



## **Financial Statements**

**Year Ended June 30, 2017, with Comparative Totals for 2016**

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## **Independent Auditors' Report**

Board of Directors  
Foodbank of Southeastern Virginia  
Norfolk, Virginia

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

We have audited the accompanying financial statements of Foodbank of Southeastern Virginia (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 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 Foodbank of Southeastern Virginia as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) 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 schedule of expenditures of federal awards 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 September 28, 2017, on our consideration of Foodbank of Southeastern Virginia'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 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 Foodbank of Southeastern Virginia's internal control over financial reporting and compliance.

***Report on Summarized Comparative Information***

We have previously audited Foodbank of Southeastern Virginia's 2016 financial statements, and our report dated November 11, 2016, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Dixon Hughes Goodman LLP*

**Norfolk, Virginia  
September 28, 2017**

**Foodbank of Southeastern Virginia**  
**Statement of Financial Position**  
**June 30, 2017, with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,044,406	\$ 4,487,264
Accounts receivable, net of allowance for uncollectible accounts	3,896	18,242
United Way and other receivables	617,104	567,657
Investments	4,435,056	1,721,674
Beneficial interest in assets held by others	63,919	57,374
Inventory:		
USDA food	196,938	336,283
Donated food	456,094	826,825
Purchased food	240,681	276,003
Prepaid expenses	176,394	115,362
Property and equipment	4,505,225	4,690,578
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 12,739,713</u>	<u>\$ 13,097,262</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 184,653	\$ 443,417
Accrued payroll and payroll taxes	224,713	136,868
Capital lease obligation	51,932	83,399
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>461,298</u>	<u>663,684</u>
Net assets		
Unrestricted:		
Undesignated	2,833,108	5,976,163
Invested in property and equipment, net of related debt	4,453,293	4,607,179
Board-designated	3,982,821	1,107,047
Total unrestricted	<u>11,269,222</u>	<u>11,690,389</u>
Temporarily restricted	686,131	493,447
Permanently restricted	323,062	249,742
	<u>                    </u>	<u>                    </u>
Total net assets	<u>12,278,415</u>	<u>12,433,578</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 12,739,713</u>	<u>\$ 13,097,262</u>

See accompanying notes.

**Foodbank of Southeastern Virginia**  
**Statement of Activities**  
**Year Ended June 30, 2017, with Comparative Totals for 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Revenue, support and other changes:					
Sales to Agencies	\$ 275,583	\$ -	\$ -	\$ 275,583	\$ 313,832
Food purchases	(467,548)	-	-	(467,548)	(519,861)
Inventory adjustments	15,900	-	-	15,900	(3,319)
Gross loss	(176,065)	-	-	(176,065)	(209,348)
Donated food received	25,874,753	-	-	25,874,753	26,073,518
Contributions	3,005,848	221,951	73,320	3,301,119	3,299,844
Grants	1,452,904	145,017	-	1,597,921	1,336,971
Special events revenue, net of expenses	659,782	-	-	659,782	788,445
Program fees	256,370	-	-	256,370	289,486
USDA handling fees	74,329	-	-	74,329	169,727
United Way support	98,701	158,764	-	257,465	350,168
Donated goods and services	4,860	-	-	4,860	25,177
Thrift store sales, net of purchases	-	-	-	-	88,387
Realized and unrealized gains/(losses), net	197,512	20,223	-	217,735	(61,751)
Rental income	42,370	-	-	42,370	41,710
Dividends and interest	67,031	5,719	-	72,750	90,198
Other revenue	22,676	-	-	22,676	20,108
Loss on disposal of thrift store inventory	-	-	-	-	(97,590)
Gain on disposal of property and equipment	28,000	-	-	28,000	10,202
	31,609,071	551,674	73,320	32,234,065	32,215,252
Net assets released from restrictions	358,990	(358,990)	-	-	-
Total revenues, gains, and other support	31,968,061	192,684	73,320	32,234,065	32,215,252
Expenses:					
Program services	30,196,893	-	-	30,196,893	29,486,286
Fundraising	1,216,837	-	-	1,216,837	1,368,569
Depreciation expense	446,517	-	-	446,517	449,684
Management and general	528,981	-	-	528,981	319,594
	32,389,228	-	-	32,389,228	31,624,133
Increase (decrease) in net assets	(421,167)	192,684	73,320	(155,163)	591,119
Net assets, beginning of year	11,690,389	493,447	249,742	12,433,578	11,842,459
Net assets, end of year	<u>\$ 11,269,222</u>	<u>\$ 686,131</u>	<u>\$ 323,062</u>	<u>\$ 12,278,415</u>	<u>\$ 12,433,578</u>

See accompanying notes.

