

# Feeding America Southwest Virginia

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**Financial Statements**

**Years Ended June 30, 2017 and 2016**

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## **Independent Auditors' Report**

Board of Directors  
Feeding America Southwest Virginia  
Salem, Virginia

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

We have audited the accompanying financial statements of Feeding America Southwest Virginia, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Feeding America Southwest Virginia as of June 30, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedules of Food Received and Distributed (the Schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), 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* is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedules and the SEFA are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017 on our consideration of Feeding America Southwest Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Feeding America Southwest Virginia's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
November 10, 2017**

**Feeding America Southwest Virginia  
Statements of Financial Position  
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 368,547	\$ 317,270
Receivables (Note 2)	548,384	174,154
Inventory (Note 3)	<u>637,702</u>	<u>1,060,009</u>
Total current assets	1,554,633	1,551,433
Cash restricted for acquisition of property and equipment	8,531	43,000
Reserve funds (Note 4)	104,329	92,196
Contributions receivable (Note 2)	217,338	15,000
Property and equipment, net (Note 5)	<u>5,077,815</u>	<u>4,982,971</u>
Total assets	<u>\$ 6,962,646</u>	<u>\$ 6,684,600</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 223,461	\$ 112,167
Accrued expenses	171,533	165,061
Deferred revenue	36,718	29,828
Current portion of long-term debt (Note 7)	<u>89,576</u>	<u>98,692</u>
Total current liabilities	521,288	405,748
Long-term line of credit (Note 6)	454,216	-
Long-term deferred revenue	311,504	-
Long-term debt, less \$12,312 and \$15,080 of unamortized debt issuance cost (Note 7)	<u>3,839,570</u>	<u>3,729,798</u>
Total liabilities	<u>5,126,578</u>	<u>4,135,546</u>
Net assets:		
Unrestricted	1,281,019	2,163,630
Temporarily restricted (Note 8)	527,349	357,724
Permanently restricted (Note 8)	<u>27,700</u>	<u>27,700</u>
Total net assets	<u>1,836,068</u>	<u>2,549,054</u>
Total liabilities and net assets	<u>\$ 6,962,646</u>	<u>\$ 6,684,600</u>

See accompanying notes.

**Feeding America Southwest Virginia  
Statements of Activities  
Years Ended June 30, 2017 and 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and support				
Contributions - monetary	\$ 2,388,706	\$ 370,781	\$ -	\$ 2,759,487
Contributions - in-kind	42,307	-	-	42,307
Grants	172,777	-	-	172,777
USDA reimbursements	239,984	-	-	239,984
Other handling fees	563,073	-	-	563,073
Sale of purchased food	1,606,470	-	-	1,606,470
Other	154,388	-	-	154,388
Net assets released from restrictions and gift redesignations	<u>201,156</u>	<u>(201,156)</u>	-	-
Total revenues and support	<u>5,368,861</u>	<u>169,625</u>	-	<u>5,538,486</u>
Expenses				
Program services	4,350,011	-	-	4,350,011
Management and general	693,919	-	-	693,919
Fund-raising	<u>706,594</u>	-	-	<u>706,594</u>
Total expenses	<u>5,750,524</u>	-	-	<u>5,750,524</u>
Change in net assets before donated food activity	<u>(381,663)</u>	<u>169,625</u>	-	<u>(212,038)</u>
Donated food activity				
Donated food received	28,845,349	-	-	28,845,349
Donated food distributed and disposed	<u>(29,346,297)</u>	-	-	<u>(29,346,297)</u>
Net donated food activity	<u>(500,948)</u>	-	-	<u>(500,948)</u>
Change in net assets	<u>(882,611)</u>	<u>169,625</u>	-	<u>(712,986)</u>
Net assets				
Beginning	<u>2,163,630</u>	<u>357,724</u>	<u>27,700</u>	<u>2,549,054</u>
Ending	<u>\$ 1,281,019</u>	<u>\$ 527,349</u>	<u>\$ 27,700</u>	<u>\$ 1,836,068</u>

See accompanying notes.

<b>2016</b>			
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 2,141,629	\$ 357,724	\$ -	\$ 2,499,353
162,738	-	-	162,738
312,068	-	-	312,068
533,332	-	-	533,332
578,786	-	-	578,786
731,099	-	-	731,099
22,061	-	-	22,061
<u>290,620</u>	<u>(207,914)</u>	<u>(82,706)</u>	<u>-</u>
<u>4,772,333</u>	<u>149,810</u>	<u>(82,706)</u>	<u>4,839,437</u>
3,574,445	-	-	3,574,445
684,800	-	-	684,800
<u>750,066</u>	<u>-</u>	<u>-</u>	<u>750,066</u>
<u>5,009,311</u>	<u>-</u>	<u>-</u>	<u>5,009,311</u>
<u>(236,978)</u>	<u>149,810</u>	<u>(82,706)</u>	<u>(169,874)</u>
28,126,486	-	-	28,126,486
<u>(27,603,896)</u>	<u>-</u>	<u>-</u>	<u>(27,603,896)</u>
<u>522,590</u>	<u>-</u>	<u>-</u>	<u>522,590</u>
285,612	149,810	(82,706)	352,716
<u>1,878,018</u>	<u>207,914</u>	<u>110,406</u>	<u>2,196,338</u>
<u>\$ 2,163,630</u>	<u>\$ 357,724</u>	<u>\$ 27,700</u>	<u>\$ 2,549,054</u>

