

**UNITED FOOD BANK**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2016**

**UNITED FOOD BANK  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
United Food Bank  
Mesa, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of United Food Bank which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. 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 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 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 United Food Bank as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Correction of Errors*

As described in Note 12 to the financial statements, the Organization identified certain errors, which resulted in a restatement of beginning net assets. Accordingly, adjustments have been made to properly reflect beginning net assets. Our opinion is not modified with respect to those matters.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated, December 12, 2016, on our consideration of United Food Bank'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 over financial reporting and compliance and the result 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 United Food Bank's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
December 12, 2016

**UNITED FOOD BANK  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 625,737
Contracts Receivable	249,449
Prepays and Deposits	26,545
Inventories	1,640,841
Total Current Assets	<u>2,542,572</u>

**INVESTMENTS RESTRICTED FOR LONG-TERM PURPOSES**

1,685,122

**PROPERTY AND EQUIPMENT**

Less: Accumulated Depreciation	5,500,345
Net Property and Equipment	<u>(1,892,619)</u>
	<u>3,607,726</u>

Total Assets

\$ 7,835,420

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable	\$ 71,005
Accrued Expenses	77,331
Accrued Interest Payable	8,506
Current Portion of Bonds Payable	72,089
Total Current Liabilities	<u>228,931</u>

**LONG-TERM LIABILITIES**

IDA Interest Rate Swap Liability	260,035
Bonds Payable, Net Current Portion	2,174,629
Total Current Liabilities	<u>2,434,664</u>

Total Liabilities

2,663,595

**NET ASSETS**

Unrestricted:	
Undesignated	3,301,441
Designated for Special Projects	94,335
Designated for Endowment	1,235,050
Total Unrestricted Net Assets	<u>4,630,826</u>
Temporarily Restricted	340,162
Permanently Restricted	200,837
Total Net Assets	<u>5,171,825</u>

Total Liabilities and Net Assets

\$ 7,835,420

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT</b>				
Donated Food, Supplies, and Other Items	\$ 37,291,788	\$ -	\$ -	\$ 37,291,788
Contributions	2,471,940	24,080	-	2,496,020
Contracts and Grants	1,315,851	81,028	-	1,396,879
Help Yourself Program	193,436	-	-	193,436
Shared Maintenance	167,528	-	-	167,528
Other Program	47,262	-	-	47,262
Investment Income	58,078	16,876	-	74,954
Interest	2,386	-	-	2,386
Other Revenues	57,330	-	-	57,330
Total Revenues and Support Before Special Events and Net Assets Released from Restrictions	41,605,599	121,984	-	41,727,583
Special Events:				
Revenues from Special Events	151,467	-	-	151,467
Less: Cost of Direct Donor Benefits	(133,982)	-	-	(133,982)
Gross Profit on Special Events	17,485	-	-	17,485
Net Assets Released from Restrictions	179,796	(179,796)	-	-
Total Revenues and Support	41,802,880	(57,812)	-	41,745,068
<b>EXPENSES</b>				
Program Services	40,312,634	-	-	40,312,634
Supporting Services:				
Management and General	598,123	-	-	598,123
Fund Raising	608,758	-	-	608,758
Total Expense	41,519,515	-	-	41,519,515
<b>CHANGES IN NET ASSETS BEFORE GAINS AND LOSSES</b>	283,365	(57,812)	-	225,553
<b>UNREALIZED LOSS ON INVESTMENTS</b>	(77,229)	(17,907)	-	(95,136)
<b>LOSS ON INTEREST RATE SWAP</b>	(50,585)	-	-	(50,585)
<b>CHANGE IN NET ASSETS</b>	155,551	(75,719)	-	79,832
Net Assets - Beginning of Year (As Previously Reported)	4,776,497	24,220	200,837	5,001,554
Restatement of Net Assets	(301,222)	391,661	-	90,439
Net Assets - Beginning of Year (As Restated)	4,475,275	415,881	200,837	5,091,993
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 4,630,826</u>	<u>\$ 340,162</u>	<u>\$ 200,837</u>	<u>\$ 5,171,825</u>