**Foodbank of Southeastern Virginia**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017, with Comparative Totals for 2016**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2017</u>	<u>Total 2016</u>
Personnel expense:					
Salaries and wages	\$ 1,598,151	\$ 260,628	\$ 512,604	\$ 2,371,383	\$ 2,257,956
Employee benefits	355,436	37,964	61,459	454,859	455,628
Payroll taxes	117,770	15,996	36,569	170,335	170,656
Total personnel expense	<u>2,071,357</u>	<u>314,588</u>	<u>610,632</u>	<u>2,996,577</u>	<u>2,884,240</u>
Donated products distributed	26,414,690	-	-	26,414,690	25,481,556
Program supplies	952,608	-	286	952,894	1,136,341
Fundraising	-	-	382,285	382,285	540,991
Occupancy	236,284	6,494	19,693	262,471	289,261
Professional fees	41,620	101,839	82,781	226,240	158,179
Transportation and freight	208,138	-	-	208,138	187,979
Office and computer supplies	74,172	17,307	40,379	131,858	117,743
Insurance	81,221	9,301	14,968	105,490	104,191
Bank charges	995	18,229	36,690	55,914	64,974
Staff development	18,299	20,886	10,146	49,331	41,181
Telephone	36,496	3,761	4,353	44,610	33,049
Interest	297	27,346	-	27,643	5,002
Membership dues	18,326	3,526	5,439	27,291	17,155
Equipment maintenance	18,929	1,910	-	20,839	31,510
Travel	10,501	2,637	2,093	15,231	16,289
Uniforms	7,659	201	691	8,551	7,858
Postage	4,481	457	1,754	6,692	9,598
Printing and advertising	795	457	4,623	5,875	39,012
Miscellaneous	25	42	24	91	8,340
Total expenses before depreciation	<u>30,196,893</u>	<u>528,981</u>	<u>1,216,837</u>	<u>31,942,711</u>	<u>31,174,449</u>
Depreciation	446,517	-	-	446,517	449,684
Total expenses	<u>\$ 30,643,410</u>	<u>\$ 528,981</u>	<u>\$ 1,216,837</u>	<u>\$ 32,389,228</u>	<u>\$ 31,624,133</u>

See accompanying notes.

**Foodbank of Southeastern Virginia**  
**Statement of Cash Flows**  
**Year Ended June 30, 2017, with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (155,163)	\$ 591,119
Adjustments to reconcile change in net assets to net cash from operating activities:		
Donated food received, distributed and undistributable, net	510,076	(599,152)
Depreciation	446,517	449,684
Reinvestment of earnings on investments, net of fees	(40,329)	(72,429)
Net realized and unrealized (gains) losses on investments	(217,735)	61,751
Gain on disposal of property and equipment	(28,000)	(10,202)
Contributions restricted to endowment	(73,320)	-
Change in:		
Accounts and grants receivable	(35,101)	(49,671)
Purchased food inventory	35,322	23,749
Thrift store inventory, net	-	97,590
Prepaid expenses	(61,032)	(4,377)
Accounts payable	(258,764)	304,977
Accrued payroll and payroll taxes	87,845	(164,821)
Security deposit	-	(3,991)
Net cash provided by operating activities	<u>210,316</u>	<u>624,227</u>
Cash flows from investing activities:		
Purchase of property and equipment	(261,164)	(713,426)
Proceeds from sale of property and equipment	28,000	20,393
Proceeds from sale of investments and transfers to operating cash	111,873	528,629
Purchase of investments	(2,573,736)	(286,314)
Net cash used in investing activities	<u>(2,695,027)</u>	<u>(450,718)</u>
Cash flows from financing activities:		
Capital lease payments	(31,467)	(28,727)
Contributions restricted to endowment	73,320	-
Net cash provided by/(used in) financing activities	<u>41,853</u>	<u>(28,727)</u>
Net change in cash and cash equivalents	(2,442,858)	144,782
Cash and cash equivalents, beginning of year	<u>4,487,264</u>	<u>4,342,482</u>
Cash and cash equivalents, end of year	<u>\$ 2,044,406</u>	<u>\$ 4,487,264</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 5,875</u>	<u>\$ 7,858</u>
Supplemental disclosure of noncash activities:		
Noncash food donations	<u>\$ 22,974,491</u>	<u>\$ 26,073,518</u>

See accompanying notes.

## **Notes to Financial Statements**

### **1. Organization and Nature of Activities**

Foodbank of Southeastern Virginia (Foodbank) was organized and incorporated in March 1981 for the purpose of collecting and distributing food to nonprofit organizations, which provide for the ill, the needy, and infants at no cost, in the South Hampton Roads area of Virginia. Its activities also include the Foodbank on Virginia's Eastern Shore, Justine's Clothes Bank, the Mobile Pantry program, the Backpack Program, and Kids Cafe®, a program of Feeding America. The Foodbank promotes food recovery; acquires and distributes food, clothing and related products; and provides community leadership and education on issues of hunger and poverty. The Foodbank's mission is "Leading the effort to eliminate hunger in our community."

The Foodbank was granted tax-exempt status on March 17, 1981 under Internal Revenue Code (Code) Section 501(c)(3) and, accordingly, does not pay federal or state income taxes on its increase in net assets. For income tax purposes, in-kind as well as monetary donations to the Foodbank are eligible for the charitable contribution deduction by the donor, subject to relevant provisions of the Code.

