

**UNITED FOOD BANK
(AN ARIZONA NONPROFIT CORPORATION)**

**FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT)**

AS OF JUNE 30, 2011

AND

FOR THE YEAR THEN ENDED

**UNITED FOOD BANK
FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND SPECIAL AUDIT REPORTS
JUNE 30, 2011**

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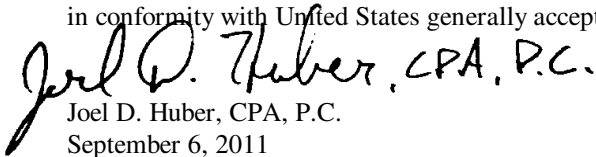
INDEPENDENT AUDITOR'S REPORT

The Board of Directors
United Food Bank
Mesa, Arizona

I have audited the accompanying statement of financial position of United Food Bank (an Arizona nonprofit corporation) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with United States 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Food Bank as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.


Joel D. Huber, CPA, P.C.
September 6, 2011

**UNITED FOOD BANK
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011**

Assets:	
Current assets	
Cash and cash equivalents	\$ 743,541
Contributions and grants receivable	469,874
Inventories	1,598,102
Investments	298,623
	<hr/>
Total current assets	3,110,140
Prepays and deposits	9,219
Investments restricted for long-term purposes	363,837
Property and equipment net of accumulated depreciation	4,556,971
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Total assets	\$ 8,040,167
	<hr/> <hr/>
Liabilities and net assets:	
Current liabilities	
Accounts payable	\$ 150,150
Accrued expenses	124,621
Current portion of long term debt	55,600
	<hr/>
Total current liabilities	330,371
	<hr/>
Accrued IDA Bond interest	10,054
IDA interest rate swap contract	123,415
Long term debt, IDA Bonds (less current portion)	2,491,006
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Total liabilities	2,954,846
	<hr/>
Net Assets	
Unrestricted	
Undesignated	4,532,384
Designated for endowment	163,000
	<hr/>
Total unrestricted net assets	4,695,384
Temporarily restricted	189,100
Permanently restricted	200,837
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Total net assets	5,085,321
	<hr/>
Total liabilities and net assets	\$ 8,040,167
	<hr/> <hr/>

See accompanying notes to the financial statements

**UNITED FOOD BANK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Donated food, supplies and other items	\$ 28,080,519	\$ -	\$ -	\$ 28,080,519
Contributions	1,346,875	189,100	-	1,535,975
Contracts and grants	1,709,205	-	-	1,709,205
First Things First program	204,985	-	-	204,985
Help yourself program	241,933	-	-	241,933
Shared maintenance	154,811	-	-	154,811
Investment income	21,142	-	-	21,142
Interest	3,987	-	-	3,987
Other revenues	7,761	-	-	7,761
Total revenues and support before special events and net assets released from restrictions	<u>31,771,218</u>	<u>189,100</u>	<u>-</u>	<u>31,960,318</u>
Special events:				
Revenues from special events	192,224	-	-	192,224
Less cost of direct donor benefits	<u>(41,346)</u>	<u>-</u>	<u>-</u>	<u>(41,346)</u>
Gross profit on special events	<u>150,878</u>	<u>-</u>	<u>-</u>	<u>150,878</u>
Net assets released from restrictions	<u>186,400</u>	<u>(186,400)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	32,108,496	2,700	-	32,111,196
Expenses and losses:				
Program services	31,443,267	-	-	31,443,267
Supporting services:				
Management and general	188,509	-	-	188,509
Fund raising	<u>371,561</u>	<u>-</u>	<u>-</u>	<u>371,561</u>
TOTAL EXPENSES	<u>32,003,337</u>	<u>-</u>	<u>-</u>	<u>32,003,337</u>
Change in net assets	105,159	2,700	-	107,859
Loss on disposal of equipment	(16,046)	-	-	(16,046)
Gain on interest rate swap	1,551	-	-	1,551
Unrealized gains on investments	<u>72,542</u>	<u>-</u>	<u>-</u>	<u>72,542</u>
Increase in net assets	<u>163,206</u>	<u>2,700</u>	<u>-</u>	<u>165,906</u>
Net assets at beginning of year before prior period adjustment	4,657,144	186,400	200,837	5,044,381
Prior period adjustment	<u>(124,966)</u>	<u>-</u>	<u>-</u>	<u>(124,966)</u>
Net assets at beginning of year after prior period adjustment	<u>4,532,178</u>	<u>186,400</u>	<u>200,837</u>	<u>4,919,415</u>
Net assets at end of year	<u><u>\$ 4,695,384</u></u>	<u><u>\$ 189,100</u></u>	<u><u>\$ 200,837</u></u>	<u><u>\$ 5,085,321</u></u>

