

UNITED FOOD BANK
FINANCIAL STATEMENTS AND
SINGLE AUDIT COMPLIANCE REPORT
YEARS ENDED JUNE 30, 2019 AND 2018

**UNITED FOOD BANK
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	6
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9
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 <i>GOVERNMENT AUDITING STANDARDS</i>	21
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	23
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	26
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	28
CORRECTIVE ACTION PLAN	32
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	34



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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 28, 2019, 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 28, 2019

UNITED FOOD BANK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 231,775	\$ 369,555
Contracts Receivable	408,067	116,678
Prepays and Deposits	5,925	7,385
Inventories	1,359,498	972,060
Total Current Assets	2,005,265	1,465,678
INVESTMENTS RESTRICTED FOR LONG-TERM PURPOSES	1,687,715	1,685,440
PROPERTY AND EQUIPMENT	6,181,613	5,504,667
Less: Accumulated Depreciation	(2,207,231)	(2,048,789)
Net Property and Equipment	3,974,382	3,455,878
Total Assets	\$ 7,667,362	\$ 6,606,996
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 391,025	\$ 97,173
Accrued Expenses	116,432	175,494
Accrued Interest Payable	7,360	8,192
Current Portion of Bonds Payable	83,898	79,035
Total Current Liabilities	598,715	359,894
LONG-TERM LIABILITIES		
IDA Interest Rate Swap Liability	114,565	86,785
Bonds Payable, Net Current Portion	1,938,374	2,022,272
Total Current Liabilities	2,052,939	2,109,057
Total Liabilities	2,651,654	2,468,951
NET ASSETS		
Without Donor Restrictions:		
Undesignated	3,004,135	2,186,938
Designated for Special Projects	94,336	94,336
Designated for Endowment	1,001,330	1,168,279
Total Net Assets Without Donor Restrictions	4,099,801	3,449,553
With Donor Restrictions	915,907	688,492
Total Net Assets	5,015,708	4,138,045
Total Liabilities and Net Assets	\$ 7,667,362	\$ 6,606,996

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Donated Food, Supplies, and Other Items	\$ 28,289,400	\$ -	\$ 28,289,400
Contributions	1,969,507	100,000	2,069,507
Contracts and Grants	1,740,566	574,439	2,315,005
Help Yourself Program	214,116	-	214,116
Shared Maintenance	104,645	-	104,645
Other Program	10,533	-	10,533
Investment Income	110,144	37,081	147,225
Other Revenues	4,819	-	4,819
Total Revenues and Support Before Special Events and Net Assets Released from Restrictions	32,443,730	711,520	33,155,250
Special Events:			
Revenues from Special Events	75,638	-	75,638
Less: Cost of Direct Donor Benefits	(45,360)	-	(45,360)
Gross Profit on Special Events	30,278	-	30,278
Net Assets Released from Restrictions	516,248	(516,248)	-
Total Revenues and Support	32,990,256	195,272	33,185,528
EXPENSES			
Program Services	30,747,723	-	30,747,723
Supporting Services:			
Management and General	777,976	-	777,976
Fund Raising	841,962	-	841,962
Total Expenses	32,367,661	-	32,367,661
CHANGES IN NET ASSETS BEFORE GAINS AND LOSSES			
	622,595	195,272	817,867
UNREALIZED GAIN ON INVESTMENTS			
	55,433	32,143	87,576
LOSS ON INTEREST RATE SWAP			
	(27,780)	-	(27,780)
CHANGE IN NET ASSETS			
	650,248	227,415	877,663
Net Assets - Beginning of Year	3,449,553	688,492	4,138,045
NET ASSETS - END OF YEAR	\$ 4,099,801	\$ 915,907	\$ 5,015,708

See accompanying Notes to Financial Statements.

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

	Without Donor Restrictions	With Donor Restrictions	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	949,244	4,957,825
NET ASSETS - END OF YEAR	<u>\$ 3,449,553</u>	<u>\$ 688,492</u>	<u>\$ 4,138,045</u>