The Foodbank's operations include the following programs:

*Food Distribution Programs - South Hampton Roads and Eastern Shore* - The Food Distribution Programs solicit donated food from food producers, retailers, and individuals. The food is sorted and stored until distributed to member agencies of the Foodbank, who then distribute the food, at no charge, to needy individuals and families. A shared maintenance fee may be charged to the member agencies to help offset expenses incurred in the collection, storage, and distribution of the food. The Food Rescue Program is an effort to collect prepared and perishable food from area grocery stores, restaurants, hotels, caterers, country clubs, and hospitals to distribute immediately to the hungry at on-site feeding agencies.

*The Emergency Food Assistance Program (TEFAP)* - The Foodbank has contracted with the Virginia Department of Agriculture and Consumer Services (VDACS) to participate in The Emergency Food Assistance Program administered by the U.S. Department of Agriculture (USDA). The objective of the TEFAP program is to provide USDA commodities to low-income households for consumption and to provide hot meals prepared from USDA commodities to needy persons in congregated settings. The Foodbank receives USDA commodities from VDACS and has subcontracted with numerous emergency feeding organizations, usually religious organizations and other not-for-profit organizations, to distribute the food. In addition, Foodbank staff conducts mass distributions in some locales based upon need. All recipients of these federal commodities are required to sign self-declaration of income forms to verify eligibility. This program is included in donated food transactions in the accompanying statement of activities.

*Mobile Pantry Program* - This new system of distribution serves food to our neediest communities, while coordinating with our partner agencies and other social service organizations to determine delivery locations. This program provides food to individuals who either could not travel to an agency, or their local agency was at capacity.

*BackPack Program* - The Backpack Program is a nationally-recognized program that distributes nutritious food to children at the end of the school day, before weekends and/or school breaks. Students are identified by school personnel as being food insecure by a variety of criteria.

*Kids Cafe®* - Kids Cafe® is a national program founded by Feeding America, a national domestic hunger relief organization and food bank network, to solve a nationwide problem of child hunger. The Foodbank and various agencies of South Hampton Roads have joined together to provide children with a free nutritious evening meal in a safe and supportive environment.

## **Foodbank of Southeastern Virginia Notes to Financial Statements**

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*Justine's Clothes Bank* - The Clothes Bank provides vouchers to needy individuals to be used for the purchase of new clothing and shoes. It is partially supported by the earnings from a permanently restricted endowment fund established for this purpose.

*Eastern Shore Thrift Store* - The Foodbank of Southeastern Virginia operated a thrift store in which donated merchandise was sold. As of the end of February, 2016, a decision was made to close the thrift store and to concentrate on the core competence of the Foodbank, which is the receipt and distribution of food. The space that was dedicated to the thrift store has been repurposed to support the mission of providing food.

## **2. Summary of Significant Accounting Policies**

### ***Comparative information***

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foodbank's financial statements for 2016, from which the summarized information was derived.

### ***Basis of accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

The Foodbank 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.

The classes of net assets are described as follows:

**Unrestricted amounts** are those currently available at the discretion of the Foodbank's Board of Directors for use in the Foodbank's operations.

**Temporarily restricted amounts** are limited by donor imposed time restrictions or purpose restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support if the restrictions are met in the same reporting period.

**Permanently restricted amounts** are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

### ***Public support and revenue***

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily 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.

**Foodbank of Southeastern Virginia  
Notes to Financial Statements**

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Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

***Cash equivalents***

The Foodbank considers all highly liquid debt securities purchased with an original maturity of twelve months or less to be cash equivalents.

***Accounts receivable***

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Accounts receivable represent amounts due from various agencies under the Foodbank's shared maintenance fee program. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, management provides for probable uncollectible accounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivables previously written off are recorded when received. For the years ended June 30, 2017 and 2016, management has established an allowance for uncollectible accounts of \$508 and \$4,328, respectively.

***United Way and other receivables***

United Way and other receivables are stated at the amount management expects to collect from balances outstanding at year-end. These receivables represent amounts due from United Way and other agencies, corporations, foundations, and individuals. Management believes that all of these receivables are fully collectible; therefore, no provision for doubtful accounts has been made. Receivables are recorded at their net realizable value, using risk adjusted interest rates applicable to the years in which the amounts are expected to be received to discount the amounts to present value.

***Property and equipment***

Acquisitions of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. The Foodbank's policy is to capitalize property and equipment purchased with a cost of \$1,000 or greater. Depreciation is provided by the straight-line method over estimated useful lives of each class of depreciable assets as follows:

Buildings and improvements	5 - 40 years
Office equipment and computer software	3 - 5 years
Warehouse equipment	5 - 10 years
Vehicles	5 years

***Investments and beneficial interest in assets held by others***

Investments in certificates of deposits with maturities greater than twelve months and marketable securities with readily determinable fair values are recorded at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Beneficial interest in assets held by others are investments that are recorded at their fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

**Foodbank of Southeastern Virginia  
Notes to Financial Statements**

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***Inventory***

USDA food inventory and food received, distributed and undistributable are stated at the value determined by the USDA for each commodity item on an annual basis. The commodity values are obtained from the USDA website which is considered to be a reasonable basis upon which to estimate these amounts. Inventory purchased by the Foodbank is recorded at cost and is charged to operations using the first-in, first-out method.

