

UNITED FOOD BANK
FINANCIAL STATEMENTS AND
SINGLE AUDIT COMPLIANCE REPORT
YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The 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 presented for purposes of additional analysis and is not a required part of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, October 1, 2018, 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 solely 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 the effectiveness of the United Food Bank's 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
October 1, 2018

**UNITED FOOD BANK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 369,555	\$ 415,794
Contracts Receivable	116,678	399,250
Prepays and Deposits	7,385	17,535
Inventories	972,060	1,437,132
Total Current Assets	1,465,678	2,269,711
INVESTMENTS RESTRICTED FOR LONG-TERM PURPOSES	1,685,440	1,828,162
PROPERTY AND EQUIPMENT		
Less: Accumulated Depreciation	5,504,667	5,350,301
Net Property and Equipment	(2,048,789)	(1,925,221)
Total Assets	\$ 6,606,996	\$ 7,522,953
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 97,173	\$ 125,501
Accrued Expenses	168,994	93,648
Deferred Revenue	6,500	-
Accrued Interest Payable	8,192	9,091
Current Portion of Bonds Payable	79,035	75,747
Total Current Liabilities	359,894	303,987
LONG-TERM LIABILITIES		
IDA Interest Rate Swap Liability	86,785	158,834
Bonds Payable, Net Current Portion	2,022,272	2,102,307
Total Current Liabilities	2,109,057	2,261,141
Total Liabilities	2,468,951	2,565,128
NET ASSETS		
Unrestricted:		
Undesignated	2,186,938	2,568,656
Designated for Special Projects	94,336	94,336
Designated for Endowment	1,168,279	1,345,589
Total Unrestricted Net Assets	3,449,553	4,008,581
Temporarily Restricted	487,655	748,407
Permanently Restricted	200,837	200,837
Total Net Assets	4,138,045	4,957,825
Total Liabilities and Net Assets	\$ 6,606,996	\$ 7,522,953

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Donated Food, Supplies, and Other Items	\$ 30,663,418	\$ -	\$ -	\$ 30,663,418
Contributions	2,331,127	-	-	2,331,127
Contracts and Grants	1,247,978	179,202	-	1,427,180
Help Yourself Program	184,304	-	-	184,304
Shared Maintenance	152,752	-	-	152,752
Other Program	23,313	-	-	23,313
Investment Income	43,074	13,616	-	56,690
Other Revenues	11,128	-	-	11,128
Total Revenues and Support Before Special Events and Net Assets Released from Restrictions	34,657,094	192,818	-	34,849,912
Special Events:				
Revenues from Special Events	59,983	-	-	59,983
Less: Cost of Direct Donor Benefits	(51,231)	-	-	(51,231)
Gross Profit on Special Events	8,752	-	-	8,752
Net Assets Released from Restrictions	474,543	(474,543)	-	-
Total Revenues and Support	35,140,389	(281,725)	-	34,858,664
EXPENSES				
Program Services	34,282,640	-	-	34,282,640
Supporting Services:				
Management and General	752,689	-	-	752,689
Fund Raising	812,599	-	-	812,599
Total Expenses	35,847,928	-	-	35,847,928
CHANGES IN NET ASSETS BEFORE GAINS AND LOSSES	(707,539)	(281,725)	-	(989,264)
UNREALIZED GAIN ON INVESTMENTS	76,462	20,973	-	97,435
GAIN ON INTEREST RATE SWAP	72,049	-	-	72,049
CHANGE IN NET ASSETS	(559,028)	(260,752)	-	(819,780)
Net Assets - Beginning of Year	4,008,581	748,407	200,837	4,957,825
NET ASSETS - END OF YEAR	<u>\$ 3,449,553</u>	<u>\$ 487,655</u>	<u>\$ 200,837</u>	<u>\$ 4,138,045</u>