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016**

	Program Services	Management and General	Fund Raising	Total
Value of Donated Food and Supplies				
Distributed	\$ 36,461,613	\$ -	\$ -	\$ 36,461,613
Salaries and Wages	1,005,739	352,001	206,344	1,564,084
Cost of Purchased Food and Supplies	968,770	-	-	968,770
Unusable Salvage	587,764	-	-	587,764
Payroll Taxes and Benefits	293,719	71,898	65,424	431,041
Direct Mail	-	-	226,091	226,091
Depreciation and Amortization	201,998	10,072	8,827	220,897
Professional Fees and Outside Services	50,482	65,312	34,914	150,708
Vehicle Expense	295,847	-	-	295,847
Utilities	103,833	6,263	1,340	111,436
Interest on Long-Term Debt	86,779	6,251	1,809	94,839
Repairs and Maintenance-Occupancy	27,869	13,505	6,803	48,177
Warehouse Supplies	74,335	5,320	11,845	91,500
Repairs and Maintenance-Warehouse Equipment	33,765	-	-	33,765
Telecommunications	21,874	3,174	1,272	26,320
Dues, Subscriptions, and Fees	297	5,541	17,002	22,840
Membership Dues	1,441	26,915	1,878	30,234
Insurance	17,890	4,764	310	22,964
Postage, Shipping, and Courier	6	327	11,487	11,820
Printing and Publications	3,889	234	4,183	8,306
Occupancy-Donated East Javelina Rental Expense	15,600	-	-	15,600
Retirement Contribution	6,244	2,794	962	10,000
Office	2,624	9,177	1,535	13,336
Conferences, Meetings, and Education	1,548	2,456	2,479	6,483
Computer Expenses	10,822	857	-	11,679
Staff Development	9,770	4,516	2,402	16,688
Minor Equipment Expense	2,100	950	-	3,050
Travel	10,939	2,530	1,307	14,776
Recognition	1,484	2,720	544	4,748
Warehouse Equipment Leases	9,303	-	-	9,303
Uniforms	4,290	-	-	4,290
Other	-	546	-	546
	<u>\$ 40,312,634</u>	<u>\$ 598,123</u>	<u>\$ 608,758</u>	<u>\$ 41,519,515</u>
Total Functional Expenses	<u>\$ 40,312,634</u>	<u>\$ 598,123</u>	<u>\$ 608,758</u>	<u>\$ 41,519,515</u>

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 79,832
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation	220,897
Loss on Sale of Property and Equipment	5,107
Unrealized Losses on Investments	95,135
Realized Gains on Investments	(48,257)
Loss on Interest Rate Swap	50,585
(Increase) Decrease in Assets:	
Contributions and Grants Receivable	(119,072)
Inventories	(205,690)
Prepays and Deposits	18,406
Increase (Decrease) in Liabilities:	
Accounts Payable	49,025
Accrued Expenses	(1,267)
Net Cash Provided by Operating Activities	144,701

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of Investments	(26,744)
Withdrawals from Investments	150,000
Purchases of Property and Equipment	(177,216)
Net Cash Used by Investing Activities	(53,960)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal Payments on Bonds Payable	(76,651)
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**NET INCREASE IN CASH AND CASH EQUIVALENTS**

14,090

Cash and Cash Equivalents - Beginning of Year

611,647

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 625,737

*See accompanying Notes to Financial Statements.*



**UNITED FOOD BANK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1 ORGANIZATION**

The United Food Bank (the Organization), located in Mesa, Arizona, is a nonprofit 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.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents. At times, amounts may exceed FDIC insured limits.

**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.

**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.

**UNITED FOOD BANK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

The Organization carries its investments at fair value, based on the quoted market prices.

**Property and Equipment**

Property and equipment is stated at cost or estimated fair value if contributed. 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 \$2,500 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:

- 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.
- 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, 2016, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded, although many individuals volunteer their time and perform a variety of tasks that assist the Organization throughout the year.

The Organization recognized \$37,291,788 of contributed in-kind food and supplies donations. The Organization also rents, on a sub-lease basis, facilities from Community Bridges, Inc. on a year-to-year basis for a nominal fee of \$10 per year. The estimated fair value of this rental is \$15,600 per year and is recorded as a donation and an occupancy expense in the accompanying financial statements.