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Services	Management and General	Fund Raising	Total
Value of Donated Food and Supplies				
Distributed	\$ 27,071,441	\$ -	\$ -	\$ 27,071,441
Cost of Purchased Food and Supplies	576,511	-	-	576,511
Unusable Salvage	701,731	-	-	701,731
Salaries and Wages	975,996	433,109	319,739	1,728,844
Payroll Taxes and Benefits	331,845	123,208	98,947	554,000
Direct Mail	-	-	79,660	79,660
Depreciation and Amortization	195,540	8,020	2,628	206,188
Professional Fees and Outside Services	26,822	68,581	44,341	139,744
Advertising	-	-	208,729	208,729
Vehicle Expense	326,250	54	223	326,527
Utilities	111,312	6,422	2,016	119,750
Interest on Long-Term Debt	90,668	4,865	1,866	97,399
Warehouse Supplies	67,610	272	5,012	72,894
Repairs and Maintenance-Warehouse Equipment	28,197	-	-	28,197
Occupancy - Donated (East Javalina)	14,400	-	-	14,400
Telecommunications	39,036	9,158	969	49,163
Dues, Subscriptions, and Fees	4,615	5,455	39,006	49,076
Membership Dues	28,392	20,155	3,797	52,344
Insurance	37,474	8,347	818	46,639
Postage, Shipping, and Courier	-	1,439	6,482	7,921
Printing and Publications	2,426	174	8,182	10,782
Repairs and Maintenance - Occupancy	57,593	5,074	442	63,109
Office Supplies	2,913	5,682	1,340	9,935
Conferences, Meetings, and Education	1,783	5,097	3,829	10,709
Computer Expenses	15	560	3,147	3,722
Staff Development	4,698	3,180	3,792	11,670
Minor Equipment Expense	2,116	63,538	16	65,670
Travel	7,787	3,538	2,858	14,183
Recognition	56	1,888	292	2,236
Warehouse Equipment Leases	7,560	-	-	7,560
Uniforms	8,213	-	341	8,554
Bad Debt Expense	165	-	50	215
Other	24,558	160	3,440	28,158
Special Event Expenses	-	-	45,360	45,360
	<u>30,747,723</u>	<u>777,976</u>	<u>887,322</u>	<u>32,413,021</u>
Less Expenses Netted Against Revenues on the Statement of Activities:				
Special Event Expenses	-	-	(45,360)	(45,360)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 30,747,723</u>	<u>\$ 777,976</u>	<u>\$ 841,962</u>	<u>\$ 32,367,661</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	1,635,861
Payroll Taxes and Benefits	249,943	121,286	84,007	455,236
Direct Mail	-	-	224,615	224,615
Depreciation and Amortization	193,126	8,457	5,822	207,405
Professional Fees and Outside Services	47,480	84,264	60,830	192,574
Advertising	-	-	30,487	30,487
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
Warehouse Supplies	98,635	188	31	98,854
Repairs and Maintenance-Warehouse Equipment	28,383	751	4	29,138
Occupancy - Donated (East Javalina)	15,600	-	-	15,600
Telecommunications	31,011	5,786	579	37,376
Dues, Subscriptions, and Fees	1,223	6,732	27,687	35,642
Membership Dues	16,741	14,799	24,680	56,220
Insurance	47,410	20,287	870	68,567
Postage, Shipping, and Courier	80	345	8,973	9,398
Printing and Publications	853	5,279	8,915	15,047
Repairs and Maintenance - Occupancy	83,450	5,648	2,339	91,437
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	45,829	(2,525)	2,815	46,119
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	<u>-</u>	<u>-</u>	<u>(51,231)</u>	<u>(51,231)</u>
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
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 877,663	\$ (819,780)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Endowment Contribution Revenue	(100,000)	-
Depreciation and Amortization	206,188	207,405
Realized and Unrealized Gains on Investments	(198,431)	(111,346)
(Gain) Loss on Interest Rate Swap	27,780	(72,049)
(Increase) Decrease in Assets:		
Contracts Receivable	(291,389)	282,572
Inventories	(387,438)	465,072
Prepays and Deposits	1,460	10,150
Increase (Decrease) in Liabilities:		
Accounts Payable	293,852	(28,328)
Accrued Expenses	(59,894)	74,447
Deferred Revenue	-	6,500
Net Cash Provided by Operating Activities	369,791	14,643
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(134,844)	(40,932)
Proceeds from Sale of Investments	331,000	295,000
Purchases of Property and Equipment	(724,692)	(238,203)
Net Cash Provided (Used) by Investing Activities	(528,536)	15,865
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Received on Endowment Contributions	100,000	-
Principal Payments on Bonds Payable	(79,035)	(76,747)
Net Cash Provided (Used) by Financing Activities	20,965	(76,747)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(137,780)	(46,239)
Cash and Cash Equivalents - Beginning of Year	369,555	415,794
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 231,775	\$ 369,555

See accompanying Notes to Financial Statements.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Donated inventories are stated at the estimated value per pound of \$1.68 and \$1.73 as of June 30, 2019 and 2018, 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.