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Donated Food, Supplies, and Other Items	\$ 37,681,730	\$ -	\$ -	\$ 37,681,730
Contributions	2,072,952	-	-	2,072,952
Contracts and Grants	1,591,247	466,120	-	2,057,367
Help Yourself Program	152,497	-	-	152,497
Shared Maintenance	162,893	-	-	162,893
Other Program	48,147	-	-	48,147
Investment Income	52,731	10,249	-	62,980
Other Revenues	6,860	-	-	6,860
Total Revenues and Support Before Special Events and Net Assets Released from Restrictions	41,769,057	476,369	-	42,245,426
Special Events:				
Revenues from Special Events	119,005	-	-	119,005
Less: Cost of Direct Donor Benefits	(90,203)	-	-	(90,203)
Gross Profit on Special Events	28,802	-	-	28,802
Net Assets Released from Restrictions	90,375	(90,375)	-	-
Total Revenues and Support	41,888,234	385,994	-	42,274,228
EXPENSES				
Program Services	41,351,082	-	-	41,351,082
Supporting Services:				
Management and General	657,976	-	-	657,976
Fund Raising	663,006	-	-	663,006
Total Expenses	42,672,064	-	-	42,672,064
CHANGES IN NET ASSETS BEFORE GAINS AND LOSSES	(783,830)	385,994	-	(397,836)
UNREALIZED GAIN ON INVESTMENTS	60,384	22,251	-	82,635
GAIN ON INTEREST RATE SWAP	101,201	-	-	101,201
CHANGE IN NET ASSETS	(622,245)	408,245	-	(214,000)
Net Assets - Beginning of Year	4,630,826	340,162	200,837	5,171,825
NET ASSETS - END OF YEAR	<u>\$ 4,008,581</u>	<u>\$ 748,407</u>	<u>\$ 200,837</u>	<u>\$ 4,957,825</u>

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services	Management and General	Fund Raising	Total
Value of Donated Food and Supplies				
Distributed	\$ 30,065,908	\$ -	\$ -	\$ 30,065,908
Cost of Purchased Food and Supplies	876,313	-	-	876,313
Unusable Salvage	975,163	-	-	975,163
Salaries and Wages	915,712	408,090	312,059	1,635,860
Payroll Taxes and Benefits	244,743	121,286	84,007	450,036
Direct Mail	-	-	224,615	224,615
Depreciation and Amortization	193,126	8,457	5,822	207,405
Professional Fees and Outside Services	52,679	84,264	91,317	228,260
Vehicle Expense	354,355	382	42	354,779
Utilities	100,502	5,268	2,296	108,066
Interest on Long-Term Debt	91,044	4,810	1,673	97,527
Repairs and Maintenance-Occupancy	83,450	5,648	2,339	91,437
Warehouse Supplies	98,634	188	31	98,854
Repairs and Maintenance-Warehouse Equipment	28,382	751	4	29,137
Telecommunications	31,010	5,786	579	37,375
Dues, Subscriptions, and Fees	1,223	6,732	27,687	35,642
Membership Dues	16,741	14,799	24,680	56,220
Insurance	47,409	20,287	870	68,566
Postage, Shipping, and Courier	79	345	8,973	9,397
Printing and Publications	854	5,279	8,915	15,048
Occupancy-Rental Expense	15,600	-	-	15,600
Office Supplies	3,292	8,427	1,174	12,893
Conferences, Meetings, and Education	800	4,236	2,780	7,816
Computer Expenses	727	6,376	-	7,103
Staff Development	13,647	3,145	2,913	19,705
Minor Equipment Expense	4,401	14,001	1,642	20,044
Travel	5,066	2,126	2,859	10,051
Recognition	122	2,389	2,507	5,018
Warehouse Equipment Leases	4,300	-	-	4,300
Uniforms	9,722	585	-	10,307
Bad Debt Expense	1,802	21,557	-	23,359
Other	45,834	(2,525)	2,815	46,124
Special Event Expenses	-	-	51,231	51,231
	<u>34,282,640</u>	<u>752,689</u>	<u>863,830</u>	<u>35,899,159</u>
Less Expenses Netted Against Revenues on the Statement of Activities:				
Special Event Expenses	-	-	(51,231)	(51,231)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 34,282,640</u>	<u>\$ 752,689</u>	<u>\$ 812,599</u>	<u>\$ 35,847,928</u>