**Functional Expenses**

Expenses are charged to program services and supporting services classifications on the basis of estimates made by the Organization's management based on direct expenditures incurred. Expenditures not directly chargeable are allocated based on the best estimates of management.

**Advertising Costs**

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 \$ 226,091 for the year ended June 30, 2016.

**UNITED FOOD BANK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

The Organization is exempt from income tax under Section 501(c)(3) of the IRC and, therefore, no provision for federal income taxes has been recorded. In addition, the Organization qualifies for charitable deductions under Section 170 of the Code and has been classified as an organization that is not a private foundation.

The Organization follows a policy that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The policy has had no impact on the Organization's financial statements.

**Management's 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 the 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.

**Financial Instruments**

The Organization's financial instruments are cash and cash equivalents, contracts receivable, investments, accounts payable, IDA interest rate swap liability and bonds payable. The recorded values of cash and cash equivalents, contracts receivable, and accounts payable approximate fair value based on their short-term nature. The fair values of investments and IDA interest rate swap are based on quoted market prices. The fair value of bonds payable approximates carrying value due to its variable interest rate.

**Fair Value Measurements**

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

**UNITED FOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

*Level II* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level III* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. The Organization applies the above policies for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

*Interest Rate Swap Agreements* - Valued at market quotes developed by an independent third party using market observable inputs, which primarily include the London Interbank Offered Rate (LIBOR) for swaps. The agreements are executed in the dealer market and priced based on market quotes from the independent third party that transacted the swap agreements. The agreements are classified within Level 2 of the valuation hierarchy.

**Subsequent Events**

Management has evaluated subsequent events thru December 12, 2016, the date the financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**NOTE 3 INVENTORIES**

Inventories consist of food items and supplies categorized as follows as of June 30, 2016:

Donated	\$	832,486
Purchased		145,534
TEFAP		662,821
Total Inventories	\$	<u>1,640,841</u>

**UNITED FOOD BANK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 4 INVESTMENTS**

Investments consist of:

Mutual Funds	\$	588,620
Bonds		470,246
Equity Securities		399,198
Cash		227,058
Total Investments		<u>\$ 1,685,122</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2016:

		<u>Useful Lives</u>
Land	\$ 850,000	N/A
Buildings and Improvements	3,284,970	Lease Term - 30 Years
Vehicles	962,866	5 Years
Machinery, Equipment, and Furniture	382,429	5 Years
Website	20,080	5 Years
Total Property and Equipment	<u>5,500,345</u>	
Less: Accumulated Depreciation	<u>1,892,619</u>	
Net Property and Equipment	<u>\$ 3,607,726</u>	

**NOTE 6 BONDS PAYABLE**

The Organization is obligated under the terms of an Industrial Development Authority Bond issued for the property and building. The bonds require monthly payments of \$15,156, including interest fixed through a swap agreement at 4.89% with all unpaid principal and interest due on August 1, 2023. The annual maturities of the long-term debt at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 72,089
2018	75,747
2019	79,035
2020	83,898
2021	87,847
Thereafter	<u>1,848,102</u>
Total	2,246,718
Less: Current Maturities	<u>(72,089)</u>
Bonds Payable, Net of Current Maturities	<u>\$ 2,174,629</u>

**UNITED FOOD BANK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 BONDS PAYABLE (CONTINUED)**

The bonds are subject to various financial and nonfinancial covenants.

**Interest Rate Swap Agreement**

The Organization entered into an interest rate swap agreement in July 2013 to protect against interest rate fluctuations on its variable rate debt with Compass Bank. The Organization pays interest at 65% of the one month LIBOR plus 2.00% with a floor of 2.5%. The notional amount of the contract at June 30, 2016 is \$1,893,201. The notional amount under the agreement decreases as principal payments are made on the debt. As of June 30, 2016, the fair value of the interest rate swap obligation was \$260,035.

**NOTE 7 NET ASSETS**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30, 2016:

Orange Ball Special Event	\$ 10,000
Endowment Earnings	249,134
Backpack Program	42,500
Kids Café	31,250
Experience Matters	3,625
MealConnect	3,000
Garden Project	653
Total	<u>\$ 340,162</u>

Temporarily restricted net assets of \$179,796 were released when the activity or time restrictions were met as of June 30, 2016.