See accompanying notes to the financial statements

UNITED FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Supporting Services			Total
	Program Services	Management and General	Fund Raising	
Value of donated food and supplies distributed	\$ 27,927,619	\$ -	\$ -	\$ 27,927,619
Salaries and wages	992,593	76,059	65,458	1,134,110
Cost of purchased food and supplies	1,067,676	-	-	1,067,676
Payroll taxes and benefits	276,616	21,012	16,637	314,265
Depreciation and amortization	250,214	30,514	24,411	305,139
Vehicle expense	270,529	-	-	270,529
Professional fees and outside services	158,392	17,657	53,811	229,860
Direct mail expenses	-	-	183,094	183,094
Interest - IDA Bonds	104,766	12,776	10,221	127,763
Utilities	87,221	3,673	918	91,812
Warehouse supplies	71,539	-	-	71,539
Telecommunications	29,434	5,519	1,840	36,793
Repairs and maintenance - occupancy	34,752	1,507	394	36,653
Equipment leases	24,197	1,861	533	26,591
Repairs and maintenance - warehouse equipment	25,919	-	-	25,919
Agency expense	22,541	-	-	22,541
Postage, shipping and courier	12,477	2,400	1,120	15,997
Membership dues	15,089	535	136	15,760
Insurance	10,423	1,228	221	11,872
Conferences, meetings, and education	6,286	4,459	976	11,721
Office expense	8,036	1,690	1,690	11,416
Dues, subscriptions, and fees	2,546	1,018	6,618	10,182
Pest control	8,895	375	93	9,363
Printing and publications	6,723	1,165	1,075	8,963
Grants out	7,000	-	-	7,000
Recognition	511	3,321	1,278	5,110
Travel	4,791	98	-	4,889
Uniforms	4,693	-	-	4,693
Computer expenses	2,792	798	399	3,989
Alarm service	2,420	102	25	2,547
Staff development	1,675	210	209	2,094
Fire equipment	829	36	8	873
Other	4,073	496	396	4,965
TOTAL EXPENSES	\$ 31,443,267	\$ 188,509	\$ 371,561	\$ 32,003,337

See accompanying notes to the financial statements

**UNITED FOOD BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

Cash flows from operating activities:	
Change in net assets	\$ 165,906
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	305,139
Interest rate swap gain	(1,551)
Portfolio gain unrealized	(72,542)
Loss on disposal	16,046
Prior period adjustment	124,966
Decrease (increase) in:	
Contributions and grants receivable	(189,523)
Inventories	(24,111)
Prepays and deposits	(444)
Investments	(91,957)
Increase (decrease) in:	
Accounts payable	114,154
Accrued expenses	22,647
Accrued interest	10,054
	<hr/>
Net cash provided by operating activities	378,784
	<hr/>
Cash flows from investing activities:	
Purchases of property and equipment	(517,975)
	<hr/>
Net cash used by investing activities	(517,975)
	<hr/>
Cash flows from financing activities:	
Principle payments on long-term debt	(53,394)
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Net cash used by financing activities	(53,394)
	<hr/>
Net decrease in cash and cash equivalents	(192,585)
Cash and cash equivalents at beginning of year	936,126
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Cash and cash equivalents at end of year	\$ 743,541
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Supplemental disclosures of cash flow information:	
Interest paid	\$ 117,709
Income tax paid	\$ 0

See accompanying notes to the financial statements

UNITED FOOD BANK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - ORGANIZATION

The United Food Bank, located in Mesa, Arizona, is a non-profit organization incorporated in February 1985 to serve as a distribution center in the Phoenix, Arizona metropolitan area for donated food and supplies and food and supplies purchased with donated funds and grants. Food and supplies are distributed to various nonprofit organizations throughout eastern Maricopa County, Pinal County, Gila County, and portions of Navajo and Apache Counties, which in turn distribute the food supplies to the needy. A nominal transportation/storage fee is charged to local agencies by the Organization.