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, 2019 and 2018, 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 \$28,289,400 and \$30,663,418 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.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 to a specific functional classification are allocated based on the best estimates of management based on square footage and payroll allocations.

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 \$288,389 and \$255,102 for the years ended June 30, 2019 and 2018.

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.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications to previously reported June 30, 2018 amounts were made to be consistent with the June 30, 2019 presentation.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statement of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Subsequent Events

Management has evaluated subsequent events thru October 28, 2019, 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 LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Total Financial Assets	\$ 2,327,557
Less:	
Investments with Liquidity Horizons Greater than One Year	(793,523)
Donor-Imposed Restrictions:	
Restricted Funds	(915,907)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 618,127</u></u>

The Organization operates under various grants, federal funding, contributions and contracts for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability, 2) maintaining adequate liquid assets to fund near-term operating needs, and 3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization forecasts its future cash flows and monitors its liquidity reserves monthly.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 CONTRACTS RECEIVABLE

Contracts receivable was \$408,067 and \$116,678 as of June 30, 2019 and 2018, respectively. As of June 30, 2019, 82% was from one granting agency. As of June 30, 2018, 85% was due from three granting agencies. The receivables are all due within the next twelve months.

NOTE 5 INVENTORIES

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

	2019	2018
Donated	\$ 349,529	\$ 754,888
Purchased	101,172	3,554
TEFAP	908,797	213,618
Total Inventories	<u>\$ 1,359,498</u>	<u>\$ 972,060</u>

NOTE 6 INVESTMENTS

Investments as of June 30 consist of:

	2019	2018
Mutual Funds	\$ 576,871	\$ 467,020
Bonds	318,993	564,479
Equity Securities	550,239	581,696
Exchange Traded Funds	113,039	-
Cash	128,573	72,245
Total Investments	<u>\$ 1,687,715</u>	<u>\$ 1,685,440</u>

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2019	2018	Useful Lives
Land	\$ 850,000	\$ 850,000	N/A
Buildings and Improvements	3,673,617	3,284,970	Lease Term - 30 Years
Vehicles	851,479	725,757	5 Years
Machinery, Equipment, and Furniture	384,936	413,860	5 Years
Construction in Progress - Buildings and Improvements	401,501	210,000	N/A
Website	20,080	20,080	5 Years
Total Property and Equipment	<u>6,181,613</u>	<u>5,504,667</u>	
Less: Accumulated Depreciation	<u>2,207,231</u>	<u>2,048,789</u>	
Net Property and Equipment	<u>\$ 3,974,382</u>	<u>\$ 3,455,878</u>	

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 PROPERTY AND EQUIPMENT (CONTINUED)

Construction in progress as of June 30, 2019 consists of a donated phone system and costs to remodel the Javelina facility, both projects are expected to be completed in fiscal year 2020.

NOTE 8 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>
2020	\$ 83,898
2021	87,847
2022	92,311
2023	96,989
2024	<u>1,661,227</u>
Total	2,022,272
Less: Current Maturities	<u>(83,898)</u>
Bonds Payable, Net of Current Maturities	<u><u>\$ 1,938,374</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 BBVA 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, 2019 and 2018 is \$1,702,029 and \$1,768,627, respectively. The notional amount under the agreement decreases as principal payments are made on the debt. As of June 30, 2019 and 2018, the fair value of the interest rate swap obligation was \$114,565 and \$86,785.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Virginia G. Piper	\$ 81,377	\$ 7,060
Feeding America Meal Connect	51,500	-
Thunderbirds Charities	15,740	-
Feeding America Costco Grant	13,139	11,580
State Farm	2,500	-
EIF Albertson Grant	-	13,941
Garden Project	-	653
Bank of America Grant	-	30,000
Love Abounds Foundation	-	36,698
APS	-	4,000
Total	<u>164,256</u>	<u>103,932</u>
Subject to Passage of Time:		
Promises to Give that are Not Restricted by Donors, but Which are Unavailable for Expenditure Until Due:		
Mesa United Way	35,167	32,000
Valley of the Sun United Way	<u>30,200</u>	<u>35,500</u>
Total	<u>65,367</u>	<u>67,500</u>
Endowments:		
Subject to Endowment Spending Policy and Appropriation:		
Earnings on Endowment Funds	385,447	316,223
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity:	<u>300,837</u>	<u>200,837</u>
Total	<u>686,284</u>	<u>517,060</u>
 Total Donor Restricted Net Assets	 <u>\$ 915,907</u>	 <u>\$ 688,492</u>

Net assets with donor restrictions of \$516,248 and \$474,543 were released when the activity or time restrictions were met as of June 30, 2019 and 2018.