Non-USDA donated food inventory and donated food received, distributed and undistributable are stated at estimated fair value determined by reference to a study commissioned by Feeding America. That study presents the approximate average wholesale value of products donated to the network and is considered to be a reasonable basis upon which to estimate these amounts. For the years ended June 30, 2017 and 2016, the average wholesale value of the products per this study was \$1.73 and \$1.67 per pound, respectively. Undistributable food for the years ended June 30, 2017 and 2016 was \$634,918 and \$254,898, respectively, and is netted against donated food received.

***Functional expenses***

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services.

***Advertising costs***

The Foodbank expenses advertising costs as they are incurred. Advertising expense was \$1,060 and \$29,120 for 2017 and 2016, respectively.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

***Donated services***

The Foodbank utilizes a substantial amount of volunteer and subsidized labor in its daily operations. The availability of such cost-free and reduced-cost labor has allowed the Foodbank to expand its programs and services beyond what might otherwise have been possible. The Foodbank does not recognize contributed labor as revenue because these services do not meet the accounting standards for recognition.

***Concentrations and credit risk***

Financial instruments which potentially subject the Foodbank to concentration of credit risk consist principally of cash and cash equivalents, investments, and accounts receivable. The Foodbank places its cash and cash equivalents and investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash and cash equivalents exceeding the federally insured limits were approximately \$1,100,000 and \$1,650,000 at June 30, 2017 and 2016, respectively. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of grantors comprising the Foodbank's grant base.

The Foodbank received approximately 65% and 64% of its donated food products directly or indirectly from Feeding America for the years ended June 30, 2017 and 2016, respectively.

**Foodbank of Southeastern Virginia**  
**Notes to Financial Statements**

***Income taxes***

The Foodbank is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the statutes of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

***Subsequent events***

In preparing these financial statements, the Foodbank has evaluated events and transactions for potential recognition or disclosure through September 28, 2017, the date the financial statements were available to be issued.

**3. Investments and Beneficial Interest in Assets Held by Others**

The Foodbank has an agency fund held by the United Way of South Hampton Roads Foundation (UWSHRF). The Foodbank retains variance power for these funds and can withdraw them at any time.

Investments, including beneficial interest in assets held by others, are summarized as follows:

	<u>2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Certificates of deposit (long-term)	\$ 213,840	\$ 215,867	\$ 2,027
Mutual Funds	2,441,520	2,617,122	175,602
Hedge Funds	537,655	542,747	5,092
Real Estate Funds	350,172	355,844	5,672
Government Bonds	338,576	333,537	(5,039)
Corporate Bonds	376,399	369,939	(6,460)
Beneficial interest in assets held by others	<u>35,078</u>	<u>63,919</u>	<u>28,841</u>
Total investments	<u>\$ 4,293,240</u>	<u>\$ 4,498,975</u>	<u>\$ 205,735</u>

The following schedule summarizes the investment return in the statement of activities for 2017:

Interest and dividends	\$ 72,750
Net unrealized/realized gains	<u>217,735</u>
Total investment return	<u>\$ 290,485</u>

	<u>2016</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Mutual funds	620,667	666,002	45,335
Common stock	828,228	1,055,672	227,444
Beneficial interest in assets held by others	<u>35,078</u>	<u>57,374</u>	<u>22,296</u>
Total investments	<u>\$ 1,483,973</u>	<u>\$ 1,779,048</u>	<u>\$ 295,075</u>

**Foodbank of Southeastern Virginia**  
**Notes to Financial Statements**

The following schedule summarizes the investment return in the statement of activities for 2016:

Interest and dividends	\$ 90,198
Net unrealized/realized losses	<u>(61,751)</u>
Total investment return	<u>\$ 28,447</u>

**4. United Way and Other Receivables**

United Way and other receivables are as follows:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 554,332	\$ 442,114
Due in one to five years	<u>70,000</u>	<u>140,000</u>
Total United Way and other receivables	<u>624,332</u>	582,114
Discounts to net present value	<u>(7,228)</u>	<u>(14,457)</u>
Net United Way and promises to give receivable	<u>\$ 617,104</u>	<u>\$ 567,657</u>

In order to simplify their accounting process for promises to give, the Foodbank has elected to record all promises to give at fair value; the process utilizes the income approach with discounted cash flows, providing a single discounted value for all promises to give. For both 2017 and 2016, the discount rate used on long-term promises to give was 3.70%.

**5. Property and Equipment**

Major classes of property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land and construction in progress	\$ 240,640	\$ 581,008
Buildings and improvements	6,240,833	5,870,107
Office equipment and computer software	737,032	688,843
Warehouse equipment	813,733	801,759
Vehicles	<u>1,557,252</u>	<u>1,519,097</u>
	<u>9,589,490</u>	9,460,814
Accumulated depreciation	<u>(5,084,265)</u>	<u>(4,770,236)</u>
Property and equipment, net	<u>\$ 4,505,225</u>	<u>\$ 4,690,578</u>

Included in land and construction in progress at June 30, 2016 was \$340,368 in construction in progress, which consisted of facility and building costs and renovations being performed on the Eastern Shore which was completed in 2017. There was no construction in progress at June 30, 2017.

