



Financial Statements

Year Ended June 30, 2020 with Comparative totals for 2019

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses.....	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information:	
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards.....	26
Schedule of Findings and Questioned Costs	27
Corrective Action Plan	29
Compliance Reports	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	32

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, 2020, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2020, 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, 2020, 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 {DATE}, 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 solely 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 2019 financial statements, and our report dated September 26, 2019, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein on the financial statements for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dixon Hughes Goodman LLP

**Norfolk, Virginia
November 19, 2020**

Foodbank of Southeastern Virginia
Statement of Financial Position
June 30, 2020 with Comparative Totals for 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 7,197,252	\$ 2,640,958
Accounts receivable, net of allowance for uncollectible accounts	2,727	8,269
United Way and other receivables	425,040	630,892
Investments	5,758,144	5,838,446
Beneficial interest in assets held by others	74,678	70,861
Inventory:		
USDA food	711,411	865,128
Donated food	1,068,180	699,459
Purchased food	737,126	290,848
Prepaid expenses	248,008	257,080
Property and equipment	4,719,131	4,790,856
 Total assets	 \$ 20,941,697	 \$ 16,092,797
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 239,314	\$ 205,365
Accrued payroll and payroll taxes	210,352	166,484
Capital lease obligations	100,255	128,697
 Total liabilities	 549,921	 500,546
 Net assets		
Net assets without donor restrictions	19,206,373	14,471,400
Net assets with donor restrictions	1,185,403	1,120,851
 Total net assets	 20,391,776	 15,592,251
 Total liabilities and net assets	 \$ 20,941,697	 \$ 16,092,797

Foodbank of Southeastern Virginia
Statement of Activities
Year Ended June 30, 2020 with Comparative Totals for 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2020</u>	<u>Summarized Information 2019</u>
Revenue, support and other changes:				
Sales to Agencies	\$ 268,825	\$ -	\$ 268,825	\$ 283,726
Food purchases	(441,345)	-	(441,345)	(460,849)
Inventory adjustments	-	-	-	(639)
Gross loss	(172,520)	-	(172,520)	(177,762)
Donated food received	24,375,429	-	24,375,429	24,490,202
Contributions	6,804,564	639,161	7,443,725	4,263,683
Grants	2,760,920	-	2,760,920	1,621,737
Special events revenue, net of expenses	1,127,825	-	1,127,825	771,719
Program fees	156,349	-	156,349	210,033
USDA handling fees	375,522	-	375,522	285,276
United Way support	174,218	82,221	256,439	223,651
Donated goods and services	3,609	-	3,609	13,650
Realized and unrealized gains (losses), net	(38,283)	(2,736)	(41,019)	269,006
Rental income	41,300	-	41,300	40,701
Dividends and interest	127,315	8,068	135,383	126,434
Other revenue	16,706	-	16,706	23,004
Gain on disposal of property and equipment	28,000	-	28,000	36,961
	<u>35,780,954</u>	<u>726,714</u>	<u>36,507,668</u>	<u>32,198,295</u>
Net assets released from restrictions	662,162	(662,162)	-	-
Total revenues, gains, and other support	<u>36,443,116</u>	<u>64,552</u>	<u>36,507,668</u>	<u>32,198,295</u>
Expenses:				
Program services	29,541,584	-	29,541,584	28,251,176
Fundraising	1,417,006	-	1,417,006	1,205,145
Management and general	749,553	-	749,553	707,708
	<u>31,708,143</u>	<u>-</u>	<u>31,708,143</u>	<u>30,164,029</u>
Increase in net assets	<u>4,734,973</u>	<u>64,552</u>	<u>4,799,525</u>	<u>2,034,266</u>
Net assets, beginning of year	<u>14,471,400</u>	<u>1,120,851</u>	<u>15,592,251</u>	<u>13,557,985</u>
Net assets, end of year	<u>\$ 19,206,373</u>	<u>\$ 1,185,403</u>	<u>\$ 20,391,776</u>	<u>\$ 15,592,251</u>

See accompanying notes.