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program Services	Management and General	Fund Raising	Total
Value of Donated Food and Supplies				
Distributed	\$ 37,107,319	\$ -	\$ -	\$ 37,107,319
Cost of Purchased Food and Supplies	1,141,836	-	-	1,141,836
Unusable Salvage	711,755	-	-	711,755
Salaries and Wages	842,438	349,060	231,415	1,422,913
Payroll Taxes and Benefits	222,888	76,265	47,243	346,396
Direct Mail	-	374	235,340	235,714
Depreciation and Amortization	200,147	9,325	7,031	216,503
Professional Fees and Outside Services	211,830	141,306	75,718	428,854
Vehicle Expense	385,457	-	-	385,457
Utilities	104,990	7,439	1,890	114,319
Interest on Long-Term Debt	95,208	7,587	2,299	105,094
Repairs and Maintenance-Occupancy	51,097	15,398	1,238	67,733
Warehouse Supplies	92,036	681	4,716	97,433
Repairs and Maintenance-Warehouse Equipment	50,618	-	-	50,618
Telecommunications	25,379	9,678	751	35,808
Dues, Subscriptions, and Fees	6,260	876	18,597	25,733
Membership Dues	19,303	14,996	5,680	39,979
Insurance	18,225	1,347	354	19,926
Postage, Shipping, and Courier	-	98	14,702	14,800
Printing and Publications	682	255	6,238	7,175
Occupancy-Rental Expense	15,600	476	-	16,076
Retirement Contribution	315	(272)	(43)	-
Office Supplies	4,302	8,530	1,730	14,562
Conferences, Meetings, and Education	1,596	2,563	2,922	7,081
Computer Expenses	2,020	4,150	1,098	7,268
Staff Development	8,221	2,573	1,264	12,058
Minor Equipment Expense	10,716	2,509	-	13,225
Travel	4,906	240	581	5,727
Recognition	49	2,237	2,143	4,429
Warehouse Equipment Leases	9,264	-	-	9,264
Uniforms	5,343	200	-	5,543
Other	1,282	85	99	1,466
Special Event Expenses	-	-	90,203	90,203
Total	41,351,082	657,976	753,209	42,762,267
Less Expenses Netted Against Revenues on the Statement of Activities:				
Special Event Expenses	-	-	(90,203)	(90,203)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 41,351,082	\$ 657,976	\$ 663,006	\$ 42,672,064

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (819,780)	\$ (214,000)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation and Amortization	207,405	216,503
Unrealized Gain on Investments	(97,435)	(82,635)
Realized Gain on Investments	(13,911)	(24,482)
Gain on Interest Rate Swap	(72,049)	(101,201)
(Increase) Decrease in Assets:		
Contributions and Grants Receivable	282,572	(149,801)
Inventories	465,072	203,709
Prepays and Deposits	10,150	9,010
Increase (Decrease) in Liabilities:		
Accounts Payable	(28,328)	54,496
Accrued Expenses	74,447	16,902
Deferred Revenue	6,500	-
Net Cash Provided (Used) by Operating Activities	14,643	(71,499)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(191,908)	(352,823)
Proceeds from Sale of Investments	150,976	316,900
Withdrawals from Investments	295,000	-
Purchases of Property and Equipment	(238,203)	(33,857)
Net Cash Provided (Used) by Investing Activities	15,865	(69,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Bonds Payable	(76,747)	(68,664)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(46,239)	(209,943)
Cash and Cash Equivalents - Beginning of Year	415,794	625,737
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 369,555	\$ 415,794

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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.