**Permanently Restricted Net Assets**

Permanently restricted net assets consist of the following at June 30, 2016:

General Operations	<u>\$ 200,837</u>
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**UNITED FOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 ENDOWMENTS**

The Organization has donor restricted endowment funds established for the purpose of providing future income to further the mission of the United Food Bank. In addition, the Board of Directors has designated a portion of the unrestricted amount of the endowment for long-term purposes. As required by U.S. generally accepted accounting principles, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The board of directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original restricted gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as either unrestricted or unrestricted but Board designated for long-term purposes.

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-Designated	\$ 1,235,050	\$ -	\$ -	\$ 1,235,050
Donor-Restricted	-	249,134	200,837	449,971
Total	<u>\$ 1,235,050</u>	<u>\$ 249,134</u>	<u>\$ 200,837</u>	<u>\$ 1,685,021</u>

The change in the endowment net assets for the year ended June 30, 2016 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets -				
Beginning of Year (As Restated)	\$ 1,404,201	\$ 250,165	\$ 200,837	\$ 1,855,203
Contributions	-	-	-	-
Investment Loss	(19,151)	(1,031)	-	(20,182)
Unrealized Losses	-	-	-	-
Withdrawals	<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>
Endowment Net Assets - End of Year	<u>\$ 1,235,050</u>	<u>\$ 249,134</u>	<u>\$ 200,837</u>	<u>\$ 1,685,021</u>

**NOTE 9 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 IRC. The plan also provides for discretionary contributions by the Organization. The Organization contributed approximately \$10,000 to the plan during the year ended June 30, 2016.

**UNITED FOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 LEASES**

The Organization leases equipment under an operating lease which ends in December 2020. Minimum future rental payments under the operating lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 125,305
2018	125,305
2019	125,305
2020	125,305
2021	62,653
Total Future Maturities	<u>\$ 563,873</u>

Total rent expense was approximately \$63,000 for the year ended June 30, 2016.

**NOTE 11 FAIR VALUE MEASUREMENT**

The Organization's financial instruments carried at fair value, by level, are as follows as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets:</b>				
Investments				
Mutual Funds	\$ 588,620	\$ -	\$ -	\$ 588,620
Bonds	470,246	-	-	470,246
Equity Securities	399,198	-	-	399,198
Total Investments at Fair Value	<u>\$ 1,458,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,458,064</u>
Cash	-	-	-	227,058
Total Assets	<u>\$ 1,458,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,685,122</u>
<b>Liabilities:</b>				
Interest Rate Swap Obligation	\$ -	\$ (260,035)	\$ -	\$ (260,035)
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ (260,035)</u>	<u>\$ -</u>	<u>\$ (260,035)</u>

Unrealized gains and losses are recognized as follows:

	<u>Statement of</u> <u>Activities Location</u>	<u>Loss</u>
Interest Rate Swap Contract	Loss on Interest Rate Swap	\$ (50,585)



**UNITED FOOD BANK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 12 RESTATEMENTS OF NET ASSETS**

During the year ended June 30, 2016, certain errors related to endowment earnings, deferred revenue, and accrued vacation as of June 30, 2015 were discovered. The results of the restatements are shown below:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, As Previously Stated	\$ 4,776,497	\$ 24,220	\$ 200,837	\$ 5,001,554
Reclassification of Endowment Earnings	(250,165)	250,165	-	-
Removal of Deferred Revenue	-	141,496	-	141,496
Additional Accrued Vacation	(51,057)	-	-	(51,057)
Restated Beginning Net Assets	<u>\$ 4,475,275</u>	<u>\$ 415,881</u>	<u>\$ 200,837</u>	<u>\$ 5,091,993</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
United Food Bank  
Mesa, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 United Food Bank, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered United Food Bank'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 United Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of United Food Bank's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of finding and questioned costs to be a material weakness. See 2016-001.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. See 2016-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether United Food Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 that are required to be reported under United States Government Auditing Standards.

