

ARKANSAS FOODBANK NETWORK, INC.

ACCOUNTANTS' REPORT AND
FINANCIAL STATEMENTS

DECEMBER 31, 2009

**ARKANSAS FOODBANK NETWORK, INC.
DECEMBER 31, 2009**

TABLE OF CONTENTS

INDEPENDENT ACCOUNTANTS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION.....	1
FINANCIAL STATEMENTS	
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Functional Expenses	4-5
Statement of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS.....	7-11
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards.....	12
Schedule of Units of Service.....	13
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>.....	14-15
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	16-17
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	18-19
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	20



INDEPENDENT ACCOUNTANTS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

To the Board of Directors of
Arkansas Foodbank Network, Inc.

We have audited the accompanying statement of financial position of the Arkansas Foodbank Network, Inc. (a nonprofit organization) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arkansas Foodbank Network, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2010, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Craft, Veach & Company

Craft, Veach & Company
North Little Rock, Arkansas
April 19, 2010

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,473,875
Accounts Receivable - Program	60,851
Pledges Receivable	725,886
Inventory - Food Products	1,516,697
Prepaid Items	<u>19,298</u>
Total Current Assets	<u>3,796,607</u>

Property and Equipment

Building	1,018,994
Land	1,045,440
Equipment	317,958
Vehicles	379,586
Accumulated Depreciation	<u>(830,644)</u>
Property and Equipment, Net	<u>1,931,334</u>

Other Assets:

Endowment: Arkansas Community Foundation	29,495
Utility and Security Deposits	400
"From Hunger to Hope" Capital Campaign	<u>252,083</u>
Total Other Assets	<u>281,978</u>

TOTAL ASSETS6,009,919**LIABILITIES**

Current Liabilities:

Accounts Payable	48,322
Accrued Payroll and Taxes	23,922
Note Payable - Current Portion	<u>43,897</u>
Total Current Liabilities	116,141

Long-Term Liabilities

Note Payable	<u>101,094</u>
Total Long-Term Liabilities	<u>101,094</u>

TOTAL LIABILITIES217,235**NET ASSETS**

Unrestricted	3,991,518
Temporarily Restricted	1,770,166
Permanently Restricted	<u>31,000</u>

TOTAL NET ASSETS5,792,684**TOTAL LIABILITIES AND NET ASSETS**\$ 6,009,919

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND SUPPORT				
Public Support:				
Contributions	\$ 799,038	\$ -	\$ -	\$ 799,038
Capital Campaign	-	240,832	-	240,832
Grants	338,600	168,500	-	507,100
USDA Assistance	130,287	-	-	130,287
USDA Commodities	631,148	-	-	631,148
Direct Mail	1,219,478	-	-	1,219,478
United Way	47,190	-	-	47,190
Donations of Food	18,072,760	-	-	18,072,760
Special Events	113,249	-	-	113,249
Other Revenue:				
In Kind Contributions	41,437	-	-	41,437
Interest/Dividends	2,703	-	-	2,703
Investment Gains	5,090	-	-	5,090
Shared Maintenance	485,239	-	-	485,239
Food Purchased Revenue	1,111,708	-	-	1,111,708
Gifts in Kind Revenue	95,373	-	-	95,373
Membership Dues	19,070	-	-	19,070
Cluster Agreement	40,595	-	-	40,595
Other	11,037	-	-	11,037
Net Assets Released From Restrictions:				
Satisfied by Payments	225,938	(225,938)	-	-
TOTAL REVENUES AND SUPPORT	<u>23,389,940</u>	<u>183,394</u>	<u>-</u>	<u>23,573,334</u>
EXPENSES				
Program Services	21,191,999	-	-	21,191,999
Supporting Services	<u>1,221,196</u>	<u>-</u>	<u>-</u>	<u>1,221,196</u>
TOTAL EXPENSES	<u>22,413,195</u>	<u>-</u>	<u>-</u>	<u>22,413,195</u>
CHANGE IN NET ASSETS	976,745	183,394	-	1,160,139
NET ASSETS, BEGINNING OF YEAR	3,208,467	1,586,772	31,000	4,826,239
PRIOR PERIOD ADJUSTMENT - CORRECTION OF ERRORS (SEE NOTE 11)	(193,694)	-	-	(193,694)
NET ASSETS, END OF YEAR	<u>\$ 3,991,518</u>	<u>\$ 1,770,166</u>	<u>\$ 31,000</u>	<u>\$ 5,792,684</u>