Foodbank of Southeastern Virginia
Statement of Functional Expenses
Year Ended June 30, 2020 with Comparative Totals for 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2020</u>	<u>Summarized Information 2019</u>
Personnel expense:					
Salaries and wages	\$ 1,995,505	\$ 346,809	\$ 494,735	\$ 2,837,049	\$ 2,545,560
Employee benefits	334,294	49,080	86,484	469,858	477,196
Payroll taxes	155,171	21,624	39,601	216,396	190,075
Total personnel expense	<u>2,484,970</u>	<u>417,513</u>	<u>620,820</u>	<u>3,523,303</u>	<u>3,212,831</u>
Donated products distributed	24,215,801	-	-	24,215,801	23,981,985
Program supplies	1,603,823	-	2,268	1,606,091	826,797
Food purchases and inventory adjustments	441,345	-	-	441,345	461,488
Fundraising	-	-	416,143	416,143	397,720
Occupancy	235,771	16,796	26,949	279,516	270,451
Professional fees	17,465	111,118	114,896	243,479	143,394
Transportation and freight	212,418	650	-	213,068	230,489
Office and computer supplies	102,488	41,497	44,157	188,142	179,253
Staff development	25,969	53,215	17,105	96,289	79,360
Bank charges	542	2,063	91,454	94,059	38,037
Insurance	59,924	10,205	15,454	85,583	87,383
Interest	23	48,335	-	48,358	47,059
Equipment maintenance	38,551	2,950	-	41,501	21,162
Telephone	28,865	5,776	6,609	41,250	40,111
Membership dues	17,860	5,094	4,322	27,276	26,504
Printing and advertising	13,620	2,129	5,173	20,922	15,119
Travel	13,666	4,902	1,342	19,910	20,304
Miscellaneous	171	8,574	-	8,745	12,245
Postage	395	5,080	2,417	7,892	9,099
Uniforms	5,513	258	266	6,037	8,202
Total expenses before depreciation	<u>29,519,180</u>	<u>736,155</u>	<u>1,369,375</u>	<u>31,624,710</u>	<u>30,108,993</u>
Depreciation	<u>463,749</u>	<u>13,398</u>	<u>47,631</u>	<u>524,778</u>	<u>516,524</u>
Total expenses by function	<u>\$ 29,982,929</u>	<u>\$ 749,553</u>	<u>\$ 1,417,006</u>	<u>\$ 32,149,488</u>	<u>\$ 30,625,517</u>
Less expenses included with revenues on statement of activities					
Food purchases and inventory adjustments	<u>(441,345)</u>	<u>-</u>	<u>-</u>	<u>(441,345)</u>	<u>(461,488)</u>
Total expenses included in the expense section on the statement of activities	<u><u>\$ 29,541,584</u></u>	<u><u>\$ 749,553</u></u>	<u><u>\$ 1,417,006</u></u>	<u><u>\$ 31,708,143</u></u>	<u><u>\$ 30,164,029</u></u>

See accompanying notes.

Foodbank of Southeastern Virginia
Statements of Cash Flows
Years Ended June 30, 2020 with Comparative Totals for 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase in net assets	\$ 4,799,525	\$ 2,034,266
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated food received, distributed and undistributable, net	(215,004)	(539,840)
Depreciation	524,778	516,524
Reinvestment of earnings on investments, net of fees	(96,034)	(90,738)
Net realized and unrealized (gains) losses on investments	41,019	(269,006)
Gain on disposal of property and equipment	(28,000)	(36,961)
Change in:		
Accounts and grants receivable	211,394	211,823
Purchased food inventory	(446,278)	(12,320)
Prepaid expenses	9,072	(37,078)
Accounts payable	33,949	(21,183)
Accrued payroll and payroll taxes	43,868	(77,890)
Net cash provided by operating activities	<u>4,878,289</u>	<u>1,677,597</u>
Cash flows from investing activities:		
Purchase of property and equipment	(453,053)	(567,853)
Proceeds from sale of property and equipment	28,000	36,961
Proceeds from sale of investments and transfers to operating cash	131,500	217,333
Purchase of investments	-	(980,905)
Net cash used by investing activities	<u>(293,553)</u>	<u>(1,294,464)</u>
Cash flows from financing activities:		
Capital lease payments	(28,442)	(41,891)
Net change in cash and cash equivalents	4,556,294	341,242
Cash and cash equivalents, beginning of year	<u>2,640,958</u>	<u>2,299,716</u>
Cash and cash equivalents, end of year	<u>\$ 7,197,252</u>	<u>\$ 2,640,958</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 48,358</u>	<u>\$ 47,059</u>
Supplemental disclosure of noncash activities:		
Property and equipment acquired by issuance of capital lease obligations	<u>\$ -</u>	<u>\$ 153,198</u>
Noncash food donations	<u>\$ 24,375,429</u>	<u>\$ 24,490,202</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.

