

New Mexico Association of Food Banks

Financial Statements
and
Independent Auditors' Report

June 30, 2014 and 2013

New Mexico Association of Food Banks

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Independent Auditors' Report

Board of Directors
New Mexico Association of Food Banks
Albuquerque, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the New Mexico Association of Food Banks (the "Association"), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' 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 Association'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 Association'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 the Association as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Association's financial statements as of and for the year ended June 30, 2012, and we expressed an unmodified opinion on those financial statements in our report dated February 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued or report dated January 23, 2015, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control relevant to financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "McSully Zahn LLC". The signature is written in a cursive, flowing style.

January 23, 2015

Financial Statements

New Mexico Association of Food Banks
Statements of Financial Position
June 30,

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 292,168	\$ 247,444
Contracts and dues receivable	326,029	358,164
Inventory	2,009	-
Prepaid expenses	-	1,010
Total current assets	<u>620,206</u>	<u>606,618</u>
Vehicles and equipment	307,134	316,917
Less accumulated depreciation	<u>(175,853)</u>	<u>(198,450)</u>
Vehicles, net	<u>131,281</u>	<u>118,467</u>
Total assets	<u>751,487</u>	<u>725,085</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	<u>45,645</u>	-
Net assets		
Unrestricted	684,385	665,628
Temporarily restricted (Note 4)	<u>21,457</u>	<u>59,457</u>
Total net assets	<u>705,842</u>	<u>725,085</u>
Total liabilities and net assets	<u>\$ 751,487</u>	<u>\$ 725,085</u>

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

New Mexico Association of Food Banks
Statement of Activities
For the Year Ended June 30, 2014
(With summarized financial information for the year ended June 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Totals</u>	<u>2013 Totals</u>
Support and Revenue				
In-kind contributions - food	\$ 1,900,000	\$ -	\$ 1,900,000	\$ 2,404,715
Government contracts	657,720	-	657,720	657,722
In-kind contributions (Note 2)	145,000	-	145,000	167,000
Member dues	109,500	-	109,500	49,500
Contributions and grants	7,078	12,000	19,078	63,880
Gain on disposal of vehicle	16,582	-	16,582	-
Other income	1,107	-	1,107	2,500
Interest income	239	-	239	471
Net assets released from restrictions (Note 5)	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,887,226</u>	<u>(38,000)</u>	<u>2,849,226</u>	<u>3,345,788</u>
Expenses				
Program services	2,838,219	-	2,838,219	3,308,962
Supporting services				
Management and general	19,719	-	19,719	23,570
Fundraising	<u>10,531</u>	<u>-</u>	<u>10,531</u>	<u>10,637</u>
Total supporting services	<u>30,250</u>	<u>-</u>	<u>30,250</u>	<u>34,207</u>
Total expenses	<u>2,868,469</u>	<u>-</u>	<u>2,868,469</u>	<u>3,343,169</u>
Change in net assets	18,757	(38,000)	(19,243)	2,619
Net assets, beginning of year	<u>665,628</u>	<u>59,457</u>	<u>725,085</u>	<u>722,466</u>
Net assets, end of year	<u>\$ 684,385</u>	<u>\$ 21,457</u>	<u>\$ 705,842</u>	<u>\$ 725,085</u>