**Foodbank of Southeastern Virginia**  
**Notes to Financial Statements**

**6. Capital Leases**

Capital lease obligations are summarized as follows:

	<u>2017</u>	<u>2016</u>
Monthly payments of \$2,876 including interest at 4.75% through fiscal year 2019, secured by copy machines.	<u>\$ 51,932</u>	<u>\$ 83,399</u>

Interest expense charged to operations related to these capital leases for 2017 and 2016 was \$3,287 and \$4,710, respectively.

Future minimum lease payments are as follows:

2018	\$ 35,985
2019	<u>17,919</u>
	53,904
Imputed interest	<u>(1,972)</u>
Present value of net minimum lease payments	51,932
Current portion	<u>(34,258)</u>
Long-term portion	<u>\$ 17,674</u>

**7. Lease Obligations**

The Foodbank's rental income is received under two operating leases for a portion of its facility, of which one extends into fiscal year 2019, while the other is paid quarterly on a quarter-to-quarter basis. Total future rentals on these operating leases are as follows:

2018	\$ 40,780
2019	<u>6,690</u>
	<u>\$ 47,470</u>

Various items of equipment are leased on an as-needed basis, primarily for use in transporting food. There are no long-term commitments associated with such leases.

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Foodbank programs	\$ 609,577	\$ 441,068
Justine's Clothes Bank	<u>76,554</u>	<u>52,379</u>
	<u>\$ 686,131</u>	<u>\$ 493,447</u>

Temporarily restricted net assets included contributions to the Sukoff Memorial Fund. These temporarily restricted net assets were \$28,277 for 2017 and 2016 and are included in Foodbank programs above.

**Foodbank of Southeastern Virginia  
Notes to Financial Statements**

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Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Foodbank programs	\$ 357,223	\$ 412,302
Justine's Clothes Bank	<u>1,767</u>	<u>3,449</u>
	<u>\$ 358,990</u>	<u>\$ 415,751</u>

**9. Permanently Restricted Net Assets**

Permanently restricted net assets consist of contributions to Justine's Clothes Bank fund. Contributions are permanently invested and the earnings are temporarily restricted to be used to support the operations of Justine's Clothes Bank. At June 30, 2017 and 2016, these permanently restricted net assets were \$249,742.

Permanently restricted net assets also consist of contributions to the Joanne E. Batson Endowment fund. Contributions are permanently invested and the earnings are unrestricted to be used in support of Foodbank staff and leadership development. At June 30, 2017 these permanently restricted net assets were \$73,320.

**10. Retirement Plan**

The Foodbank sponsors a 401(k) plan covering substantially all employees who had attained age 21, been employed for at least one year, and who worked a minimum of 1,000 hours annually. Employee contributions are matched up to the first 5% of their compensation. In addition, a discretionary contribution may be made by the Foodbank at the end of the fiscal year upon approval by the Board of Directors. Total cost under the plan for fiscal years 2017 and 2016 was \$72,463 and \$27,045 respectively.

**11. Fundraising Events**

The Foodbank conducts or is the recipient of several annual fundraising events as follows:

"Legal Food Frenzy" is an event that is sponsored by the Norfolk and Portsmouth Bar Association. Law professionals donate their time to collect cash and nonperishable food donations. The event is held for two weeks in March or April.

"Mayflower Marathon" is an event promoted by local radio stations requesting listeners to donate cash and canned food to the Foodbank. The Foodbank incurs minimal costs associated with this event.

**Foodbank of Southeastern Virginia  
Notes to Financial Statements**

The results of these and other fundraising events conducted during 2017 and 2016 are summarized as follows:

	<b>2017</b>		
	<u>Gross Revenue</u>	<u>Gross Expenses</u>	<u>Net Profit</u>
Food and Fund Drives	\$ 180,329	\$ 80	\$ 180,249
Cause Marketing	208,093	-	208,093
Mayflower Marathon	135,685	7,493	128,192
Legal Food Frenzy	86,756	11,029	75,727
All Other Events	<u>87,818</u>	<u>20,297</u>	<u>67,521</u>
Total special events	<u>\$ 698,681</u>	<u>\$ 38,899</u>	<u>\$ 659,782</u>

  

	<b>2016</b>		
	<u>Gross Revenue</u>	<u>Gross Expenses</u>	<u>Net Profit</u>
Food and Fund Drives	\$ 173,696	\$ 49	\$ 173,647
Cause Marketing	312,756	-	312,756
Mayflower Marathon	134,150	16,183	117,967
Legal Food Frenzy	126,349	15,435	110,914
All Other Events	<u>80,578</u>	<u>7,417</u>	<u>78,161</u>
Total special events	<u>\$ 827,529</u>	<u>\$ 39,084</u>	<u>\$ 788,445</u>

**12. United Way Fundraising Costs**

The Foodbank, as part of a requirement of receiving support from the United Way of South Hampton Roads (UWSHR), shares in the costs to acquire the funds in proportion to the amount of support received from the UWSHR. The Foodbank's proportionate share of the fundraising costs in 2017 and 2016 was \$22,624 and \$29,300, respectively, and are shown on the statement of activities as fundraising expenses.