Trade Mitigation Food Purchase Distribution Program (FPDP) - The Foodbank has contracted with the Virginia Department of Agriculture and Consumer Services (VDACS) to participate in the FPDP administered by the U.S. Department of Agriculture (USDA). FPDP food is distributed through the same channels as TEFAP, however, FPDP funds are separate and distinct from TEFAP administrative funds. These funds may be used for the same types of expenses as regular TEFAP funding, but are limited to those expenses associated with FPDP foods.

Temporary Assistance for Needy Families Program (TANF) - The Foodbank has contracted with the Virginia Department of Social Services (VDSS) to participate in The Temporary Assistance Program administered by the U.S. Department of Agriculture (USDA). The objective of the TANF program is to provide child nutrition programs for TANF and others under 200% of the federal poverty level. The Foodbank shall provide child nutrition programs through expanding production and distribution capacity for the Summer Food Service Program (SFSP) and the Child and Adult Care Food Program (CACFP).

Foodbank of Southeastern Virginia Notes to Financial Statements

The Commodity Supplemental Food Program (CSFP) - This program works to improve the health of low-income elderly persons at least 60 years of age with a gross household income at or below 130% of the established federal poverty income guidelines by supplementing their diets with nutritious USDA Foods. CSFP food boxes are distributed on a monthly basis and include a variety of foods, such as nonfat dry and ultra-high temperature fluid milk, juice, farina, oats, ready-to-eat cereal, rice, pasta, peanut butter, dry beans, canned meat, poultry, or fish, and canned fruits and vegetables. The CSFP is administered at the Federal Level by the USDA – Food and Nutrition Service and the Virginia Department of Agriculture and Consumer Services provide USDA CSFP foods to eligible Virginia Food Banks.

Supplemental Nutrition Assistance Program (SNAP) Outreach - This program is used like cash for eligible individuals and households to buy eligible food items from authorized retailers. SNAP Outreach involves providing clients with information regarding the SNAP program and assistance with applying for SNAP benefits.

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.

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 perpetually restricted endowment fund established for this purpose.

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 2019, 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Foodbank of Southeastern Virginia
Notes to Financial Statements

The classes of net assets are described as follows:

Net assets without donor restrictions

Net assets that are currently available at the discretion of the Foodbank's Board of Directors for use in the Foodbank's operations.

Net assets with donor restrictions

Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Net assets with donor restrictions that are temporary in nature, received and consumed in the same period are reflected in operating activities without donor restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a donor restriction expires, restricted assets are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue recognition

Contributions, grants and promises to give

Contributions and grants are recognized at a point in time when the donor makes a promise to give to the Foodbank that is, in substance, unconditional. Contributions are considered available for use without restrictions, unless specifically restricted by the donor. All donor-restricted contributions, grants and time-restricted promises to give that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions and grants and time-restricted promises to give are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

If a promise to give is not expected to be collected within one year, it is discounted. A promise to give is deemed past due if payments are not received in accordance with the payment terms specified by the donor at the time the promise to give was made. In management's opinion, all unconditional promises to give are collectible and no allowance for doubtful accounts is considered necessary.

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.

Special events

Special events revenue includes revenue from contributions including sponsorships and gifts, as well as revenue from exchange transactions including tickets to the event. Exchange transactions related to special events are recognized at a point in time, when the event is concluded.

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

Cash equivalents

The Foodbank considers all highly liquid debt securities purchased with an original maturity of 90 days 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 receivable previously written off are recorded when received. For the years ended June 30, 2020 and 2019, management has established an allowance for uncollectible accounts of \$0 and \$3,048, 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

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, 2020 and 2019, the average wholesale value of the products per this study was \$1.74 and \$1.62 per pound, respectively. Undistributable food for the years ended June 30, 2020 and 2019 was \$564,281 and \$613,262, respectively, and is netted against donated food received.

Functional allocation of 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. Those expenses include payroll, depreciation, and other administrative costs. Payroll is allocated based on estimated of time and effort, depreciation is allocated based on a square footage basis, and other administrative costs are allocated based on time and costs utilized by department.

Advertising costs

The Foodbank expenses advertising costs as they are incurred. Advertising expense was \$14,474 and \$9,455 for 2020 and 2019, 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 \$5,600,000 and \$1,900,000 at June 30, 2020 and 2019, 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.