	PROGRAM SERVICES				
	Foodbank	Commodities	Gifts In Kind	Kid Programs	Senior Supplement
Compensation and related expenses					
Compensation	\$ 371,423	\$ 27,890	\$ 63,788	\$ 66,049	\$ 8,668
Payroll taxes	28,841	2,164	4,949	5,103	673
Employee benefits	43,391	3,258	7,452	7,716	1,013
Total compensation and related expenses	443,655	33,312	76,189	78,868	10,354
Occupancy	45,562	3,421	7,825	8,102	1,063
Administration					
Agency capacity building	37,226	-	-	-	-
Audit and accounting	3,938	296	676	700	92
Auto expense	55,434	684	-	10,265	-
Bad debts	347	-	-	-	-
Backpack for Kids	-	-	-	40,611	-
Bank charges	-	-	-	-	-
Consulting fees	23,659	1,777	4,063	4,207	552
Capital campaign	-	-	-	-	-
Check out Hunger	845	-	-	-	-
Cluster handling	82,420	-	-	-	-
Copier and fax	3,801	285	653	676	88
Direct mail expenses	-	-	-	-	-
Dues and memberships	51,667	-	-	-	-
Food/Grocery products	18,542,772	-	-	-	-
Freight	149,976	-	-	-	-
Gifts in Kind	-	-	19,905	-	-
Grants to agencies	8,800	-	-	-	-
In-Kind services	16,334	1,227	2,805	2,905	381
Insurance - general	4,551	342	782	809	106
Hunger study	13,429	-	-	-	-
Kids Café	-	-	-	101,346	-
Newsletter	-	-	-	-	-
Office supplies	4,940	371	848	878	115
Other expenses	4,268	320	733	759	99
Payroll service fees	1,262	89	203	133	28
Postage	9,856	740	1,693	1,753	230
Printing and production	2,249	169	386	400	52
Product purchases	1,133,850	-	-	-	-
Public awareness	-	-	-	-	-
Seminars and training	10,659	800	1,831	1,895	249
Senior supplement	-	-	-	-	4,530
Special events	-	-	-	-	-
Taxes, licenses, permits	4,657	-	-	-	-
Travel	2,206	166	379	392	51
Warehouse expenses	49,541	-	-	-	-
Total administration	20,218,687	7,266	34,957	167,729	6,573
Total expenses before depreciation	20,707,904	43,999	118,971	254,699	17,990
Depreciation	33,450	2,512	5,745	5,948	781
Total expenses	\$ 20,741,354	\$ 46,511	\$ 124,716	\$ 260,647	\$ 18,771

Continued on following page.

	SUPPORTING SERVICES			TOTALS		
	General Admin	Fund Development	Public Awareness	Total Program Services	Total Supporting Services	Total Functional Expenses
Compensation and related expenses						
Compensation	\$ 232,633	\$ 107,978	\$ 63,788	\$ 537,818	\$ 404,399	\$ 942,217
Payroll taxes	18,050	8,378	4,949	41,730	31,377	73,107
Employee benefits	27,178	12,615	7,452	62,830	47,245	110,075
Total compensation and related expenses	277,861	128,971	76,189	642,378	483,021	1,125,399
Occupancy	28,537	13,246	7,825	65,973	49,608	115,581
Administration						
Agency capacity building	-	-	-	37,226	-	37,226
Audit and accounting	2,466	1,145	676	5,702	4,287	9,989
Auto expense	-	2,053	-	66,383	2,053	68,436
Bad debts	-	-	-	347	-	347
Backpack for Kids	-	-	-	40,611	-	40,611
Bank charges	14,457	-	-	-	14,457	14,457
Consulting fees	14,818	6,878	4,063	34,258	25,759	60,017
Capital campaign	-	103,359	-	-	103,359	103,359
Check out Hunger	-	-	-	845	-	845
Cluster handling	-	-	-	82,420	-	82,420
Copier and fax	2,381	1,105	653	5,503	4,139	9,642
Direct mail expenses	-	359,886	-	-	359,886	359,886
Dues and memberships	-	-	-	51,667	-	51,667
Food/Grocery products	-	-	-	18,542,772	-	18,542,772
Freight	-	-	-	149,976	-	149,976
Gifts in Kind	-	-	-	19,905	-	19,905
Grants to agencies	-	-	-	8,800	-	8,800
In-Kind services	10,231	4,749	2,805	23,652	17,785	41,437
Insurance - general	2,850	1,323	782	6,590	4,955	11,545
Hunger study	-	-	-	13,429	-	13,429
Kids Café	-	-	-	101,346	-	101,346
Newsletter	-	-	56,745	-	56,745	56,745
Office supplies	3,095	1,436	848	7,152	5,379	12,531
Other expenses	2,673	1,241	733	6,179	4,647	10,826
Payroll service fees	742	344	203	1,715	1,289	3,004
Postage	6,174	2,866	1,693	14,272	10,733	25,005
Printing and production	1,409	654	386	3,256	2,449	5,705
Product purchases	-	-	-	1,133,850	-	1,133,850
Public awareness	-	-	2,373	-	2,373	2,373
Seminars and training	6,675	3,099	1,831	15,434	11,605	27,039
Senior supplement	-	-	-	4,530	-	4,530
Special events	-	17,844	-	-	17,844	17,844
Taxes, licenses, permits	-	-	-	4,657	-	4,657
Travel	1,382	641	379	3,194	2,402	5,596
Warehouse expenses	-	-	-	49,541	-	49,541
Total administration	69,353	508,623	74,170	20,435,212	652,146	21,087,358
Total expenses before depreciation	375,751	650,840	158,184	21,143,563	1,184,775	22,328,338
Depreciation	20,951	9,725	5,745	48,436	36,421	84,857
Total expenses	\$ 396,702	\$ 660,565	\$ 163,929	\$ 21,191,999	\$ 1,221,196	\$ 22,413,195