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 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:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Board-Designated	\$ 1,001,330	\$ -	\$ 1,001,330
Donor-Restricted	-	686,284	686,284
Total	<u>\$ 1,001,330</u>	<u>\$ 686,284</u>	<u>\$ 1,687,614</u>
	2018		
	Without Donor Restriction	With Donor Restriction	Total
Board-Designated	\$ 1,168,279	\$ -	\$ 1,168,279
Donor-Restricted	-	517,060	517,060
Total	<u>\$ 1,168,279</u>	<u>\$ 517,060</u>	<u>\$ 1,685,339</u>

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 ENDOWMENTS (CONTINUED)

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

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets -			
Beginning of Year	\$ 1,168,279	\$ 517,060	\$ 1,685,339
Contributions	-	100,000	100,000
Investment Income	108,618	37,081	145,699
Unrealized Gains	55,433	32,143	87,576
Withdrawals	(331,000)	-	(331,000)
Endowment Net Assets - End of Year	<u>\$ 1,001,330</u>	<u>\$ 686,284</u>	<u>\$ 1,687,614</u>
	2018		
	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets -			
Beginning of Year (As Restated)	\$ 1,345,589	\$ 482,471	\$ 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>\$ 517,060</u>	<u>\$ 1,685,339</u>

NOTE 11 RETIREMENT PLAN

The Organization sponsors a 401(k) plan that covers all employees who meet specified age and service requirements. Each participant may contribute up to 15% of their eligible compensation on a pretax basis to the plan up to the maximum allowed by the 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, 2019 and 2018.

NOTE 12 LEASES

The Organization leases equipment under an operating lease which ends in February 2021. Minimum future rental payments under the operating lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 139,705
2021	87,495
2022	7,200
Total Future Maturities	<u>\$ 234,400</u>

UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 LEASES (CONTINUED)

Total rent expense was approximately \$148,258 and \$146,074, respectively, for the years ended June 30, 2019 and 2018.

NOTE 13 FAIR VALUE MEASUREMENT

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

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Mutual Funds	\$ 576,871	\$ -	\$ -	\$ 576,871
Bonds	318,993	-	-	318,993
Equity Securities	550,239	-	-	550,239
Exchange Traded Funds	113,039	-	-	113,039
Total Investments at Fair Value	<u>1,559,142</u>	<u>-</u>	<u>-</u>	<u>1,559,142</u>
Cash	-	-	-	128,573
Total Assets	<u>\$ 1,559,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,687,715</u>
Liabilities:				
Interest Rate Swap Obligation	\$ -	\$ (114,565)	\$ -	\$ (114,565)
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ (114,565)</u>	<u>\$ -</u>	<u>\$ (114,565)</u>
	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Mutual Funds	\$ 467,020	\$ -	\$ -	\$ 467,020
Bonds	564,479	-	-	564,479
Equity Securities	581,696	-	-	581,696
Total Investments at Fair Value	<u>1,613,195</u>	<u>-</u>	<u>-</u>	<u>1,613,195</u>
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>

**UNITED FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 13 FAIR VALUE MEASUREMENT (CONTINUED)

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

	2019	
	Statement of Activities Location	Loss
Interest Rate Swap Contract	Loss on Interest Rate Swap	\$ (27,780)
	2018	
	Statement of Activities Location	Gain
Interest Rate Swap Contract	Gain on Interest Rate Swap	\$ 72,049

NOTE 14 COMMITMENT

The Organization has entered into a noncancellable construction contract for \$217,000 related to the remodeling of the Javelina facility. As of June 30, 2019, \$131,000 had yet to be incurred on this contract.

NOTE 15 SUBSEQUENT EVENT

Effective July 1, 2019, the Organization assumed control of Waste Not, an Arizona nonprofit whose purpose is to rescue and distribute excess food from restaurants, resorts, caterers, grocers and various vendors, while delivering it to a diverse network of agencies that feed the hungry, and combating waste in the environment.