Foodbank of Southeastern Virginia Notes to Financial Statements

The Foodbank received approximately 55% and 59% of its donated food products directly or indirectly from Feeding America for the years ended June 30, 2020 and 2019, respectively.

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.

Adoption of new accounting standards

During 2020, the Foodbank adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance as described below and (2) determining whether a contribution is conditional.

In May 2014, the FASB issued ASU No. 2014-09: Revenue from Contracts with Customers (Topic 606). ASU 2014-09 and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP, excluding nonreciprocal contribution transactions describe in Topic 958 and some other specific exclusions such as Leases (Topic 840) and Investments (Topic 320). The ASU No. 2014-09 also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foodbank adopted this new standard effective July 1, 2019, the first day of the Foodbank’s year using the modified retrospective approach.

As part of the adoption of the ASU No. 2014-09, the Foodbank elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

The adoption of these standards did not result in a material difference from the previous policy and therefore, the Foodbank’s beginning net assets has not been adjusted to reflect any adjustments.

Subsequent events

In preparing these financial statements, the Foodbank has evaluated events and transactions for potential recognition or disclosure through November 19, 2020, the date the financial statements were available to be issued.

3. Liquidity and Availability of Financial Assets

As part of the Foodbank’s liquidity management, it invests cash in excess of daily requirements in short-term investments. The Foodbank has a board designated quasi-endowment fund of \$5,474,529. Although the Foodbank does not intend to spend from its quasi-endowment fund, amounts could be made available as needed. Short-term needs are primarily for salaries, the purchase of supplies, facilities and equipment maintenance, fundraising and general office expenses. Expenses due in the coming year are covered by funds raised by grants from other 501(c)(3) organizations, corporations, or localities, and donations received throughout the year.

Foodbank of Southeastern Virginia
Notes to Financial Statements

The Foodbanks financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 7,197,252
Accounts receivable	2,727
United way and other receivables	<u>425,040</u>
	<u>\$ 7,625,019</u>

4. 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>2020</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual Funds	\$ 3,728,689	\$ 4,203,976	\$ 475,287
Hedge Funds	483,031	448,484	(34,547)
Real Estate Funds	173,107	162,371	(10,736)
Government Bonds	381,831	413,016	31,185
Corporate Bonds	<u>500,606</u>	<u>530,297</u>	<u>29,691</u>
Total investment funds and bonds	5,267,264	5,758,144	490,880
Beneficial interest in assets held by others	<u>35,708</u>	<u>74,678</u>	<u>38,970</u>
Total investments	<u>\$ 5,302,972</u>	<u>\$ 5,832,822</u>	<u>\$ 529,850</u>

The following schedule summarizes the investment return in the statement of activities for 2020:

Interest and dividends	\$ 135,383
Net unrealized and realized losses	<u>(41,019)</u>
Total investment return	<u>\$ 94,364</u>

	<u>2019</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual Funds	\$ 3,375,096	\$ 3,864,892	\$ 489,796
Hedge Funds	363,031	354,816	(8,215)
Real Estate Funds	401,038	429,543	28,505
Government Bonds	645,699	655,207	9,508
Corporate Bonds	<u>526,122</u>	<u>533,988</u>	<u>7,866</u>
Total investment funds and bonds	5,310,986	5,838,446	527,460
Beneficial interest in assets held by others	<u>35,078</u>	<u>70,861</u>	<u>35,783</u>
Total investments	<u>\$ 5,346,064</u>	<u>\$ 5,909,307</u>	<u>\$ 563,243</u>

Foodbank of Southeastern Virginia
Notes to Financial Statements

The following schedule summarizes the investment return in the statement of activities for 2019:

Interest and dividends	\$ 126,434
Net unrealized and realized gains	<u>269,006</u>
Total investment return	<u>\$ 395,440</u>

5. United Way and Other Receivables

United Way and other receivables are as follows:

	<u>2020</u>	<u>2019</u>
United Way and other receivable – due in less than one year	<u>\$ 425,040</u>	<u>\$ 630,892</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. As there are no long-term promises to give in 2020 and 2019, there was no discount rate applied in 2020 and 2019.