Continued from previous page.

See accompanying notes to financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 1,160,139
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Noncash items:	
Depreciation	84,857
Noncash donations	(18,745,345)
Noncash distributions	18,397,446
Net realized and unrealized gain on endowment	(5,090)
(Increase) Decrease in:	
Accounts receivable	103,937
Pledges receivable	(369,580)
Purchased inventory	(57,308)
Prepaid expenses	(9,659)
Increase (Decrease) in:	
Accounts payable	(23,405)
Payroll and taxes payable	4,240
Deferred revenue	(9,775)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>530,457</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Activity in endowment account	1,116
"From Hunger to Hope" capital campaign	(252,083)
Purchase of capital assets	(196,142)
NET CASH USED BY INVESTING ACTIVITIES	<u>(447,109)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on long-term debt	(41,949)
NET CASH USED BY FINANCING ACTIVITIES	<u>(41,949)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,399
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,432,476</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,473,875</u></u>

Note: Cash paid during the year for interest expense totaled \$7,250.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Nature of Operations***

Arkansas Foodbank Network is a nonprofit corporation established to collect and distribute donated food and other items. The Organization is an affiliated member of Feeding America (the Nation's Foodbank Network), the Arkansas Hunger Relief Alliance, and the Heart of Arkansas United Way. The receipt of food is primarily from retail stores, wholesalers, manufacturers, processors and food drives. After careful inspection, the food and products are distributed to not-for-profit agencies such as food pantries, soup kitchens, shelters, after-school feeding programs and other similar groups in 33 central and southern counties in Arkansas.

Basis of Accounting

The Organization uses the accrual method of accounting. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Organization are included in the balance sheet.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Certain costs have been allocated (based on estimates) among the program and supporting services benefited.

Cash Flows

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Financial Statement Presentation

The Organization follows Statement of Financial Accounting Standard (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. As permitted by this statement, the Organization has discontinued its use of fund accounting and has accordingly reclassified its financial statements to present the three classes of net assets required.

The organization also follows SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donated Services

Unpaid volunteers have made contributions of their time in conjunction with the Organization's programs and services. There was a total of 11,217 volunteer hours valued at \$268,224 in 2009. However, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services are reflected in the financial statements at their fair market value.

Advertising

It is the policy of the Organization to expense advertising costs as they are incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Support and Revenues***

The Organization solicits contributions through direct mail campaigns, corporate promotions and grant applications. Unsolicited contributions are also received from the general public. Another source of funding is the allocation received from the United Way. During the year ended December 31, 2009, the Organization received \$2,926,887 in public support from these sources.

Contributions, including pledges, represent amounts raised from the public and are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Cash donations are recorded when received. Contributions of assets other than cash are recorded at estimated fair value.

New equipment donated to the Organization is included in the financial statements at the suggested retail price. Used equipment donated to the Organization is recorded at estimated fair market value.

Some of the food and grocery products distributed by the Arkansas Foodbank Network to its member agencies are assessed a "shared maintenance fee" of up to \$0.18 per pound to assist in on-going operating costs of the Organization.

Food and Grocery Products

Food and grocery products donated to the Arkansas Foodbank Network that are distributed and on-hand at year end are valued at an average wholesale value as determined by a survey conducted annually by Feeding America, the Nation's Food Bank Network. For the year ended December 31, 2009, the average wholesale value used was \$1.58 per pound. Commodities are valued using prices provided by the USDA for each item on USDA invoices.