**13. Fair Value Measurements**

The Foodbank defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. Accounting standards establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Current accounting standards expands disclosures about instruments measured at fair value and applies to the other accounting pronouncements that require or permit fair value measurements.

**Foodbank of Southeastern Virginia**  
**Notes to Financial Statements**

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Foodbank has the ability to access.

**Level 2:** Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2017, by caption on the statement of financial position by the valuation hierarchy defined previously:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 215,867	\$ -	\$ -	\$ 215,867
Mutual funds:				
Fixed income	693,896	-	-	693,896
Equity	1,923,226	-	-	1,923,226
Hedge Funds	542,747	-	-	542,747
Real Estate Funds	355,844	-	-	355,844
Government Bonds	333,537	-	-	333,537
Corporate Bonds	369,939	-	-	369,939
Promises to give	-	-	617,104	617,104
Beneficial interest in assets held by others	-	-	63,919	63,919
	<u>\$ 4,435,056</u>	<u>\$ -</u>	<u>\$ 681,023</u>	<u>\$ 5,116,079</u>

The following table presents the financial instruments carried at fair value as of June 30, 2016, by caption on the statement of financial position by the valuation hierarchy defined previously:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds;				
Fixed income	\$ 217,749	\$ -	\$ -	\$ 217,749
Equity	448,253	-	-	448,253
Exchange Traded Funds:				
Domestic sector funds	413,834	-	-	413,834
Bond funds	233,552	-	-	233,552
Blended funds	247,014	-	-	247,014
Foreign markets	161,272	-	-	161,272
Promises to give	-	-	567,657	567,657
Beneficial interest in assets held by others	-	-	57,374	57,374
	<u>\$ 1,721,674</u>	<u>\$ -</u>	<u>\$ 625,031</u>	<u>\$ 2,346,705</u>

**Foodbank of Southeastern Virginia**  
**Notes to Financial Statements**

Fair value for Level 3 primarily consists of the funds invested in an agency fund managed by the United Way of South Hampton Roads Foundation and promises to give. The United Way of South Hampton Roads pooled funds consist of equities and other securities that have active markets as well as alternative investments that do not have readily determinable fair values. Collectively however, the Organization's investments in the United Way of South Hampton Roads Foundation cannot be traded on active markets. The fair values of the alternative investments that do not have readily determinable fair values are determined by the investment managers and are based on audited financial statements provided to the investment managers or are based on historical cost, appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Promises to give are reported at net realizable value if at the time the promise is made payment is expected in one year or less. Promises to give that are expected to be collected in more than one year are reported at fair value using a risk adjusted discount rate and expected cash flows. There have been no changes in the methodologies used at June 30, 2017. The Organization recognizes transfers between the levels as of the beginning of the reporting period.

The following table summarizes the changes to Level 3 instruments for the year ending June 30, 2017:

	<b>Beneficial Interest in Assets Held by Others</b>	<b>Promises to Give</b>	<b>Total</b>
Fair value, beginning of year	\$ 57,374	\$ 567,657	\$ 625,031
Net additions and purchases	1,127	-	1,127
Net withdrawals	(237)	-	(237)
Unrealized losses	5,655	-	5,655
New promises to give	-	554,332	554,332
Promises to give payments	-	(512,114)	(512,114)
Change in fair value and adjustments	-	7,229	7,229
Fair value, end of year	<u>\$ 63,919</u>	<u>\$ 617,104</u>	<u>\$ 681,023</u>

The following table summarizes the changes to Level 3 instruments for the year ending June 30, 2016:

	<b>Beneficial Interest in Assets Held by Others</b>	<b>Promises to Give</b>	<b>Total</b>
Fair value, beginning of year	\$ 58,942	\$ 508,643	\$ 567,585
Net additions and purchases	627	-	627
Net withdrawals	(425)	-	(425)
Unrealized losses	(1,770)	-	(1,770)
New promises to give	-	552,114	552,114
Promises to give payments	-	(481,380)	(481,380)
Change in fair value and adjustments	-	(11,720)	(11,720)
Fair value, end of year	<u>\$ 57,374</u>	<u>\$ 567,657</u>	<u>\$ 625,031</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foodbank believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

## 14. Endowment

The Foodbank's permanently restricted endowment consists of two individual funds. The Justine's Clothes Bank fund was established for the purpose of offsetting the cost of food for its clients by providing vouchers to needy individuals to be used for the purchase of clothing and shoes. The Joanne E. Batson fund was established to ensure the Foodbank's staff is adequately trained to meet the delivery of client services. The unrestricted endowment consists of two board-restricted endowment funds. The Joanne E. Batson – Board match represents the match that the Board made for the permanently restricted donor contributions to the endowment fund and the Joanne E. Batson – earnings represents earnings on both the donor and Board portion of the endowment. The quasi-endowment fund was established by the Board for the purpose of supporting continued operations. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Commonwealth of Virginia adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2008. The Board of Directors of the Foodbank have interpreted UPMIFA as requiring the preservation of the fair value of the original 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 Foodbank classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the state UPMIFA law. In accordance with state UPMIFA law, the Foodbank considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Foodbank and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and appreciation of investments.
- (6) Other resources of the Foodbank.
- (7) The investment policies of the Foodbank.