Contracts Receivable

Contracts 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 contracts 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 of \$1.73 and \$1.67 as of June 30, 2018 and 2017, 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 net realizable value.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 years ended June 30, 2018 and 2017, 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 \$30,663,418 and \$37,681,730 of contributed in-kind food, supplies, and facility rental donations. The Organization 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 \$14,400 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 \$224,615 and \$235,714 for the years ended June 30, 2018 and 2017.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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.

Level 2 – 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 3 – 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.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 October 1, 2018, 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 CONTRACTS RECEIVABLE

Contracts receivable was \$116,678 and \$399,250 as of June 30, 2018 and 2017, respectively, and 85% and 93%, respectively, was due from three granting agencies. The receivables are all due within the next twelve months.

UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 INVENTORIES

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

	2018	2017
Donated	\$ 754,888	\$ 600,205
Purchased	3,554	94,486
TEFAP	213,618	742,441
Total Inventories	\$ 972,060	\$ 1,437,132

NOTE 5 INVESTMENTS

Investments as of June 30 consist of:

	2018	2017
Mutual Funds	\$ 467,020	\$ 741,662
Bonds	564,479	404,004
Equity Securities	581,696	492,161
Cash	72,245	190,335
Total Investments	\$ 1,685,440	\$ 1,828,162

Investment income on the statement of activities consists of the following for the years ended June 30:

	2018	2017
Interest and Dividends	\$ 42,779	\$ 38,498
Realized Gain	13,911	24,482
Total Investment Income	\$ 56,690	\$ 62,980

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2018	2017	Useful Lives
Land	\$ 850,000	\$ 850,000	N/A
Buildings and Improvements	3,284,970	3,284,970	Lease Term - 30 Years
Vehicles	725,757	774,022	5 Years
Machinery, Equipment, and Furniture	413,860	421,229	5 Years
Construction in Progress - Buildings and Improvements	210,000	-	N/A
Website	20,080	20,080	5 Years
Total Property and Equipment	5,504,667	5,350,301	
Less: Accumulated Depreciation	2,048,789	1,925,221	
Net Property and Equipment	\$ 3,455,878	\$ 3,425,080	

Construction in progress as of June 30, 2018 consists of costs to remodel the walk-in refrigerator, which is expected to be completed by September 2018.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 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 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 79,035
2020	83,898
2021	87,847
2022	92,311
2023	96,989
Thereafter	<u>1,661,227</u>
Total	2,101,307
Less: Current Maturities	<u>(79,035)</u>
Bonds Payable, Net of Current Maturities	<u><u>\$ 2,022,272</u></u>

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, 2018 and 2017 is \$1,768,627 and \$1,832,456, respectively. The notional amount under the agreement decreases as principal payments are made on the debt. As of June 30, 2018 and 2017, the fair value of the interest rate swap obligation was \$86,785 and \$158,834.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8 NET ASSETS

Temporarily Restricted Net Assets

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

	2018	2017
Endowment Earnings	\$ 316,223	\$ 281,634
Experience Matters	-	37,418
Bank of America Grant	30,000	30,000
Costco Grant	11,580	10,150
EIF Albertson Grant	13,941	20,118
Arnold Foundation	-	17,100
Halle Foundation	-	70,000
Sundt Foundation	-	5,000
Thunderbird Foundation	-	60,000
Garden Project	653	653
Virginia G. Piper	7,060	-
Love Abounds Foundation	36,698	-
APS	4,000	-
Mesa United Way	32,000	76,334
Valley of the Sun United Way	35,500	140,000
Total	<u>\$ 487,655</u>	<u>\$ 748,407</u>

Temporarily restricted net assets of \$474,543 and \$90,375 were released when the activity or time restrictions were met as of June 30, 2018 and 2017.