The organization has received a letter of determination from the Internal Revenue Service exempting it from federal income taxation under IRC section 501(c)(3), and classifying it as other than a private foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION – The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Codification Standards, Financial Statements of Not-for-Profit Organizations. The Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

RECOGNITION OF DONOR RESTRICTED SUPPORT – Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

PROPERTY AND EQUIPMENT – Property and equipment are recorded at cost. Depreciation is recorded and computed using the straight-line method over the estimated useful life of each asset. The Organization capitalizes assets with a basis of \$1,000 or more and an estimated useful life of one year or more.

DONATIONS – Donated materials, fixed assets, and investments are recorded at fair-market value when received.

Donated services, when applicable, are recorded at fair market value as contributions and expense when the following criteria are met:

- (1) The services received create or enhance nonfinancial assets or require specialized skills. Those services requiring specialized skills are performed by professionals possessing the necessary skills and would typically need to be purchased if not provided by donation.
- (2) There is a clearly measurable basis for the amount recorded. Management tracks the number of volunteer hours contributed and multiplies the number of hours by an hourly rate customary to the service performed.

During the year ended June 30, 2011, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization throughout the year.

The Organization recognized \$28,043,657 of contributed in-kind food and supplies donations during the year. The Organization also rents facilities from Maricopa County on a year-to-year basis for a nominal fee of \$1. The estimated fair value of this rental could not be reasonably obtained and is

UNITED FOOD BANK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

therefore not recorded in the accompanying financial statements.

MANAGEMENT'S USE OF ESTIMATES – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

CASH EQUIVALENTS – For the purposes of the statement of cash flows, United Food Bank considers cash in operating bank accounts, money market accounts, cash on hand and certificates of deposit with original maturities of 90 days or less to be cash or cash equivalents.

INVENTORIES – Donated inventories are stated at the estimated value per pound as determined by Feeding America, a national association of food banks, which provides assistance and valuation of food commodities. Purchased inventories are stated at the lower of first-in, first-out (FIFO) basis cost or market value.

PROMISES TO GIVE – Unconditional promises to give (pledges) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected in one year are recorded at net realizable value.

CONTRIBUTIONS AND GRANTS RECEIVABLE – Contributions and grants receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on the assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to contributions and grants receivable. Management considers the contributions and grants receivable to be fully collectible, and therefore, an allowance for doubtful accounts is not deemed necessary.

FAIR VALUE OF FINANCIAL INSTRUMENTS – Unless otherwise indicated, as outlined in Note 8 - Fair Value Measurement of Interest Rate Swap Contract, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

FUNCTIONAL EXPENSES – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited based on square footage and payroll. Management and general include those expenses that are not directly identifiable with any specific program but provide for the overall support and direction to the Organization.

ADVERTISING – The Organization uses advertising to promote its programs to the various groups it serves. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was \$183,094 for the year.

UNITED FOOD BANK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - CONTRIBUTIONS AND GRANTS RECEIVABLE

Included in contributions and grants receivable are \$189,100 of unconditional promises to give due in less than one year.

NOTE 4 - INVENTORIES

Inventories consists of food items and supplies categorized as follows:

Donated	\$ 936,061
Purchased	389,660
TEFAP	<u>272,381</u>
Total inventories	<u>\$ 1,598,102</u>

NOTE 5 - INVESTMENTS

Investments are recorded at fair value in the accompanying statement of financial position in accordance with Financial Accounting Standards Board (FASB) Codification Standards, Accounting for Certain Investments held by Not-For-Profit Organizations. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The Organization reports investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments with readily determined fair values are based on quoted market prices. Accordingly, the Organization considers all investments noted below to be Level 1.