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

New Mexico Association of Food Banks
Statement of Activities
For the Year Ended June 30, 2013
(With summarized financial information for the year ended June 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Totals</u>	<u>2012 Totals</u>
Support and Revenue				
In-kind contributions - food	\$ 2,404,715	\$ -	\$ 2,404,715	\$ 2,138,748
Government contracts	657,722	-	657,722	1,457,423
In-kind contributions (Note 2)	167,000	-	167,000	195,000
Contributions and grants	2,880	61,000	63,880	10,416
Member dues	49,500	-	49,500	-
Interest income	471	-	471	497
Other income	2,500	-	2,500	-
Net assets released from restrictions (Note 5)	<u>11,000</u>	<u>(11,000)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,295,788</u>	<u>50,000</u>	<u>3,345,788</u>	<u>3,802,084</u>
Expenses				
Program services	3,308,962	-	3,308,962	3,650,618
Supporting services				
Management and general	23,570	-	23,570	24,492
Fundraising	<u>10,637</u>	<u>-</u>	<u>10,637</u>	<u>10,594</u>
Total supporting services	<u>34,207</u>	<u>-</u>	<u>34,207</u>	<u>35,086</u>
Total expenses	<u>3,343,169</u>	<u>-</u>	<u>3,343,169</u>	<u>3,685,704</u>
Change in net assets	<u>(47,381)</u>	<u>50,000</u>	<u>2,619</u>	<u>116,380</u>
Net assets, beginning of year	<u>713,009</u>	<u>9,457</u>	<u>722,466</u>	<u>606,086</u>
Net assets, end of year	<u>\$ 665,628</u>	<u>\$ 59,457</u>	<u>\$ 725,085</u>	<u>\$ 722,466</u>

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

New Mexico Association of Food Banks
Statement of Functional Expenses
For the Year Ended June 30, 2014
(With summarized financial information for the year ended June 30, 2013)

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2014 Totals</u>	<u>2013 Totals</u>
Food related expenses – in-kind	\$ 1,900,000	\$ -	\$ -	\$ 1,900,000	\$ 2,404,715
Cost of items distributed	323,037	-	-	323,037	278,354
Building and equipment use – in-kind (Note 2)	145,000	-	-	145,000	167,000
Produce distribution and support - food bank members	117,500	-	-	117,500	57,500
Freight - food related	108,658	-	-	108,658	160,701
Contract labor	86,047	-	-	86,047	75,354
Professional services	43,615	16,121	10,236	69,972	84,749
Fuel – vehicles	57,603	-	-	57,603	60,871
Depreciation	19,907	-	-	19,907	19,480
Repairs and maintenance	16,252	-	-	16,252	6,797
Insurance	12,555	1,060	-	13,615	13,643
Waste removal	5,000	-	-	5,000	5,000
Miscellaneous	1,234	2,243	-	3,477	4,831
Telephone	886	295	295	1,476	2,004
Hunger study	577	-	-	577	1,515
Travel	348	-	-	348	655
	<u>348</u>	<u>-</u>	<u>-</u>	<u>348</u>	<u>655</u>
Total expenses	<u>\$ 2,838,219</u>	<u>\$ 19,719</u>	<u>\$ 10,531</u>	<u>\$ 2,868,469</u>	<u>\$ 3,343,169</u>

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

New Mexico Association of Food Banks
Statement of Functional Expenses
For the Year Ended June 30, 2013
(With summarized financial information for the year ended June 30, 2012)

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2013 Totals</u>	<u>2012 Totals</u>
Food related expenses – in-kind	\$ 2,404,715	\$ -	\$ -	\$ 2,404,715	\$ 2,138,748
Cost of items distributed	278,354	-	-	278,354	283,661
Building and equipment use – in-kind (Note 2)	167,000	-	-	167,000	195,000
Freight - food related	160,701	-	-	160,701	151,595
Professional services	56,520	17,993	10,236	84,749	87,174
Contract labor	75,354	-	-	75,354	84,245
Fuel – vehicles	60,871	-	-	60,871	53,882
Produce distribution and support - food bank members	57,500	-	-	57,500	452,120
Depreciation	19,480	-	-	19,480	24,303
Insurance	12,602	1,041	-	13,643	12,685
Repairs and maintenance	6,797	-	-	6,797	18,790
Waste removal	5,000	-	-	5,000	5,000
Miscellaneous	696	4,135	-	4,831	7,845
Telephone	1,202	401	401	2,004	1,789
Hunger study	1,515	-	-	1,515	-
Travel	655	-	-	655	1,390
Food bank members' support - EPA diesel emissions reduction funds	-	-	-	-	167,477
Total expenses	<u>\$ 3,308,962</u>	<u>\$ 23,570</u>	<u>\$ 10,637</u>	<u>\$ 3,343,169</u>	<u>\$ 3,685,704</u>