Permanently Restricted Net Assets

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

	2018	2017
General Operations	<u>\$ 200,837</u>	<u>\$ 200,837</u>

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9 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 is as follows:

		2018			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-Designated		\$ 1,168,279	\$ -	\$ -	\$ 1,168,279
Donor-Restricted		-	316,223	200,837	517,060
Total		\$ 1,168,279	\$ 316,223	\$ 200,837	\$ 1,685,339
		2017			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-Designated		\$ 1,345,589	\$ -	\$ -	\$ 1,345,589
Donor-Restricted		-	281,634	200,837	482,471
Total		\$ 1,345,589	\$ 281,634	\$ 200,837	\$ 1,828,060

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9 ENDOWMENTS (CONTINUED)

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

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ 1,345,589	\$ 281,634	\$ 200,837	\$ 1,828,060
Contributions	-	-	-	-
Investment Income	41,228	13,616	-	54,844
Unrealized Gains	76,462	20,973	-	97,435
Withdrawals	(295,000)	-	-	(295,000)
Endowment Net Assets - End of Year	<u>\$ 1,168,279</u>	<u>\$ 316,223</u>	<u>\$ 200,837</u>	<u>\$ 1,685,339</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year (As Restated)	\$ 1,235,050	\$ 249,134	\$ 200,837	\$ 1,685,021
Contributions	-	-	-	-
Investment Income	50,155	10,249	-	60,404
Unrealized Gains	60,384	22,251	-	82,635
Endowment Net Assets - End of Year	<u>\$ 1,345,589</u>	<u>\$ 281,634</u>	<u>\$ 200,837</u>	<u>\$ 1,828,060</u>

NOTE 10 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 made no contributions to the plan during the years ended June 30, 2018 and 2017.

NOTE 11 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>
2019	\$ 125,305
2020	125,305
2021	62,653
Total Future Maturities	<u>\$ 313,263</u>

UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 LEASES (CONTINUED)

Total rent expense was approximately \$146,074 and \$151,072, respectively, for the year ended June 30, 2018 and 2017.

NOTE 12 FAIR VALUE MEASUREMENT

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

	2018			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Mutual Funds	\$ 467,020	\$ -	\$ -	\$ 467,020
Bonds	564,479	-	-	564,479
Equity Securities	581,696	-	-	581,696
Total Investments at Fair Value	1,613,195	-	-	1,613,195
Cash	-	-	-	72,245
Total Assets	<u>\$ 1,613,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,685,440</u>
Liabilities:				
Interest Rate Swap Obligation	\$ -	\$ (86,785)	\$ -	\$ (86,785)
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ (86,785)</u>	<u>\$ -</u>	<u>\$ (86,785)</u>
	2017			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Mutual Funds	\$ 741,662	\$ -	\$ -	\$ 741,662
Bonds	404,004	-	-	404,004
Equity Securities	492,161	-	-	492,161
Total Investments at Fair Value	1,637,827	-	-	1,637,827
Cash	-	-	-	190,335
Total Assets	<u>\$ 1,637,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,828,162</u>
Liabilities:				
Interest Rate Swap Obligation	\$ -	\$ (158,834)	\$ -	\$ (158,834)
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ (158,834)</u>	<u>\$ -</u>	<u>\$ (158,834)</u>

Unrealized gains and losses are recognized as of June 30 are as follows:

	2018	
	Statement of Activities Location	Gain
Interest Rate Swap Contract	Gain on Interest Rate Swap	\$ 72,049
	2017	
	Statement of Activities Location	Loss
Interest Rate Swap Contract	Gain on Interest Rate Swap	\$ 101,201

**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 (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 October 1, 2018.

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.

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. The results of our tests disclosed no material weaknesses. 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. See 2018-001.

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 corrective action plan. 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
October 1, 2018

**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 (the 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, 2018. 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, 2018.

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 2018-003. 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 corrective action plan. 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 have not been 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 2018-002 and 2018-003 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 corrective action plan. 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.