**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, 2019, 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 28, 2019.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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 28, 2019



**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's (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, 2019. 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, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, and 2019-003. Our opinion on each major federal program is not modified with respect to these matters.

United Food Bank's response to the noncompliance findings 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 did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, and 2019-003, that we consider to be significant deficiencies.

Board of Directors
United Food Bank

Report on Internal Control Over Compliance (Continued)

United Food Bank's response to the internal control over compliance findings 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.

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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Phoenix, Arizona
October 28, 2019

**UNITED FOOD BANK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

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			
Passed through the Arizona Department of Economic Security			
Emergency Food Assistance Program - Food Distribution Cluster			
Administrative Funding	10.568	ADES17-174332	\$ 534,005
Commodities	10.569	ADES17-174332	6,545,053
Total Food Distribution Cluster			<u>7,079,058</u>
Trade Mitigation Food Purchase and Distribution Program	10.178	ADES17-174332	124,000
Total Department of Agriculture, Food, and Nutrition Service			<u>7,203,058</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Arizona Department of Economic Security			
Social Services Block Grant	93.667	ADES17-174332	229,721
Temporary Assistance for Needy Families (TANF) Cluster	93.558	ADES17-174332	117,045
Total Department of Health and Human Services			<u>346,766</u>
DEPARTMENT OF HOMELAND SECURITY			
Emergency Food and Shelter National Board Program (Direct)	97.024	LRO0256-00-011	188,992
			<u>\$ 7,738,816</u>

UNITED FOOD BANK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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, 2019. 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 *2019 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, 2019**

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? _____ yes X 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

Food Distribution Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

Section II – Financial Statement Findings

None

**UNITED FOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs

2019-001

**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, 2018 – June 30, 2019**

Type of Finding – Significant Deficiency in Internal Control over Compliance

Condition/Context – Internal control procedures over eligibility requirements for 5 of 60 TEFAP Monthly Inventory and Participation Reports were not completed with the certifying signature by the eligible recipient agency representative and there was no evidence of a secondary review by the internal Program staff.

Criteria – In accordance with the Compliance Supplement, Part 6 – Internal Control, 2 CFR section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

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

Effect – Noncompliance with and the Compliance Supplement.

Repeat Finding – Not Applicable

Questioned Costs – None

Recommendation – TEFAP Monthly Inventory and Participation Reports should be completed and signed by a responsible individual with the distribution agencies and reviewed by the internal Program staff. 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, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019-002

**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, 2018 – June 30, 2019**

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

Condition/Context – Internal control procedures over eligibility requirements did not ensure compliance with federal awards. The Arizona Department of Economic Security (ADES) conducted a Contract Compliance Review during the year ended June 30, 2019 and identified the following noncompliance pertaining to 30 distribution site files:

1. Distribution site client totals did not match client signature lists.
2. Number of boxes distributed did not match.
3. Number of household address missing in several client signature lists.
4. Distribution site files did not use proper ADES forms.
5. Dates were missing on distribution sheets.

Criteria – In accordance with the Compliance Supplement, Part 6 – Internal Control, 2 CFR section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

In accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, 2 CFR §251.10 (a)(3) Household information. Each distribution site must collect and maintain on record for each household receiving TEFAP commodities for home consumption, the name of the household member receiving commodities, the address of the household (to the extent practicable), the number of persons in the household, and the basis for determining that the household is eligible to receive commodities for home consumption.

Cause – Clerical oversight.

Effect – Noncompliance with the Compliance Supplement and Uniform Guidance.

Repeat Finding – Not Applicable

Questioned Costs – None

Recommendation – Distribution site files should be reviewed by a responsible individual for compliance with federal award requirements. The review should be documented. Additionally, training on applicable federal award 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, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019-003

**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, 2018 – June 30, 2019**

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

Condition/Context – Internal control procedures over reporting requirements did not ensure compliance with federal awards. The Arizona Department of Economic Security (ADES) conducted a Contract Compliance Review during the year ended June 30, 2019 and identified the following noncompliance pertaining to two (August 2018 and March 2019) of twelve monthly commodities inventory reports:

1. Book versus physical inventory had several discrepancies.
2. FIFO not being used.
3. Inventory level for several items on the monthly inventory report exceeded the five-month supply.
4. Monthly inventory reports are not being reviewed to ensure that product is being distributed timely/adequately.