6. Property and Equipment

Major classes of property and equipment consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 240,640	\$ 240,640
Construction in progress	9,020	2,000
Buildings and improvements	6,857,767	6,747,261
Office equipment and computer software	947,607	920,696
Warehouse equipment	989,055	908,979
Vehicles	<u>2,151,326</u>	<u>2,035,247</u>
	11,195,415	10,854,823
Accumulated depreciation	<u>(6,476,284)</u>	<u>(6,063,967)</u>
Property and equipment, net	<u>\$ 4,719,131</u>	<u>\$ 4,790,856</u>

7. Capital Leases

Capital lease obligations are summarized as follows:

	<u>2020</u>	<u>2019</u>
Monthly payments of \$2,998 including interest at 4.75% through fiscal year 2024, secured by copy machines.	<u>\$ 100,255</u>	<u>\$ 128,697</u>

Interest expense charged to operations related to these capital leases for 2020 and 2019 was \$7,528 and \$8,471, respectively.

Foodbank of Southeastern Virginia
Notes to Financial Statements

Minimum future lease payments and the present value of minimum least payments are as follows:

<u>Year Ending</u> <u>June 30,</u>		
2021	\$	35,970
2022		35,970
2023		35,970
2024		<u>2,997</u>
Total minimum lease payments		110,907
Amount representing interest		<u>(10,652)</u>
Capital lease obligation		100,255
Current portion of capital lease obligation		<u>(30,347)</u>
Long-term portion capital lease obligation	\$	<u>69,908</u>

8. Lease Income and Obligations

The Foodbank's rental income is received under an operating lease for a portion of its facility on a quarter-to-quarter basis. There are no long term lease agreements resulting in guaranteed future income.

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.

9. Net Assets

The detail of the Foodbank's net asset categories at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions		
Invested in property, plant, and equipment, net of related debt	\$ 4,618,876	\$ 4,662,159
Board designated capital reserves	1,000,000	-
Board designated quasi-endowment	5,474,529	5,533,543
Undesignated	<u>8,112,968</u>	<u>4,275,698</u>
Total net assets without donor restrictions	<u>19,206,373</u>	14,471,400
Net assets with donor restrictions		
Purpose-restricted net assets:		
Justine's Clothes Bank	123,774	120,856
Time-restricted net assets:		
Foodbank programs	738,567	676,933
Perpetually-restricted net assets:		
Justine's Clothes Bank	249,742	249,742
Joanne E. Batson Endowment	<u>73,320</u>	<u>73,320</u>
Total net assets with donor restrictions	<u>1,185,403</u>	1,120,851
Total net assets	<u>\$ 20,391,776</u>	<u>\$ 15,592,251</u>

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

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

	<u>2020</u>	<u>2019</u>
Foodbank programs	\$ 659,426	\$ 931,040
Justine's Clothes Bank	<u>2,736</u>	<u>2,629</u>
	<u>\$ 662,162</u>	<u>\$ 933,669</u>

Perpetually restricted net assets consist of contributions to Justine's Clothes Bank fund. Contributions are permanently invested, and the earnings are time-restricted to be used to support the operations of Justine's Clothes Bank. At June 30, 2020 and 2019, these perpetually-restricted net assets were \$249,742.

Perpetually restricted 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, 2020 and 2019 these perpetually-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 2020 and 2019 was \$76,639 and \$61,494 respectively, and is included in employee benefits in the statement of functional expenses.

11. Special 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. In FY 2020, this event was canceled due to the COVID-19 pandemic.

"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.

In FY 2020 the nation faced a pandemic known as "COVID-19". This caused the Foodbank to receive specialized funds from many different organizations.

Foodbank of Southeastern Virginia
Notes to Financial Statements

The results of these and other fundraising events conducted during 2020 and 2019 are summarized as follows:

	2020		
	<u>Gross Revenue</u>	<u>Gross Expenses</u>	<u>Net Profit</u>
Food and Fund Drives	\$ 287,030	\$ -	\$ 287,030
Cause Marketing	350,951	-	350,951
Mayflower Marathon	131,078	11,920	119,158
Legal Food Frenzy	403	-	403
COVID-19	210,634	-	210,634
All Other Events	<u>175,134</u>	<u>15,485</u>	<u>159,649</u>
Total special events	<u>\$ 1,155,230</u>	<u>\$ 27,405</u>	<u>\$ 1,127,825</u>