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

New Mexico Association of Food Banks
Statements of Cash Flows
For the Years Ended June 30,

	2014	2013
Cash flows from operating activities		
Cash received from government contracts	\$ 697,002	\$ 552,663
Cash dues received	102,353	25,987
Cash received from contributions	19,078	63,880
Other cash receipts	1,107	2,500
Interest and dividends received	239	471
Cash paid to suppliers	(758,916)	(761,972)
Net cash provided by (used in) operating activities	60,863	(116,471)
Cash flows from investing activities		
Proceeds from disposal of vehicle	35,857	-
Purchases of vehicle and equipment	(51,996)	-
Net cash used in investing activities	(16,139)	-
Net increase (decrease) in cash and cash equivalents	44,724	(116,471)
Cash and cash equivalents, beginning of year	247,444	363,915
Cash and cash equivalents, end of year	292,168	247,444
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	(19,243)	2,619
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	19,907	19,480
Gain on disposal of vehicle	(16,582)	-
Changes in assets and liabilities		
Contracts and dues receivable	32,135	(128,572)
Prepaid expenses	1,010	(1,010)
Inventory	(2,009)	-
Accounts payable	45,645	(8,988)
Total adjustments	80,106	(119,090)
Net cash provided by (used in) operating activities	\$ 60,863	\$ (116,471)

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

New Mexico Association of Food Banks
Notes to Financial Statements
June 30, 2014 and 2013

1) The Organization

The New Mexico Association of Food Banks (the “Association”) was founded in 2000. The Association is a five-member organization whose members collaborate to coordinate statewide food bank activities such as food solicitation and distribution, fundraising, education, advocacy, and research. The Association is a forum for member food banks to share their experiences and work towards the common goal of ending hunger in New Mexico. During the year ended June 30, 2013, the member food banks began paying dues to the Association for serving as the purchasing and distribution agent for fresh produce and for serving as the distribution agent for The Emergency Food Assistance Program (TEFAP) commodities received from the U.S. Department of Agriculture. The Association’s main sources of support are governmental contracts, member dues, and contributions. The programs and projects of the Association consist of the following:

Fresh Produce Initiative – program focusing on the distribution of fresh produce and vegetables. During the years ended June 30, 2014 and 2013, the Association distributed approximately 3.8 million and 4.3 million pounds, respectively, of fresh produce and vegetables.

TEFAP – Association member food banks partner with the New Mexico Food and Nutrition Services Bureau to administer the TEFAP program. As part of its Member Support Services, the Association provides transportation support to member food banks (delivering TEFAP product from Albuquerque to member food banks). During the years ended June 30, 2014 and 2013, member food banks distributed approximately 5.7 million and 6.7 million pounds, respectively, of TEFAP commodities.

2) Summary of Significant Accounting Policies

Income Taxes

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified by the Internal Revenue Service as an organization that is not a private foundation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Mexico Association of Food Banks
Notes to Financial Statements
June 30, 2014 and 2013

2) Summary of Significant Accounting Policies — continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

Donated Services and Materials

The Association recognizes contributed services if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Recognized contributed services and materials are recorded at the fair value on the date of donation. The Association received and recognized donated services and materials meeting the recognition requirements of U.S. generally accepted accounting principles and received but did not recognize donated services and materials that did not meet the recognition requirements of U.S. generally accepted accounting principles as follows during the years ended June 30:

	<u>2014</u>	<u>2013</u>
Received and recognized		
In-kind food contributions	\$ 1,900,000	\$ 2,404,715
Warehouse, equipment, and office use	145,000	167,000
Received but not recognized		
Warehouse, administrative, and professional personnel	88,000	117,000

Support

The Association reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

New Mexico Association of Food Banks
Notes to Financial Statements
June 30, 2014 and 2013