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
October 1, 2018

**UNITED FOOD BANK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Agency/Pass-Through Entity/ Federal Assistance Program	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Number	Total Expenditures
DEPARTMENT OF AGRICULTURE, FOOD, AND NUTRITION SERVICE			
Emergency Food Assistance Program - Food Distribution Cluster			
Passed through the Arizona Department of Economic Security			
Administrative Funding	10.568	ADES17-174332	\$ 359,500
Commodities	10.569	ADES17-174332	<u>2,381,701</u>
Total Department of Agriculture, Food, and Nutrition Service - Food Distribution Cluster			2,741,201
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Social Services Block Grant			
Passed through the Arizona Department of Economic Security	93.667	ADES17-174332	220,000
Temporary Assistance for Needy Families (TANF) Cluster			
Passed through the Arizona Department of Economic Security	93.558	ADES17-174332	<u>112,500</u>
Total Department of Health and Human Services			332,500
DEPARTMENT OF HOMELAND SECURITY			
Emergency Food and Shelter National Board Program (Direct)	97.024	LRO0256-00-011	<u>250,000</u>
			<u><u>\$ 3,323,701</u></u>

**UNITED FOOD BANK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of United Food Bank under programs of the federal government for the year ended June 30, 2018. 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 *2018 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, 2018**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? X yes _____ none reported

Type of auditors' report issued on compliance for major federal programs? Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ 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?

_____ yes X no

**UNITED FOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

2018-001 – Financial Reporting

Type of Finding – Significant Deficiency in Internal Control over Financial Reporting

Condition/Context – Segregation of Duties: In any system of internal accounting control, one primary goal is adequate segregation of duties. Because of the way certain duties are assigned and carried out within the journal entry initiation, recording, and approval cycle, an adequate segregation of duties and responsibilities was not always present. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis.

Criteria – Internal controls dictate that separation of duties be put into place where an employee cannot access multiple areas in order to prevent a material misstatement from going undetected and uncorrected.

Cause – Either segregation of duties were not properly designed and implemented or designed controls were not performed as designed.

Effect – The lack of segregation of duties over the journal entry initiation, recording, and approval cycle could result in a material misstatement, whether due to fraud or error, going undetected and uncorrected.

Repeat Finding – The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2017-01.

Recommendation – We recommend that management segregate the initiation, recording, and approval cycle over journal entries to reduce any possibilities of potential fraud occurring.

View of Responsible Officials – There is no disagreement with the audit findings.

**UNITED FOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

2018-002

**U.S. Department of Agriculture, Food, and Nutrition Service
Emergency Food Assistance Program
CFDA Number: 10.568/10.569
Passed Through: The Arizona Department of Economic Security
Pass Through Number: ADES17-174332
Award Period: July 1, 2017 – June 30, 2018**

Type of Finding – Significant Deficiency in Internal Control over Compliance

Condition/Context – Internal controls procedures over eligibility requirements for 1 of 38 eligibility sheets tested indicated there was no certifying signature by the eligible recipient agency volunteer and there was no evidence of secondary review by the distribution agency program officials.

Criteria – In accordance with the Compliance Supplement, Part 6 – Internal Control, the A-102 Common Rule, OMB Circular A-110 and 2 CFR section 200.303 require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

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

Effect – Noncompliance with 2 CFR 251.10 and the Compliance Supplement.

Repeat Finding – The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2017-04.

Questioned Costs – None

Recommendation – Eligibility sheets should be signed and reviewed by a responsible individual with the distribution agencies. Additionally, training on eligibility requirements and internal control monitoring activities should be conducted with program staff and distribution agencies.

View of Responsible Officials - There is no disagreement with the audit findings.

**UNITED FOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-003

**U.S. Department of Agriculture, Food, and Nutrition Service
Emergency Food Assistance Program
CFDA Number: 10.568/10.569
Passed Through: The Arizona Department of Economic Security
Pass Through Number: ADES17-174332
Award Period: July 1, 2017 – June 30, 2018**

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. For 1 of 5 transactions selected for testing, the procurement policies were not followed for the purchase of on-site fuel delivery with costs approximating \$98,800.