	2019		
	<u>Gross Revenue</u>	<u>Gross Expenses</u>	<u>Net Profit</u>
Food and Fund Drives	\$ 133,579	\$ 11	\$ 133,567
Cause Marketing	235,829	53	235,776
Mayflower Marathon	138,265	8,554	129,711
Legal Food Frenzy	90,974	11,971	79,003
All Other Events	<u>228,377</u>	<u>34,716</u>	<u>193,661</u>
Total special events	<u>\$ 827,024</u>	<u>\$ 55,305</u>	<u>\$ 771,719</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 2020 and 2019 was \$15,747 and \$16,872, 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, 2020, 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	\$ 991,191	\$ -	\$ -	\$ 991,191
Equity	3,212,785	-	-	3,212,785
Hedge Funds	-	448,484	-	448,484
Real Estate Funds	162,371	-	-	162,371
Government Bonds	-	413,016	-	413,016
Corporate Bonds	-	530,297	-	530,297
Beneficial interest in assets held by others	-	-	74,678	74,678
	<u>\$ 4,366,347</u>	<u>\$ 1,391,797</u>	<u>\$ 74,678</u>	<u>\$ 5,832,822</u>

The following table presents the financial instruments carried at fair value as of June 30, 2019, 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	\$ 1,009,247	\$ -	\$ -	\$ 1,009,247
Equity	2,855,645	-	-	2,855,645
Hedge Funds	-	354,816	-	354,816
Real Estate Funds	429,543	-	-	429,543
Government Bonds	-	655,207	-	655,207
Corporate Bonds	-	533,988	-	533,988
Beneficial interest in assets held by others	-	-	70,861	70,861
	<u>\$ 4,294,435</u>	<u>\$ 1,544,011</u>	<u>\$ 70,861</u>	<u>\$ 5,909,307</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. 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. There have been no changes in the methodologies used at June 30, 2020. 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, 2020:

	Beneficial Interest in Assets Held by Others
Fair value, beginning of year	\$ 70,861
Net additions and purchases	877
Net withdrawals	(183)
Unrealized gains	<u>3,122</u>
Fair value, end of year	<u>\$ 74,678</u>

The following table summarizes the changes to Level 3 instruments for the year ending June 31, 2019:

	Beneficial Interest in Assets Held by Others
Fair value, beginning of year	\$ 67,602
Net additions and purchases	1,247
Net withdrawals	(342)
Unrealized gains	<u>2,354</u>
Fair value, end of year	<u>\$ 70,861</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 perpetually 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 perpetually 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 perpetually net restricted assets (a) the original value of gifts donated to the perpetually endowment, and (b) the original value of subsequent gifts to the perpetually endowment. The remaining portion of the donor-restricted endowment fund that is not classified in perpetually restricted net assets is classified as time-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, 2020, the endowment net asset consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Justine's Clothes Bank	\$ -	\$ 373,516	\$ 373,516
Joanne E. Batson Fund	-	73,320	73,320
Joanne E. Batson Fund – Board match	73,320	-	73,320
Joanne E. Batson Fund – earnings	29,820	-	29,820
Quasi-endowment, board designated	<u>5,474,529</u>	-	<u>5,474,529</u>
	<u>\$ 5,577,669</u>	<u>\$ 446,836</u>	<u>\$ 6,024,505</u>

Foodbank of Southeastern Virginia
Notes to Financial Statements

Changes in endowment net assets for the fiscal year ended June 30, 2020, consisted of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,533,543	\$ 443,919	\$ 5,977,462
Investment return:			
Investment income	122,060	8,068	130,128
Net depreciation (realized and unrealized)	<u>(41,404)</u>	<u>(2,736)</u>	<u>(44,140)</u>
Total investment income	80,656	5,332	85,988
Appropriation of endowment assets for expenditure	<u>(36,530)</u>	<u>(2,415)</u>	<u>(38,945)</u>
Endowment net assets, end of year	<u>\$ 5,577,669</u>	<u>\$ 446,836</u>	<u>\$ 6,024,505</u>

At June 30, 2019, the endowment net asset consisted of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Justine's Clothes Bank	\$ -	\$ 370,599	\$ 370,599
Joanne E. Batson Fund	-	73,320	73,320
Joanne E. Batson Fund – Board match	73,320	-	73,320
Joanne E. Batson Fund – earnings	28,442	-	28,442
Quasi-endowment, board designated	<u>5,431,781</u>	<u>-</u>	<u>5,431,781</u>
	<u>\$ 5,533,543</u>	<u>\$ 443,919</u>	<u>\$ 5,977,462</u>