### **United Food Bank's Response to Findings**

United Food Bank's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. United Food Bank's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
December 12, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
United Food Bank  
Mesa, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited United Food Bank (Company) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the United Food Bank's major federal programs for the year ended June 30, 2016. The United Food Bank's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of United Food Bank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about United Food Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of United Food Bank's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, United Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-004. Our opinion on each major federal program is not modified with respect to this matter.

United Food Bank's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. United Food Bank's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of United Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered United Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of United Food Bank's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004 that we consider to be significant deficiencies.

Board of Directors  
United Food Bank

United Food Bank's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. United Food Bank's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on these responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Phoenix, Arizona  
December 12, 2016

**UNITED FOOD BANK  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

Federal Agency/Pass-Through Entity/ Federal Assistance Program	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Number	Total Expenditures
<b>DEPARTMENT OF AGRICULTURE, FOOD, AND NUTRITION SERVICE</b>			
Emergency Food Assistance Program			
Passed through the Arizona Department of Economic Security			
Administrative Funding	10.568		\$ 311,776
Commodities	10.569	ADES12-018691	3,354,481
Total Department of Agriculture, Food, and Nutrition Service			<u>3,666,257</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Social Services Block Grant			
Passed through the Arizona Department of Economic Security	93.667	ADES12-018691	203,186
Temporary Assistance for Needy Families			
Passed through the Arizona Department of Economic Security	93.558	ADES12-018691	109,788
Total Department of Health and Human Services			<u>312,974</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>			
Emergency Food and Shelter National Board Program (Direct)	97.024	LRO0256-00-011	32,725
			<u>\$ 4,011,956</u>

**UNITED FOOD BANK  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of United Food Bank under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of United Food Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of United Food Bank.

**NOTE 2 CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS**

The program titles and CFDA numbers were obtained from the *2016 Catalog of Federal Domestic Assistance*.

**NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. United Food Bank has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 4 SUBRECIPIENTS**

There were no subrecipient payments during the year.



**UNITED FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**A. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> X </u> yes	<u> </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> X </u> yes	<u> </u> none reported
Type of auditors' report issued on compliance for for major programs?	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> X </u> yes	<u> </u> no

Identification of major programs:

**CFDA Number(s)**

10.568/10.569

**Name of Federal Program or Cluster**

Emergency Food Assistance Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X  yes   no

**UNITED FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2016-001 – Financial Reporting**

Type of Finding – Material Weakness

Condition/Context – The follow financial statement misstatements were noted for the year ended June 30, 2016:

1. The beginning and ending balances of accrued vacation were under stated. The vacation accrual was incorrectly limited to vested benefits approximating 25% of the total accrual. Accrued vacation was under stated by \$51,057 at the beginning of the year and by \$50,498 at the end of the year.
2. The beginning and ending balances of deferred revenue were over stated. Temporarily restricted contributions were incorrectly recorded as deferred revenue. Deferred revenue was over stated by \$141,496 at the beginning of the year and \$81,028 at the end of the year.
3. The beginning temporarily restricted net asset balance was understated. Endowment earnings from permanently restricted assets of \$250,165 were incorrectly included as unrestricted net assets.
4. The lease of vehicles was incorrectly recorded as a capital lease totaling approximately \$658,000. The lease did not meet the criteria established for capital leases.

Criteria – Internal controls would dictate that an adequate review process be put into place to prevent a material misstatement from going undetected and uncorrected.

Cause – Controls were either not properly designed and implemented or designed controls were not performed as designed.

Effect – Audit adjustments were proposed and subsequently approved and recorded by management to present the financial statements in accordance with generally accepted accounting principles.

Recommendation – We recommend that management review its internal control processes and procedures to ensure they are properly designed to record financial statement.

View of Responsible Officials and Corrective Action Plan - United Food Bank agrees with the auditors' recommendation. Controls will be redesigned and implemented during the year to ensure that they are properly designed and recorded in the financial statements as follows:

1. Accrued vacation will be recorded at 100% of the employee's vested benefit.
2. Contributions will be recorded as temporarily restricted contributions.
3. Endowment earnings will be recorded as temporarily restricted net assets.
4. The option to purchase the lease vehicle at the end of the lease term was not clearly stated in the agreement and purchasing the vehicles at residual value was not considered a bargain. Since the capital lease transaction is being reversed and recorded as an operating lease, there is no further action required.