Property and Equipment

Property and equipment is recorded at cost and is depreciated over the useful life of each asset. Annual depreciation is computed using the straight-line method with useful lives as follows:

Buildings	7-39 years
Office Equipment	5-7 years
Vehicles	5 years
Computer software	3-5 years
Warehouse equipment	5-15 years

It is the Organization's policy to capitalize all asset purchases greater than \$500.

Accounts Receivable

Accounts receivable consists of funds owed to the Organization from government awarding agencies, donations and other services.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

NOTE 2: FEDERAL INCOME TAX

The Organization is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and a similar section of Arkansas statutes. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation with the meaning of Section 509(a) of the Code.

Additionally, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A).

NOTE 3: CASH DEPOSITS

The carrying amount of the Organization's cash deposits was \$1,473,875 at December 31, 2009. The bank balance of the Company's cash deposits was \$1,581,791 at December 31, 2009. The entire 2009 balance was insured by the Federal Depository Insurance Corporation (FDIC) through its Transaction Account Guarantee Program.

NOTE 4: INVESTMENTS

In October 2001, an endowment fund in the amount of \$31,000 was established at the Arkansas Community Foundation, with \$21,000 raised specifically for this purpose by Arkansas Foodbank Network and \$10,000 in a matching contribution by the Foundation. The endowment is accounted for under standards established by SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*. Under SFAS No. 136, the endowment is considered a reciprocal transfer of funds since the Organization is both the donor and beneficiary of the endowment, even though the variance power has been granted to the Foundation and the Foundation is the legal owner of the fund under the terms of the endowment agreement. The fund may expend that portion of its total assets as permitted by the spending rate policy.

Furthermore, the Organization adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under this standard, investments and marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains are reported as increases in unrestricted net assets in the reporting period in which the income and gains are recognized.

Fair value of pooled investments totals \$29,495.

	Appreciation (Depreciation)
Unrealized gain	\$ 8,256
Realized loss	(3,166)
Realized and unrealized gains, net	<u>\$ 5,090</u>

Investment return is summarized as follows:

Investment interest income	\$ 492
Realized and unrealized gains, net	<u>5,090</u>
Total restricted investment gain	<u>\$ 5,582</u>

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Capital assets are defined as assets that have a useful life of more than one year and a unit cost of more than \$500. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from three to fifteen years on personal property. Depreciation on real property is calculated on the straight-line method over 39 years. Depreciation expense for the year ended December 31, 2009 amounted to \$84,857.

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 1,045,440	\$ -	\$ -	\$ 1,045,440
Buildings	1,018,994	-	-	1,018,994
Equipment	299,581	18,376	-	317,957
Vehicles	201,820	177,766	-	379,586
Total Cost	2,565,835	196,142	-	2,761,977
Less Accumulated Depreciation	(745,787)	(84,857)	-	(830,644)
Net Book Value	<u>\$ 3,311,622</u>	<u>\$ 280,999</u>	<u>\$ -</u>	<u>\$ 3,592,621</u>

NOTE 6: LONG-TERM DEBT

Details of Notes Payable at December 31, 2009 are as follows:

A 4.5% note payable to Regions Bank, secured by real estate. Payments of \$4,100 are due in monthly installments, with unpaid principal due April 16, 2012.	\$ 144,991
Less Current	(43,897)
Total Notes Payable – Noncurrent	<u>\$ 101,094</u>

The aggregate maturities of long-term debt are as follows:

For the year ended December 31,	
2010	\$ 43,897
2011	45,799
2012	55,295
Total	<u>\$ 144,991</u>

NOTE 7: RESTRICTIONS ON NET ASSETS

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTE 7: RESTRICTIONS ON NET ASSETS (continued)

Net assets subject to restrictions by the donors include:

Temporarily restricted:

Grants	\$ 85,682
Capital Campaign	509,482
Funds	129,562
Land	<u>1,045,440</u>
Total	<u>\$ 1,770,166</u>

Permanently restricted: Endowment - ACF	<u>\$ 31,000</u>
---	------------------

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

NOTE 8: CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash balances with financial institutions. Accounts at institutions are insured 100% by the Federal Deposit Insurance Corporation through its Transaction Account Guarantee Program.

NOTE 9: COMMODITIES

Arkansas Foodbank Network has an agreement with the Arkansas Department of Human Services (DHS), under the authority of the Stewart B. McKinney Homeless Assistance Act, to distribute excess commodities to needy households. Under this agreement, the Organization receives commodities from DHS and distributes them to food pantries and other agencies throughout the state. Inventory is carried at the values assigned by DHS. Year end inventory totaled \$68,754.