Foodbank of Southeastern Virginia
Notes to Financial Statements

Changes in endowment net assets for the fiscal year ended June 30, 2019, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,207,035	\$ 417,653	\$ 4,624,688
Transfers to endowment fund	1,000,000	-	-
Investment return:			
Investment income	112,385	9,041	121,426
Net appreciation (realized and unrealized)	<u>246,798</u>	<u>19,854</u>	<u>266,652</u>
Total investment income	359,183	28,895	388,078
Appropriation of endowment assets for expenditure	<u>(32,675)</u>	<u>(2,629)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 5,533,543</u>	<u>\$ 443,919</u>	<u>\$ 5,977,462</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 quasi endowment 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, 2020 and 2019 there are no deficiencies of this nature.

15. Line of Credit

In July 2017 the Foodbank entered into a revolving line of credit in the amount of \$1,000,000, 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 0.330 points below the prime rate 2.92% and 5.50% at June 30, 2020 and 2019, respectively, and is payable on maturity. There was no balance outstanding on the line of credit as of June 30, 2020 and 2019.

The Foodbank's line of credit matured on August 1, 2020. The Foodbank is in the process of refinancing the line of credit. Management believes it is probable the line of credit can be refinanced with the existing or an alternative lender. However, due to the current economic environment, including the potential impact to credit markets, there can be no assurances that the Foodbank will be able to obtain financing on terms acceptable to the Foodbank.

16. Commitment

In connection with federal awards received in the year ended June 30, 2020, the Foodbank is required to utilize a certain purchased vehicle only in the performance of that federal program. In the event the vehicle is disposed of the Foodbank must do so in accordance with the requirements of the federal award, which may include remitting any proceeds from sale to the grantor. Management has no intentions of selling this vehicle, and, accordingly, no liability has been established at June 30, 2020.

17. COVID-19

In March 2020, the World Health Organization declared the outbreak and spread of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering of certain nonessential businesses. The COVID-19 pandemic has disrupted the operational and financial performance of our business and there is significant uncertainty in the nature and degree of its continued effects on our business over time. The extent to which it will impact our business going forward will depend on a variety of factors including the duration and continued spread of the outbreak, impact on our customers, employees and vendors, as well as governmental, regulatory and private sector responses. Further, the pandemic may have a significant impact on management's accounting estimates and assumptions.

Supplementary Information

Foodbank of Southeastern Virginia
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

<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>
U.S. Department of Agriculture Pass-Through from State			
Virginia Department of Agriculture and Consumer Services Pass Through Entity ID Number - 67-400			
Food Distribution Cluster			
Emergency Food Assistance Program (Food Commodities)	10.569	\$ 1,393,311	\$ 1,393,311
Emergency Food Assistance Program (Administrative Funds)	10.568	285,157	-
Commodity Supplemental Food Program (Food Commodities)	10.565	116,079	116,079
Commodity Supplemental Food Program (Administrative Funds)	10.565	<u>34,872</u>	<u>-</u>
Total Food Distribution Cluster		<u>1,829,419</u>	<u>1,509,390</u>
Trade Mitigation Program (Food Commodities)	10.178	1,093,884	1,093,884
Trade Mitigation Program (Administrative Funds)	10.178	<u>55,493</u>	<u>-</u>
Total Passed Through Virginia Department of Agriculture and Consumer Services		<u>2,978,796</u>	<u>2,603,274</u>
Virginia Department of Health Pass Through Entity ID Number - 59351			
Summer Food Service Program for Children			
Summer Feeding Program	10.559	<u>153,363</u>	<u>72,511</u>
Virginia Department of Health Pass Through Agreement Number - 59326			
Child and Adult Care Food Program (Kids' Café)	10.558	<u>204,308</u>	<u>174,509</u>
Total U.S. Department of Agriculture		<u>3,336,467</u>	<u>2,850,294</u>
U.S. Department of Health and Human Services Pass-Through from State			
Virginia Department of Social Services Pass Through Entity ID Number – BEN-19-098			
Temporary Assistance for Needy Families	93.558	<u>632,639</u>	<u>178,323</u>