**UNITED FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2016-002 – Financial Reporting**

Type of Finding – Significant Deficiency

Condition/Context – The following weaknesses over beginning inventory were noted for the year ended June 30, 2016:

1. The inventory count sheets supporting the beginning inventory balance as of June 30, 2015 were not provided for review.
2. For two of nine beginning inventory items tested, the price per case or price per pound was not supported by source documents. For one item, the rate was over stated and for the other items the rate was under stated resulting in a net over statement in inventory.
3. For one of nine beginning inventory items tested, the June 2015 additions to the inventory item were not fully supported by donation receipts.
4. For one of nine beginning inventory items tested, the June 2015 adjustments increasing and decreasing the inventory were not supported by source documents other than a computer generate report showing the adjustments by item, lot, and pallet number. There were no other supporting documents to show the nature of the adjustment or secondary approval.
5. Transfers between inventory items were not reconciled to ensure that increase in one item corresponded with decreases in another item.

Criteria – Internal controls would dictate that an adequate review process be put into place to prevent a material misstatement from going undetected and uncorrected.

Cause – Controls were either not properly designed and implemented or designed controls were not performed as designed.

Effect – Beginning inventory was over stated by approximately \$41,000. Management has determined that this misstatement is immaterial in the aggregate, to the financial statements taken as a whole.

Recommendation – We recommend that management review its internal control processes and procedures to ensure they are properly designed to record financial statement.

View of Responsible Officials and Corrective Action Plan - United Food Bank agrees with the auditors' recommendation. Controls will be redesigned and implemented during the year to ensure that they are properly designed and recorded in the financial statements as follows:

1. Inventory count sheets supporting the beginning inventory balance of each year will be retained to support the inventory quantities. All inventory count sheets and valuation material will be accumulated by month and stored in a central location on a timely basis.
2. All documentation related to the purchasing of Inventory will sufficiently support the stated price per case or pound; the purchases will be made in compliance with UFB purchasing policy and files maintained in a central location.
3. Additions made to donated inventory will have corresponding donation receipts to support each addition. Donation receipts will be reconciled monthly with the CERES inventory system and filed in a central location.

**UNITED FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2016-002 (CONTINUED)**

View of Responsible Officials and Corrective Action Plan (Continued)

4. All inventory adjustments either increasing or decreasing inventory will have supporting documents stating the nature of the increase/decrease, count sheets and secondary approval by an authorized manager.
5. Transfers and reclassification of inventory items will be reviewed and approved by an authorized manager prior to posting. The transactions will be supported by explanations, corresponding count sheets and production documents. All transfers with additions to inventory items will correspond with a decrease of other inventory and reconciled to the month end report of total inventory adjustments.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**U.S. Department of Agriculture  
Emergency Food Assistance Program  
CFDA Number: 10.568/10.569  
Passed Through: The Arizona Department of Economic Security  
Pass Through Number: ADES12-018691  
Award Period: July 1, 2015 – June 30, 2016**

**2016-003**

Type of Finding – Significant Deficiency in Internal Control over Compliance

Condition/Context – Internal controls procedures over eligibility requirements did not function as designed as follows:

1. For three of 40 eligibility sheets tested, the eligibility sheets did not contain the current income eligibility guidelines. The eligibility sheets contained the prior year income eligibility guidelines.
2. For 12 of 40 eligibility sheets or alternative monthly summary sheets tested, there was no indication that the eligibility sheets or monthly summary sheets were reviewed and approved by a responsible individual with the United Food Bank or distribution agency.

Criteria – Management should perform ongoing monitoring of the design and operating effectiveness of the internal control system as part of their normal course of operations.

Cause – The procedures in place to review and approve compliance with eligibility requirements were not followed.

Effect – Noncompliance with Uniform Guidance.