Criteria – In accordance with the Compliance Supplement, Part 6 – Internal Control, 2 CFR section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

In accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, 2 CFR §251.4 (d) Quantities requested. State agencies shall: (1) Request commodities only in quantities which can be utilized without waste in providing food assistance to needy persons under this part; (2) Ensure that no eligible recipient agency receives commodities in excess of anticipated use, based on inventory records and controls, or in excess of its ability to accept and store such commodities;

Cause – Clerical oversight.

Effect – Noncompliance with the Compliance Supplement and Uniform Guidance.

Repeat Finding – Not Applicable

Questioned Costs – None

Recommendation – Monthly commodities inventory files should be reviewed by a responsible individual for compliance with federal award requirements. The review should be documented. Additionally, training on applicable federal award 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, 2019**



CORRECTIVE ACTION PLAN

United Food Bank respectfully submits the following corrective action plan for the year ended June 30 2019. The findings are numbered consistently with the Schedule of Findings and Questioned Costs assigned in the current year.

2019-001

**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, 2018 – June 30, 2019**

Type of Finding – Significant Deficiency in Internal Control over Compliance

Condition/Context – Internal controls procedures over eligibility requirements for 5 of 60 TEFAP Monthly Inventory and Participation Reports were not completed with the certifying signatures.

Contact Person – Chariti Stern, Director of Agency Relations and Programs

Corrective Action Plan - United Food Bank agrees with the auditors' recommendation. As of September 2019, the proper training was held to ensure the TEFAP Monthly Inventory and Participation Reports are completed and have certifying signatures for all agencies.

2019-002

**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, 2018 – June 30, 2019**

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

Condition/Context – Internal control procedures over eligibility requirements did not ensure compliance with Federal awards. The Arizona Department of Economic Security (ADES) conducted a Contract Compliance Review during the year ended June 30, 2019 and identified the following non-compliance pertaining to 30 distribution site files:

1. Distribution site client totals did not match client signature lists.
2. Number of boxes distributed did not match.
3. Number of household address missing in several client signature lists.
4. Distribution site files did not use proper ADES forms.
5. Dates were missing on distribution sheets.



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**UNITED FOOD BANK
CORRECTIVE ACTION PLAN (CONTINUED)
YEAR ENDED JUNE 30, 2019**



CORRECTIVE ACTION PLAN (Continued)

Contact Person – Rayna Palmer, Chief Compliance Officer

Corrective Action Plan - To ensure that United Food Bank is following correct eligibility requirements, United Food Bank will conduct the following steps:

1. Chief Compliance Officer and Internal Agency Relations, Retail Relations and Program staff will be trained on the ADES guidelines, processes, and procedures.
2. Semi-annual meetings and trainings will be held with staff to ensure that internal control monitoring activities related to procedures are being followed and ensure staff and partners are using the correct updated required ADES forms.
3. Staff will review all collected reports and forms to ensure the site client totals match the client signature sheets, the number of boxes distributed match, the client signature has a household address or designated otherwise, and dates are all properly documented on the distribution sheets.

2019-003

**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, 2018 – June 30, 2019**

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

Condition/Context – Internal control procedures over reporting requirements did not ensure compliance with Federal awards. The Arizona Department of Economic Security (ADES) conducted a Contract Compliance Review during the year ended June 30, 2019 and identified the following non-compliance pertaining to two (August 2018 and March 2019) of twelve month commodities inventory reports:

1. Book verses physical inventory had several discrepancies
2. FIFO not being followed
3. Inventory level for several items on the monthly inventory report exceeded the 5-month supply.
4. Monthly inventory reports are not being reviewed to ensure that product is being distributed timely/adequately.

Contact Person – Benito Ontiveros, Director of Operations

Corrective Action Plan - To ensure that United Food Bank is following correct procedures pertaining to inventory, they will ensure that FIFO is being followed and monthly inventory reports are to be reviewed timely to guarantee product is being distributed timely and not exceed the 5-month supply.



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**UNITED FOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**



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 2018. 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

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 – Megan Nagle, Director of Finance

Status - Corrected. General Journal Entries that are created by the CFO are reviewed by the Director of Finance, and vice versa.

FINDINGS - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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 – Chariti Stern, Director of Agency Relations and Programs

Status – Corrected. The Agency Relations and Program department is ensuring eligibility forms have signatures and dates for all Agencies who receive TEFAP food.



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**UNITED FOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2019**



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

FINDINGS - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

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 – Megan Nagle, Director of Finance

Status - Corrected. The Organization is following procurement policies.