2) Summary of Significant Accounting Policies — continued

Food

The food distributed by the Association consists of contributed and purchased food, some of which is purchased for amounts which are below the estimated fair value. Food is valued at lower of cost or market, using the first-in first-out method. Cost for donated food is determined using the estimated fair value on the date of donation. The fair value of donated food is determined using a value per pound provided by Feeding America, a national hunger-relief organization, who engaged a national accounting firm to perform an agreed-upon procedures engagement to determine donated food fair values. The value per pound used in valuing the fair value of food received by the Association was \$.57 and \$.62 per pound for the years ended June 30, 2014 and 2013, respectively. This value represents the estimated fair value of the type of food received by the Association, which is produce. No food was on-hand as of June 30, 2013.

Vehicles

Vehicles are stated at cost. Vehicles that are received by donation are recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies restricted net assets to unrestricted net assets at that time. Purchased or donated property and equipment in excess of \$1,000 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which is ten years.

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

New Mexico Association of Food Banks
Notes to Financial Statements
June 30, 2014 and 2013

2) Summary of Significant Accounting Policies — continued

Receivables

Receivables are stated at the unpaid balances less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying past-due accounts and by using historical experience applied to an aging of accounts receivable. No allowance for doubtful accounts was determined necessary by management as of June 30, 2014 and 2013. The Association charges off uncollectible receivables when it is determined the receivable will not be collected.

3) **Concentration**

The Association maintains its cash and cash equivalent balances in various financial institutions. These cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. These balances exceeded the insured limits of the FDIC during the years ended June 30, 2014 and 2013. The Association did not experience any losses in these accounts and believes it is not exposed to any significant credit risk related to the uninsured cash balances.

4) **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of grants and contributions restricted for the following purposes as of June 30:

	<u>2014</u>	<u>2013</u>
Advocacy	\$ 12,000	\$ -
Social enterprise food bank training	9,457	9,457
Fresh produce initiative	-	50,000
Total temporarily restricted net assets	<u>\$ 21,457</u>	<u>\$ 59,457</u>

New Mexico Association of Food Banks
Notes to Financial Statements
June 30, 2014 and 2013

5) Net Assets Released from Restrictions

Net assets released from restrictions consist of grants and contributions used for the following restricted purposes during the years ended June 30:

	<u>2014</u>	<u>2013</u>
Fresh produce initiative	\$ 50,000	\$ -
Advocacy and hunger relief	<u>-</u>	<u>11,000</u>
Total net assets released from restrictions	<u>\$ 50,000</u>	<u>\$ 11,000</u>

6) Subsequent Events

Subsequent events have been evaluated through January 23, 2015, which is the date the financial statements were available to be issued.

New Mexico Association of Food Banks
Notes to Financial Statements
June 30, 2014 and 2013

7) Accounting for Uncertainty in Income Taxes

The Financial Accounting and Standards Board (FASB) issued FASB ASC 740-10 (formerly FASB FIN 48), *Accounting for Uncertainty in Income Taxes*, which provides guidance on how to measure and account for various tax positions. The Association has determined no material unrecognized tax benefits or liabilities exist as of June 30, 2014 and 2013. If applicable, the Association will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of June 30, 2014 and 2013, the Association had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Association does not anticipate any significant changes to unrecognized tax benefits over the next year.

Management of the Association believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and believes there are no activities subject to unrelated business income tax. The Association files federal Form 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service and copies of Form 990 with states in which the Association is registered, as required. The statute of limitations for examination of the Association's returns expires three years from the due date of the return or the date filed, whichever is later. The Association's returns for the years ended June 30, 2011 through 2013, are still open for examination and management anticipates the statute of limitations for the return for the year ended June 30, 2014, will expire in February 2018.

Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters

Board of Directors
New Mexico Association of Food Banks
Albuquerque, New Mexico

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Mexico Association of Food Banks (the "Association"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "McSully Zahn LLC". The signature is written in a cursive, flowing style.

January 23, 2015