Investments consist of:

Mutual funds	\$ 317,715
Bonds	195,306
Equity securities	122,165
Core account cash	<u>27,274</u>
Total investments	<u>\$ 662,460</u>

NOTE 6 - PROPERTY AND EQUIPMENT

The following classes of property and equipment are reflected in the accompanying financial statements at June 30, 2011:

Machinery, equipment, and furniture	\$ 386,665
Vehicles	793,099
Building and improvements	<u>3,998,811</u>
	5,178,575
Less accumulated depreciation	<u>(621,604)</u>
Total property and equipment	<u>\$ 4,556,971</u>

UNITED FOOD BANK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 - LONG TERM DEBT

The Organization is obligated under the terms of an Industrial Development Authority Bond issue payable for the property and building. The balance of the note at June 30, 2011 was \$2,546,606, of which \$55,600 is considered a current liability. Future minimum payments include interest and principal in approximate amount of \$14,537 per month, or \$174,444 per year. The maturity date of the debt payable is June 30, 2035. The exact terms of the Bond payback are variable depending on certain financial indicators at the Organization and in the economy.

In November 2009, the Organization entered into an interest rate swap contract (the Swap) that effectively converts the interest rate on a notional amount of the debt to 4.99%. The notional value of the debt under the Swap was \$2,154,985 at June 30, 2011. The Swap is designed to hedge the risk of changes in interest payments on the notes caused by changes in the LIBOR rates.

Additionally a prior period adjustment relating to this transaction was necessary in the current financial statements. The interest rate swap effective date was June 1, 2010, 30 days prior to the end of the prior fiscal year. At the time the prior financial statements were issued, the effects of this contract on the financial statement amounts was not contemplated or calculated. The prior period adjustment is as follows:

Posting date		Debit	Credit
06/30/11	Unrestricted net assets	\$ 124,966	
	Interest rate swap contract		\$ 124,966

NOTE 8 - FAIR VALUE MEASUREMENT OF INTEREST RATE SWAP CONTRACT

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous markets for the asset or liability in an orderly transaction between market participants on the measurement date. Generally accepted accounting principles require that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value hierarchy prioritized the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

In November 2009, the Organization entered into an Interest Rate Swap Agreement (the Swap) with a notional amount of \$2,200,000 with a fixed rate of 4.99%. The Swap expires on June 1, 2017.

The following table provides information on derivative instruments measured at fair value on a recurring basis as of June 30, 2011:

	<u>Carrying amount</u>	<u>Fair Value</u>	<u>Fair value measurement using</u>		
	<u>6/30/2011</u>	<u>6/30/2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap derivative	\$ (123,415)	\$ (123,415)	\$ -	\$ (123,415)	\$ -

**UNITED FOOD BANK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 - FAIR VALUE MEASUREMENT OF INTEREST RATE SWAP CONTRACT (continued)

The fair value for this derivative instrument was determined using quoted interest rate futures for similar contracts and is designated as Level 2 within the valuation hierarchy.

The carrying amounts of the swaps have been adjusted to fair value at the end of the year, which, because of changes in forecasted levels of LIBOR rates, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The liability June 30, 2011 is classified as long-term since management does not intend to settle it during the next twelve months. The fair value of the Organization's derivative on the Statement of Financial Position is summarized as follows:

Asset (Liability) Derivatives		
June 30, 2011		
Statement of Financial		
Position	Location	Fair Value
Interest rate swap contract	Long-term liabilities	\$ (123,415)

Since the critical terms of the swap and the note are the same, the swap is assumed to be completely effective as a hedge. Accordingly, unrealized gains and losses are recognized as follows:

For the year ended		
June 30, 2011		
Statement of Activities	Gain (Loss)	
Location		
Interest rate swap contract	Other gain	\$ 1,551

UNITED FOOD BANK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are based on time restrictions and at June 30, 2011 comprised the following:

Valley of the Sun United Way	\$ 119,000
Mesa United Way	<u>70,100</u>
Total	<u>\$ 189,100</u>

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of funds in which the donors stipulated that the principal was to be maintained in perpetuity in the Organization's endowment fund. The earnings on these funds are unrestricted and are allocated for specific purposes by the Organization's Board of Directors. The Organization's Board of Directors has designated the earnings on permanently restricted net assets for the endowment.

NOTE 11 - RETIREMENT PLAN

The Organization sponsors a 401(K) plan that covers all employees who meet specified age and service requirements. Each participant may contribute up to 15% of their eligible compensation on a pretax basis to the plan up to the maximum allowed by the Internal Revenue Code. The plan also provides for discretionary contributions by the Organization. The Organization did not contribute to the plan during the year ended June 30, 2011.