At June 30, 2017, the endowment net asset consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Justine's Clothes Bank	\$ -	\$ 76,554	\$ 249,742	\$ 326,296
Joanne E. Batson Fund	-	-	73,320	73,320
Joanne E. Batson Fund – Board match	73,320	-	-	73,320
Joanne E. Batson Fund – earnings	7,512	-	-	7,512
Quasi-endowment, board designated	<u>3,901,989</u>	-	-	<u>3,901,989</u>
	<u>\$ 3,982,821</u>	<u>\$ 76,554</u>	<u>\$ 323,062</u>	<u>\$ 4,382,437</u>

**Foodbank of Southeastern Virginia  
Notes to Financial Statements**

Changes in endowment net assets for the fiscal year ended June 30, 2017, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,107,047	\$ 52,379	\$ 249,742	\$ 1,409,168
Contributions	-	-	73,320	73,320
Transfer from unrestricted to quasi-endowment, board designated	2,678,117	-	-	2,678,117
Investment return:				
Investment income	57,408	5,719	-	63,127
Net depreciation (realized and unrealized)	<u>159,075</u>	<u>20,223</u>	<u>-</u>	<u>179,298</u>
Total investment income	216,483	25,942	-	242,425
Appropriation of endowment assets for expenditure	<u>(18,826)</u>	<u>(1,767)</u>	<u>-</u>	<u>(20,593)</u>
Endowment net assets, end of year	<u>\$ 3,982,821</u>	<u>\$ 76,554</u>	<u>\$ 323,062</u>	<u>\$ 4,382,437</u>

At June 30, 2016, the endowment net asset consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Justine's Clothes Bank	\$ -	\$ 52,379	\$ 249,742	\$ 302,121
Quasi-endowment, board designated	<u>1,107,047</u>	<u>-</u>	<u>-</u>	<u>1,107,047</u>
	<u>\$ 1,107,047</u>	<u>\$ 52,379</u>	<u>\$ 249,742</u>	<u>\$ 1,409,168</u>

**Foodbank of Southeastern Virginia**  
**Notes to Financial Statements**

Changes in endowment net assets for the fiscal year ended June 30, 2016, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,101,197	\$ 51,147	\$ 249,742	\$ 1,402,086
Investment return:				
Investment income	26,752	25,705	-	52,457
Net depreciation (realized and unrealized)	<u>(12,369)</u>	<u>(21,024)</u>	<u>-</u>	<u>(33,393)</u>
Total investment income	14,383	4,681	-	19,064
Appropriation of endowment assets for expenditure	<u>(8,533)</u>	<u>(3,449)</u>	<u>-</u>	<u>(11,982)</u>
Endowment net assets, end of year	<u>\$ 1,107,047</u>	<u>\$ 52,379</u>	<u>\$ 249,742</u>	<u>\$ 1,409,168</u>

The Foodbank has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foodbank must hold in perpetuity as well as board-designated funds. Under the investment policy, the endowment assets are invested in a manner that will build the assets sufficient to support the mission of the Foodbank. The Foodbank's spending policy with respect to the fund is to spend the interest earned on the investment of the funds on expenses related to the fund.

From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor and state UPMIFA law requires the Foodbank to retain as a fund of perpetual duration. As of June 30, 2017 and 2016 there are no deficiencies of this nature.

**15. Commitments**

Subsequent to year-end, the Foodbank entered into a construction contract in the amount of \$186,030 for the construction of a parking lot. At June 30, 2017 construction had not started on the project and no liabilities were incurred.

**16. Line of Credit**

Subsequent to year-end, the Foodbank entered into a revolving line of credit in the amount of \$1,000,000 with a maturity date of August 1, 2018, and is subject to annual renewal by the lending institution. The line is secured by assets held for investment by the Lender. The loan bears interest at prime rate (4.250% at date entered into) and is payable on maturity. The line of credit did not have a balance outstanding as of the date these financial statements were issued.