NOTE 10: RETIREMENT PLAN

The Organization provides a plan for employees to contribute to individual retirement accounts. Distributions from these accounts to the employees are taxed at that time. Employer contributions totaled \$25,862 for the year.

NOTE 11: PRIOR PERIOD ADJUSTMENT

Beginning net assets was adjusted to correct errors made in prior periods. Inventory was overstated in the prior year by \$550,000, causing program expenses to be understated by the same amount. In addition, pledges receivable of \$365,945 were not recorded on the financial statements as required by Generally Accepted Accounting Principles.

Since this error was made in a financial year prior to that being presented, the Balance Sheet opening balances at January 1, 2009, were restated as follows:

- Inventory was decreased by \$550,000 to adjust the beginning balance to inventory on hand.
- Pledges receivable were increased by \$356,306 to recognize the unconditional promises to give received by the Organization prior to January 1, 2009.

The net effect of these adjustments was a decrease to beginning net assets of \$193,694.

SUPPLEMENTARY INFORMATION

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	State Identifying Number	Amount Expended
Emergency Food Assistance Program (Food Commodities)	Department of Agriculture/ Arkansas Department of Human Services	10.569	N/A	\$ 774,300
Emergency Food Assistance Program (Administrative Costs)	Department of Agriculture/ Arkansas Department of Human Services	10.568	FGS	7,605
Emergency Food Assistance Program (Administrative Costs) ARRA	Department of Agriculture/ Arkansas Department of Human Services	10.568	FGX	31,173
Child and Adult Food Care Program	Department of Agriculture/ Arkansas Department of Human Services	10.558	FA1	28,039
Child and Adult Food Care Program ARRA	Department of Agriculture/ Arkansas Department of Human Services	10.558	FAX	<u>63,470</u>
				<u>\$ 904,587</u>

Funding received for food provided to the Organization's clients through local Boys' and Girls' Clubs is based on the number of servings. This program is sponsored by the United States Department of Agriculture.

<u>Month</u>	<u>Number of Supplements</u>
January	13,645
February	14,963
March	16,523
April	19,227
May	12,253
June	-
July	-
August	1,678
September	10,536
October	13,920
November	14,729
December	11,727
Total	<u>129,201</u>



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*

To the Board of Directors of
Arkansas Foodbank Network, Inc.

We have audited the financial statements of the Arkansas Foodbank Network, Inc. (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated April 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiency 2009-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Organization in a separate letter dated April 19, 2010.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Craft, Veach & Company

Craft, Veach & Company
North Little Rock, Arkansas
April 19, 2010



Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

To the Board of Directors of
Arkansas Foodbank Network, Inc.

Compliance

We have audited the compliance of the Arkansas Foodbank Network, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Organization's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Craft, Veach & Company

Craft, Veach & Company
North Little Rock, Arkansas
April 19, 2010

Summary of Auditors' Results

1. The independent accountants' report on the financial statements expressed an unqualified opinion.
2. A significant deficiency in internal control over financial reporting was identified, which was considered to be a material weakness.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs were reported in the independent accountants' report on internal control over compliance.
5. The independent accountants' report on compliance with requirements applicable to major federal awards programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB *Circular A-133* as it relates to major federal programs.

7. The Organization's major federal programs are:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Emergency Food Assistance Program Cluster:	
Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	10.569

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB *Circular A-133*.
9. The Organization did qualify as a low risk auditee as that term is defined in OMB *Circular A-133*.

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
09-01	<p>Condition: A prior period adjustment was required to correct a material misstatement in a financial statement line item.</p> <p>Effect: On the December 31, 2008, financial statements, inventory was overstated by \$550,000, causing expenses to be understated by the same amount. In addition, pledges receivable of \$356,306 were not recorded on the financial statements. The net effect of these two adjustments was a decrease in net assets of \$193,694.</p> <p>Recommendation: We recommend that internal controls over the preparation of financial statements be strengthened in order to ensure that financial statements are free from material misstatement.</p> <p>Management’s Corrective Action Plan: We relied on the previous auditor to provide journal entries relating to adjusting inventory to actual and recording donated food. We also relied on their judgment as to whether the pledges receivable were subject to accrual. In the future, we will perform a more detailed evaluation of the appropriateness of auditor proposed journal entries.</p>	None

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
	None	None

Findings Required to be Reported by OMB *Circular A-133*

Reference Number	Finding	Questioned Costs
	None	