**Foodbank of Southeastern Virginia
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

**U.S. Department of Homeland Security Pass-Through
from Various Cities**

Emergency Food and Shelter National Board Program

Norfolk (882400-007)		8,788	-
Virginia Beach (884800-001)		9,500	-
Chesapeake City (878400-004)		9,562	-
Portsmouth (883200-004)		6,000	-
Accomack (858400-002)		14,045	-
Suffolk (884600-004)		4,899	-
Northampton (870800-002)		<u>1,453</u>	-

Total Emergency Food and Shelter National Board Program	97.024	<u>54,247</u>	-
---	--------	---------------	---

Homeland Security Grant Program (Norfolk)	97.067	<u>45,000</u>	-
---	--------	---------------	---

Total U.S. Department of Homeland Security		<u>99,247</u>	-
---	--	---------------	---

**U.S. Department of Housing and Urban Development
Pass-Through from City**

City of Norfolk Pass Through Entity ID Number 32-000011456			
Community Development Block Grant	14.218	<u>24,827</u>	-

		<u>\$ 4,093,180</u>	<u>\$ 3,028,617</u>
--	--	---------------------	---------------------

Foodbank of Southeastern Virginia
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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, 2020. 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 kinds of expenditures are not allowable or are limited as to reimbursement.

The Foodbank has 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, 2020, the Foodbank had food commodities of \$662,883 in inventory at the Norfolk warehouse location.

**Foodbank of Southeastern Virginia
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

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 in internal control over financial reporting reported. There was a significant deficiency identified that is not considered to be a material weakness. See finding 2020-001.
- 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:
 - Trade Mitigation Program (CFDA Number 10.178)
- H. The threshold used to distinguish between Type A and Type B programs was \$750,000.
- I. The Foodbank qualified as a low-risk auditee.

2. Findings - Financial Statement Audit

Finding 2020-001 - Financial Reporting

SIGNIFICANT DEFICIENCY

Criteria:	An Organization's internal control over financial reporting is a process designed to provide reasonable assurance that the financial statements are free of material errors.
Condition:	There were several internal control deficiencies relating to the timing, valuation, and reconciliation of non-USDA inventory that, in the aggregate, resulted in a significant deficiency in the area.
Effect:	Inventory was understated related to goods received near year end, the reported cost of purchased food items, and other minor reconciliation errors.

**Foodbank of Southeastern Virginia
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

Cause: The Organization excluded food commodities received in the last few days before the date of the statement of financial position from ending inventory. The Organization also used purchase orders rather than final sales invoices to value purchased inventory. Additionally, the Organization did not regularly reconcile the general ledger to the perpetual inventory system.

Repeat finding: No

Recommendation: We recommend that the Organization include all inventory as of the date of the statement of financial position in its general ledger. We also recommend the Organization implement controls to ensure purchased inventory is valued by its actual cost rather than by the purchase order. Additionally, we recommend the Organization perform a monthly reconciliation between the general ledger and the inventory system.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with comments regarding the significant deficiency in internal controls over financial reporting. See corrective action plan.

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

No findings noted.

4. Results of Prior Year Findings

No findings noted.

SIGNIFICANT DEFICIENCY

Finding 2020-001 - Financial Reporting

Name of contact person: Dean Wooten

Corrective Action:

Prior to the fiscal year end, June 30, 2021, the organization will develop a comprehensive plan to ensure accurate cutoff for the physical inventory. These cutoff procedures will include the recording of all receipts and disbursements in the proper accounting period, thereby ensuring the ledger properly reflects the physical inventory on June 30.

A systematic process that corrects inventory valued incorrectly at receipt has been identified and is currently be evaluated in the test system. Once procedures are written and understood internally, this "adjust cost" process to update inventory pricing to match vendor invoices will be implemented and run as part of the closing process each month. This will ensure all purchased inventory is properly priced to match the vendor invoice going forward.

A monthly reconciliation of the inventory subledger to the general ledger will be performed as part of the monthly close process going forward.

Proposed Completion Date: Prior to the fiscal year end, June 30, 2021.

Foodbank of Southeastern Virginia
Compliance Reports
June 30, 2020

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, 2020, 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 {DATE}.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

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*.

Foodbank of Southeastern Virginia's Correction Action Plan

Foodbank of Southeastern Virginia's correction action plan regarding the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Foodbank of Southeastern Virginia's correction action plan was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 19, 2020**

Independent Auditors' Report on Compliance for the 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 program for the year ended June 30, 2020. 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 program 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 the 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 the major federal program for the year ended June 30, 2020.

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
November 19, 2020**