Criteria – In accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, 2 CFR §200.320, (b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

In accordance with the Compliance Supplement, Part 6 – Internal Control, the A-102 Common Rule, OMB Circular A-110 and 2 CFR section 200.303 require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Cause – Clerical oversight.

Effect – Noncompliance with Uniform Guidance and the Compliance Supplement.

Repeat Finding – The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2017-05.

Questioned Costs – None

Recommendation – We recommend that management follow their procurement procedures and conduct competitive sealed bids or proposals for purchases exceeding the threshold for all purchase procedures. Additionally, training on procurement requirements and internal control monitoring activities should be conducted with program staff.

View of Responsible Officials - There is no disagreement with the audit findings.

**UNITED FOOD BANK
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2018**



CORRECTIVE ACTION PLAN

United Food Bank respectfully submits the following corrective action plan for the year ended June 30 2018. The findings are numbered consistently with the Schedule of Findings and Questioned Costs assigned in the current year.

2018-001 – Financial Reporting

Type of Finding – Significant Deficiency in Internal Control over Financial Reporting

Condition/Context – Segregation of Duties: In any system of internal accounting control, one primary goal is adequate segregation of duties. Because of the way certain duties are assigned and carried out within the journal entry initiation, recording, and approval cycle, an adequate segregation of duties and responsibilities was not always present. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis.

Contact Person – Martin Terrien, Chief Financial Officer

Corrective Action Plan - General Journal Entries created by the CFO will be reviewed by the Director of Finance, and vice versa.

2018-002

**U.S. Department of Agriculture, Food, and Nutrition Service
Emergency Food Assistance Program
CFDA Number: 10.568/10.569
Passed Through: The Arizona Department of Economic Security
Pass Through Number: ADES17-174332
Award Period: July 1, 2017 – June 30, 2018**

Type of Finding – Significant Deficiency in Internal Control over Compliance

Condition/Context – Internal controls procedures over eligibility requirements for 1 of 38 eligibility sheets tested indicated there was no certifying signature by the eligible recipient agency volunteer and there was no evidence of secondary review by the distribution agency program officials.

Contact Person – Martin Terrien, Chief Financial Officer

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.



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**UNITED FOOD BANK
CORRECTIVE ACTION PLAN (CONTINUED)
YEAR ENDED JUNE 30, 2018**



SECTION VI – CORRECTIVE ACTION PLAN (Continued)

2. The form, instructions, and expectations will also be posted on United Food Bank's Agency Relations News feed.
3. 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.
4. 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.

2018-003

**U.S. Department of Agriculture, Food, and Nutrition Service
Emergency Food Assistance Program
CFDA Number: 10.568/10.569
Passed Through: The Arizona Department of Economic Security
Pass Through Number: ADES17-174332
Award Period: July 1, 2017 – June 30, 2018**

Type of Finding – Significant Deficiency in Internal Control over Compliance

Condition/Context – Internal controls did not ensure compliance over the procurement compliance requirements. For 1 of 5 transactions selected for testing, the procurement policies were not followed for the purchase of on-site fuel delivery with costs approximating \$98,800.

Contact Person – Martin Terrien, Chief Financial Officer

Corrective Action Plan - To ensure that the procurement policy and procedures are in place and specific procedures are followed, the following actions are being taken:

1. 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.
2. Regular meeting will be held with staff to ensure that internal control monitoring activities related to procurement are occurring as designated.
3. Every check run will be reviewed by either the Director of Finance, the Chief Financial Officer, or the Chief Executive Officer to ensure that checks are properly signed, supporting documentation are complete and that proper purchasing policy has been followed.