***Supplementary Information***

**Foodbank of Southeastern Virginia  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
<b>U.S. Department of Agriculture Pass-Through from State</b>			
Virginia Department of Agriculture and Consumer Services Pass Through Entity ID Number - 67-400			
Food Distribution Cluster			
Food commodities value (non-cash)	10.569	\$ 1,383,042	\$ 1,518,989
Administrative costs (reimbursement claims)	10.568	<u>74,329</u>	<u>-</u>
Total Emergency Food Assistance Program		<u>1,457,371</u>	<u>1,518,989</u>
Virginia Department of Health Pass Through Entity ID Number - 59351			
Summer Food Service Program for Children			
Summer Feeding Program	10.559	<u>135,508</u>	<u>58,674</u>
Virginia Department of Health Pass Through Agreement Number - 59326			
Child and Adult Care Food Program (Kids' Cafe)	10.558	<u>372,037</u>	<u>296,526</u>
Total U.S. Department of Agriculture		<u>1,964,916</u>	<u>1,874,189</u>
<b>U.S. Department of Homeland Security Pass-Through from Various Cities</b>			
Emergency Food and Shelter National Board Program			
Norfolk (882400-007)		5,000	
Virginia Beach (884800-001)		10,000	
Chesapeake City (878400-004)		7,500	
Isle of Wight County (867400-002)		3,899	
Portsmouth (883200-004)		2,756	
Accomack (858400-002)		7,618	
Suffolk (884600-004)		5,000	
Northampton (870800-002)		<u>2,400</u>	
Total Emergency Food and Shelter National Board Program	97.024	<u>44,173</u>	
<b>U.S. Department of Housing and Urban Development Pass-Through from City</b>			
City of Norfolk Pass Through Entity ID Number 32-000011456			
Community Development Block Grant	14.218	<u>29,000</u>	
		<u>\$ 2,038,089</u>	<u>\$ 1,874,189</u>

**Foodbank of Southeastern Virginia  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017**

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**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Foodbank of Southeastern Virginia (Foodbank) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CRF) 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 the Foodbank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foodbank.

**Note 2 - 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 times of expenditures are not allowable or are limited as to reimbursement.

The Foodbank has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 - Food Distribution**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. The food commodities distributed and shown in the schedule on the previous page as expenditures to subrecipients includes all food commodities distributed. At June 30, 2017, the Foodbank had food commodities of \$157,751 in inventory at the Norfolk warehouse location.

**Foodbank of Southeastern Virginia  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017**

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**1. Summary of Auditors' Results**

- A. The auditors' report expresses an unmodified opinion on whether the financial statements of the Foodbank were prepared in accordance with GAAP.
- B. There were no material weaknesses or significant deficiencies in internal control over financial reporting reported.
- C. No instances of noncompliance material to the financial statements of the Foodbank, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed in the audit.
- D. There were no significant deficiencies or material weaknesses in internal control over major federal award programs disclosed by the audit.
- E. The auditors' report on compliance for the major federal award programs for the Foodbank expresses an unmodified opinion on all major federal programs.
- F. The audit disclosed no compliance findings required to be reported.
- G. The program tested as major was:
  - The Food Distribution Cluster (CFDA Numbers 10.569 and 10.568)
- H. The threshold used to distinguish between Type A and Type B programs was \$750,000.
- I. The Foodbank did not qualify as a low-risk auditee.

**2. Findings - Financial Statement Audit**

No findings noted

**3. Findings and Questioned Costs - Major Federal Award Programs Audit**

No findings noted.

**Foodbank of Southeastern Virginia  
Schedule of Prior Audit Findings  
Year Ended June 30, 2017**

**Finding 2016-001 - Financial Reporting**

Condition:	Several reimbursement grants were incorrectly recognized as revenue upon initial award notification that, in total, were material to the statement of financial position for the year ended June 30, 2015.
Recommendation:	Auditor recommended that the Organization implement controls to ensure proper revenue recognition.
Current Status:	The organization implemented a corrective action plan by: 1) reviewing all grant award letters/contracts for guidelines regarding allowable, reasonable and approved expenses; and 2) accruing the revenue as the grant-funded expenses are incurred and payment invoices are generated with supporting documentation. The finance staff holds primary accountability for ensuring that revenue from reimbursement grants is matched to the grant-funded expense in the same fiscal year indicated in all grant award letters/contracts. No similar findings were noted in the 2017 audit.

***Foodbank of Southeastern Virginia***  
***Compliance Reports***  
***June 30, 2017***



## **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  
Foodbank of Southeastern Virginia  
Norfolk, Virginia

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 Foodbank of Southeastern Virginia, which comprise the statement of financial position as of June 30, 2017, 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 September 28, 2017.

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Foodbank of Southeastern Virginia'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 Foodbank of Southeastern Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Foodbank of Southeastern Virginia'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 Foodbank of Southeastern Virginia's financial statements are free from 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*.

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

*Dixon Hughes Goodman LLP*

**Norfolk, Virginia**  
**September 28, 2017**

## **Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance**

Board of Directors  
Foodbank of Southeastern Virginia  
Norfolk, Virginia

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

We have audited Foodbank of Southeastern Virginia's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Foodbank of Southeastern Virginia's major federal programs for the year ended June 30, 2017. Foodbank of Southeastern Virginia'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 Foodbank of Southeastern Virginia'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 (CFR) 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 Foodbank of Southeastern Virginia'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 Foodbank of Southeastern Virginia's compliance.

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

In our opinion, Foodbank of Southeastern Virginia 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, 2017.

***Report on Internal Control over Compliance***

Management of Foodbank of Southeastern Virginia 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 Foodbank of Southeastern Virginia'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 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 Foodbank of Southeastern Virginia'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Norfolk, Virginia  
September 28, 2017**