Repeat Finding: - No

Questioned Costs – None

**UNITED FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2016-003 (CONTINUED)**

Recommendation – Eligibility sheets should contain the current income eligibility guidelines. Eligibility sheets or alternative monthly summary sheets should be reviewed and approved by a responsible individual with the United Food Bank or distribution agencies and, the review should be documented. Additionally, training on eligibility requirements and internal control monitoring activities should be conducted with program staff and distribution agencies.

View of Responsible Officials and Corrective Action Plan - United Food Bank agrees with the auditors' recommendation. To ensure the most current form is being collected and reviewed, UFB will immediately take the following steps:

1. Internal Agency Relations, Retail Relations and Program staff will be trained on the DES guidelines and review requirements of the eligibility form.
2. The most current DES eligibility form will be emailed to each partner agency along with instructions and expectations on how the form is to be completed, reviewed, signed, and dated before submission.
3. The form, instructions, and expectations will also be posted on United Food Bank's Agency Relations News feed.
4. Staff will review all collected eligibility forms for signature and date. Any DES eligibility forms missing a review signature and date will be checked for accuracy and then signed and dated by staff.
5. During agency visits, staff will verify the agency is using the most recent DES eligibility form and is aware of the monthly review requirements.
6. Staff will inform partner agencies of missing signatures and dates in writing via email. This email notification will be placed in the agency's file.

**UNITED FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**U.S. Department of Agriculture  
Emergency Food Assistance Program  
CFDA Number: 10.568/10.569  
Passed Through: The Arizona Department of Economic Security  
Pass Through Number: ADES12-018691  
Award Period: July 1, 2015 – June 30, 2016**

**2016-004**

Type of Finding – Significant Deficiency in Internal Control over Compliance and Other Matter

Condition/Context – Internal controls did not ensure compliance over the procurement compliance requirements as follows:

1. Although management followed procurement practices they did not have a formal procurement policy documented. A purchasing policy exists, however, it did not contain requirements in accordance with 2 CFR §200.319 regarding procurement practices.
2. For the only purchase exceeding the small purchase procedures requiring procurement for the year ended June 30, 2016, a vehicle leasing program was procured through quotes rather than competitive sealed bid or proposal.
3. Although management has a process to obtain representations from vendors indicating the vendors were not suspended, debarred or otherwise excluded from contracting, they did not conduct verifications that the vendors were not actually suspended, debarred or otherwise excluded from contracting under federal award programs.

Criteria – In accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, 2 CFR §200.212, Non-federal entities and contractors are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, sub awards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Cause – Clerical oversight.

Effect – Noncompliance with Uniform Guidance and OMB Circular A-133 Compliance Supplement.

Repeat Finding - No

Questioned Costs – None

Recommendation – We recommend that management formalize procurement procedures, conduct competitive sealed bids or proposals for purchases exceeding the threshold for small purchase procedures, and develop procedures to verify if vendors are suspended, debarred or otherwise excluded. Additionally, training on procurement requirements and internal control monitoring activities should be conducted with program staff.

**UNITED FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2016-004 (CONTINUED)**

View of Responsible Officials and Corrective Action Plan - United Food Bank agrees with the auditors' recommendation. To ensure that the procurement policy and procedures are in place and specific procedures are followed, the following actions are being taken:

1. Copies of the new OMB Uniform Guidance requirements and the OMB Circular A-133 Compliance Supplement will be provided to staff.
2. A draft procurement policy and procedures that reflects the new regulatory requirements has been developed, including requirements for purchasing thresholds and engagement in full and open competition and verify if vendors are suspended, debarred or otherwise excluded. The draft document is pending review by UFB director level staff and Chiefs.
3. Once management has completed its review, the policy will be forwarded to the Budget Finance and Audit Committee for approval and acceptance.
4. All staff authorized to make purchases will be required to attend training during the year on the new Uniform Guidance requirements, which will include the procurement and monitoring activities. In accordance with the Uniform Guidance requirements, procurement requirements have been expanded significantly and they now focus on competition. Training efforts may include webinars, conferences, white paper review and comment.
5. Staff will work with local and other Food Banks in the Feeding America network on their procurement practices to benchmark and establish best practices.
6. Regular meetings will be held with staff to ensure that internal control monitoring activities related to procurement are occurring as designed.

**UNITED FOOD BANK  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2016**

None