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**UNITED FOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

United Food Bank respectfully submits the following summary schedule of prior audit findings for the year ended June 30 2017. The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

2017-001 – Financial Reporting

Type of Finding – Material Weakness

Condition/Context – Segregation of Duties: In any system of internal accounting control, one primary goal is adequate segregation of duties. Because of the way certain duties are assigned and carried out within the various accounting cycles, an adequate segregation of duties and responsibilities is not always present. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. The size of the Organization and its staff sometimes limits the application of adequate segregation of duties.

Status – Partially completed, see current year finding 2018-001. Accounts Payable check runs are reviewed by the Chief Financial Officer on a regular basis. A check run log is not maintained as the CFO initials on each individual check request that it has been reviewed before checks are sent out.

Money transfers between accounts are approved by the Chief Financial Officer or Chief Executive Officer and done so by an internal wire transfer request form. Each wire transfer request form is maintained and submitted with the bank reconciliations when they are reviewed by the Chief Financial Officer.

Review of General Journal Entries created by the Chief Financial Officer is not being done. General Journal Entries created by the CFO will be reviewed by the Director of Finance, and vice versa.

Reason for finding's recurrence - This finding was not corrected in the current year as the Organization did not have the required resources to adequately segregate duties of the journal entry initiation, recording, and approval cycle.

Anticipated Completion Date - July 2018

Corrective Action - General Journal Entries created by the CFO will be reviewed by the Director of Finance, and vice versa.



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**UNITED FOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2018**



SECTION V – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

FINDINGS—FINANCIAL STATEMENT AUDIT (CONTINUED)

2017-002 – Financial Reporting – Revenue Recognition

Type of Finding – Material Weakness

Condition/Context – Noted material amounts of revenue that were booked directly to the temporarily restricted net asset account and revenue that was not recorded in the correct fiscal year.

Status - Corrected. Revenue is being recorded in the correct fiscal year and is not being directly recorded into temporarily restricted net asset accounts.

FINDINGS - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-003 – Financial Reporting

**U.S. Department of Agriculture, Food, and Nutrition Service
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, 2016 – June 30, 2017**

Type of Finding – Significant Deficiency

Condition/Context – During our testing of payroll and non-payroll transactions, it was noted that there were 2 out of 40 nonpayroll transactions that did not have proper review and approval, 1 out of 40 nonpayroll transactions did not have proper supporting documents, and 1 out of 40 payroll transactions did not have indication of review and approval by the supervisor.

Status - Corrected. All nonpayroll transactions have proper review and approval by a supervisor and by the Chief Financial Officer. Time card approvals have the proper supervisor review and approval. Changes to payroll rates and job changes is approved by the Chief Financial Officer or the Chief Executive Officer.



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**UNITED FOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2018**



SECTION V – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

FINDINGS - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2017-004

**U.S. Department of Agriculture, Food, and Nutrition Service
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, 2016 – June 30, 2017**

Type of Finding – Significant Deficiency in Internal Control over Compliance

Condition/Context – Internal controls procedures over eligibility requirements for 4 of 38 eligibility sheets tested had no indication that the eligibility sheets were signed and reviewed by a responsible individual with the distribution agency.

Status – Repeat condition, see current year finding 2018-002. Beginning in November 2017, the Agency Relations department ensured eligibility forms had signature and dates. If the forms were missing the signature, the staff informed the agencies via email that they were missing signatures and to ensure that they had signatures going forward.

Reason for finding's recurrence – Proper training occurred in November 2017. The new procedures were not in place during the first 4 months of the 2018 fiscal year.

Anticipated Completion Date – November 2017

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 form, instructions, and expectations will also be posted on United Food Bank's Agency Relations News feed.
3. 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.
4. 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.



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**UNITED FOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2018**



SECTION V – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

FINDINGS - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2017-005 (Continued)

Corrective Action Plan - To ensure that the procurement policy and procedures are in place and specific procedures are followed, the following actions are being taken:

1. 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.
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