and independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

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 1.3 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 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.

Financial statement presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are available for use in general operations. Net assets with donor restrictions generally result from assets donated with restrictions that are temporary in nature, such as those met by the passage of time or other events specified by the donor. At June 30, 2019 and 2018, AFAC had \$30,444 and \$20,387 in net assets with donor restrictions.

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.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

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. 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. On June 30, 2019 and 2018, cash balances exceeded the FDIC limits by \$390,087 and \$250,836, respectively.

Inventory

Approximately 40 percent of the food distributed by AFAC is 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.

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, 2019 and 2018, compensated absences of \$34,991 and \$41,863, respectively, are included in accounts payable and accrued expenses in the accompanying statements of financial position.

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, 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.

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 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, 2019 and 2018.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

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 the date of donation. In-kind donations are detailed in Note 11 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 telecommunications.

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, 2019 and 2018.

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 2016 through 2019.

Recently adopted accounting pronouncements

The Organization adopted the financial statement presentation and disclosure standards contained in the Financial Accounting Standards Board Accounting Standards Update 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, modifying ASC 958. The change has been applied as of June 30, 2018 with no effect on beginning net assets.

New accounting pronouncements

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.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

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 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.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

3. Liquidity and availability

The following table reflects AFAC's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date:

	<u>2019</u>
Cash and cash equivalents	\$ 754,356
Accounts receivable	2,233
Investments	<u>470,804</u>
	1,227,393
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(30,444)
Total financial assets available for general expenditure within one year	<u>\$ 1,196,949</u>

See Note 6 regarding investments and how they help AFAC manage liquidity.

4. Line of credit

During the year ended June 30, 2018, AFAC had a \$100,000 business line of credit from a local commercial bank. The line was not used and was closed prior to the end of the Fiscal Year 2018.

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.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

The interest rate is fixed at 4.375 percent with fixed monthly loan repayment amounts of \$5,606 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. The loan requires AFAC to maintain a 1.1 coverage factor on the results of the twelve-month period ending with the reporting period. As of June 30, 2018, AFAC was not in compliance with the required ratio, for the year ended June 30, 2018, a waiver of this requirement was sought and received. A waiver was again sought and received for the year ended June 30, 2019. Accordingly, the loan has been classified as current for the year ended June 30, 2019.

Future minimum principal payments for the fiscal years ending June 30 are as follows:

2020	\$	24,063
2021		25,271
2022		26,415
2023		27,611
2024		28,755
Thereafter		850,348
Total	\$	<u>982,463</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.

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.

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.

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

Fair value measurements on a recurring basis at June 30, 2019 and 2018 consisted of the following:

	2019			Total assets at fair value
	Level 1	Level 2	Level 3	
Cash	\$ 12,178	\$ -	\$ 1,929	\$ 14,107
Domestic equity stocks	38,314	-	151,360	189,674
International equity stocks	-	-	38,292	38,292
Real estate investment trusts	-	-	52,167	52,167
Mutual funds				
Large cap growth	16,791	-	-	16,791
Large value	1,050	-	-	1,050
Bonds				
Intermediate bonds	-	-	122,537	122,537
Interim-term	-	-	36,186	36,186
	<u>\$ 68,333</u>	<u>\$ -</u>	<u>\$ 402,471</u>	<u>\$ 470,804</u>
	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>

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:

	2019	2018
Beginning balance	\$ 375,311	\$ 351,420
Purchases/contributions	-	-
Investment return, net	27,160	23,891
Distributions	-	-
Ending balance	<u>\$ 402,471</u>	<u>\$ 375,311</u>

See independent auditor's report.

Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

7. Inventory of food available for distribution

At June 30, 2019 and 2018, inventory consisted of \$45,151 and \$81,167, 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 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. 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 \$82,358 and \$79,808 for the years ended June 30, 2019 and 2018, respectively, and are included in occupancy costs on the accompanying statements 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, 2019 and 2018 was \$19,443 and \$17,171, respectively. Subsequent to the year end June 30, 2019, the lease with SEEC will end on October 13, 2019.

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>
2020	\$ 32,886	\$ 50,623	\$ 5,198
2021	33,870	52,141	-
2022	17,184	26,456	-
	<u>\$ 83,940</u>	<u>\$ 129,220</u>	<u>\$ 5,198</u>

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Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

9. Property and equipment

A summary of information relative to property depreciation as of June 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</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	1,041,762	1,002,495	15 years
	<u>1,657,315</u>	<u>1,618,048</u>	
Vehicles	156,929	156,929	5 years
Equipment	356,782	366,369	5 - 10 years
Software	75,912	75,912	3 years
	<u>3,178,499</u>	<u>3,148,819</u>	
Accumulated depreciation	<u>(626,984)</u>	<u>(459,613)</u>	
	<u>\$ 2,551,515</u>	<u>\$ 2,689,206</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.

10. 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 \$33,005 and \$32,349 to the Plan in fiscal years 2019 and 2018 which is included in employee benefits in the statement of functional expenses.

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Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

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, 2019 and 2018, the approximate wholesale value of one pound of donated food was \$1.70. AFAC collected 1,304,503 and 1,442,236 pounds of food in 2019 and 2018, 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.

During the years ended June 30, 2019 and 2018, AFAC recorded the following in-kind donations:

	<u>2019</u>	<u>2018</u>
Food, net spoilage	\$ 2,136,055	\$ 2,370,201
Gift cards	1,360	629
Other in-kind	2,410	3,505
	<u>\$ 2,139,825</u>	<u>\$ 2,374,335</u>

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 2019 and 2018, AFAC volunteer hours were valued at \$33.00 and \$30.00 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, 2019 and 2018, volunteer hours and value of hours were as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Hours worked (rounded)</u>	<u>Value of hours</u>	<u>Hours worked (rounded)</u>	<u>Value of hours</u>
Program	49,448	\$ 1,631,784	49,000	\$ 1,470,000
Administrative	72	2,376	45	1,350
Fundraising	563	18,579	545	16,350
	<u>50,083</u>	<u>\$ 1,652,739</u>	<u>49,590</u>	<u>\$ 1,487,700</u>

Donated stock

AFAC received \$30,150 and \$33,397 in donated stock during the years ended June 30, 2019 and 2018, respectively. Donated stock is included in general contributions on the statements of activities.

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Arlington Food Assistance Center

Notes to Financial Statements June 30, 2019 and 2018

12. Donor-restricted net assets

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, 2019 and 2018:

	<u>2018</u>	<u>Additions</u>	<u>Releases</u>	<u>2019</u>
Contributions for specific projects	\$ 497	\$ -	\$ -	\$ 497
Grants for specific projects	16,878	28,579	18,947	26,510
Gift cards	3,012	1,360	935	3,437
	<u>\$ 20,387</u>	<u>\$ 29,939</u>	<u>\$ 19,882</u>	<u>\$ 30,444</u>
	<u>2017</u>	<u>Additions</u>	<u>Releases</u>	<u>2018</u>
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>

13. Subsequent events

AFAC assessed events occurring subsequent to June 30, 2019 through November 18, 2019, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events, other than Note 5 and 8, have occurred subsequent to the fiscal year end that would require adjustment to or disclosure in the statements.

See independent auditor's report.