**Feeding America Southwest Virginia  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating activities:		
Change in net assets	\$ (712,986)	\$ 352,716
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Donated food received, distributed and disposed, net	500,198	(522,608)
Depreciation	327,724	370,132
Amortization of debt issuance costs	3,093	3,351
Write-off of debt issuance costs	12,288	-
Contributions restricted for acquisition of property and equipment	(422,338)	(43,000)
Change in:		
Receivables	(304,230)	68,029
Purchased inventory	(77,891)	15,722
Accounts payable and accrued expenses	117,766	63,512
Deferred revenue	318,394	(12,995)
	<u>(237,982)</u>	<u>294,859</u>
Net cash (used in) provided by operating activities		
Investing activities:		
Purchase of property and equipment	(382,568)	(137,217)
Cash restricted for purchase of property and equipment	34,469	(43,000)
	<u>(348,099)</u>	<u>(180,217)</u>
Net cash used in investing activities		
Financing activities:		
Payments for debt issuance costs	(12,612)	-
Proceeds from long-term debt	2,182,394	20,307
Payments on long-term debt	(2,084,507)	(100,139)
Contributions restricted for purchase of property and equipment	110,000	43,000
Release of (deposit to) reserve funds, net	(12,133)	137,581
Net (payments) borrowings on line of credit	454,216	(242,442)
	<u>637,358</u>	<u>(141,693)</u>
Net cash provided by (used in) financing activities		
Increase (decrease) in cash and cash equivalents	51,277	(27,051)
Cash and cash equivalents:		
Beginning	<u>317,270</u>	<u>344,321</u>
Ending	<u>\$ 368,547</u>	<u>\$ 317,270</u>
Supplementary cash flow information:		
Interest paid	<u>\$ 189,736</u>	<u>\$ 175,349</u>
Noncash investing and financial activities:		
Donated property	<u>\$ 40,000</u>	<u>\$ -</u>

See accompanying notes.



**Feeding America Southwest Virginia  
Statements of Functional Expenses  
Years Ended June 30, 2017 and 2016**

	2017			
	Program Services	Management and General	Fund Raising	Total
Personnel				
Salaries	\$ 1,217,425	\$ 447,882	\$ 370,521	\$ 2,035,828
Payroll taxes	94,646	34,820	28,805	158,271
Fringe benefits	162,534	43,251	21,853	227,638
Total personnel	<u>1,474,605</u>	<u>525,953</u>	<u>421,179</u>	<u>2,421,737</u>
Other				
Cost of purchased food	1,511,129	-	-	1,511,129
Consultants and contract services	144,366	46,962	34,172	225,500
Travel	1,482	3,286	682	5,450
Occupancy	209,325	10,213	3,003	222,541
Materials and supplies	18,337	1,353	2,636	22,326
Postage and printing	7,446	4,421	220,833	232,700
Equipment expense	93,478	-	-	93,478
Depreciation	304,455	17,042	6,227	327,724
Telephone	32,657	10,903	7,627	51,187
General insurance	64,319	12,321	852	77,492
Dues and registrations	22,399	5,918	1,659	29,976
Trucking expenses	286,588	1,524	352	288,464
Promotion	-	-	1,279	1,279
Write-off debt issuance costs	-	12,288	-	12,288
Interest expense	169,708	7,222	3,611	180,541
Special event expense	4,500	-	-	4,500
In-kind expense	2,307	-	-	2,307
Other costs	2,910	34,513	2,482	39,905
Total other	<u>2,875,406</u>	<u>167,966</u>	<u>285,415</u>	<u>3,328,787</u>
Total expenses	<u>\$ 4,350,011</u>	<u>\$ 693,919</u>	<u>\$ 706,594</u>	<u>\$ 5,750,524</u>

See accompanying notes.

**2016**

<b>Program Services</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
\$ 1,169,705	\$ 423,378	\$ 376,117	\$ 1,969,200
97,354	35,238	31,304	163,896
133,203	52,682	28,268	214,153
<u>1,400,262</u>	<u>511,298</u>	<u>435,689</u>	<u>2,347,249</u>
673,120	-	-	673,120
159,658	46,057	15,374	221,089
5,758	9,200	1,839	16,797
169,329	5,796	2,898	178,023
18,807	4,756	5,601	29,164
10,753	9,544	191,868	212,165
70,243	-	-	70,243
336,820	20,357	12,955	370,132
29,260	14,077	9,385	52,722
71,221	12,624	1,450	85,295
7,663	12,046	1,742	21,451
273,600	491	491	274,582
1,267	-	3,307	4,574
-	-	-	-
167,978	7,148	3,574	178,700
3,147	-	55,128	58,275
161,111	-	1,627	162,738
14,549	31,355	7,088	52,992
<u>2,174,284</u>	<u>173,451</u>	<u>314,327</u>	<u>2,662,062</u>
<u>\$ 3,574,546</u>	<u>\$ 684,749</u>	<u>\$ 750,016</u>	<u>\$ 5,009,311</u>

## **Notes to Financial Statements**

### **1. Nature of Operations and Significant Accounting Policies**

Feeding America Southwest Virginia (the "Food Bank") is a nonprofit organization established to collect, warehouse, and distribute food. The Food Bank operates from locations in Salem and Abingdon, Virginia, and distributes food to qualified agencies. The Food Bank is affiliated with Feeding America, a national hunger relief organization.

#### ***Basis of financial statement presentation and accounting***

The financial statements of the Food Bank are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements present information regarding the Food Bank's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

**Unrestricted** net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

**Temporarily restricted** net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Food Bank pursuant to those stipulations.

**Permanently restricted** net assets are amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs. These net assets include permanent endowment funds.

#### ***Cash and cash equivalents***

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. All cash accounts are held at one bank. The balance in these accounts may, at times, exceed federally insured limits; however, the Food Bank does not believe it is subject to any significant credit risk as a result of these deposits. As of June 30, 2017 and 2016, the Food Bank had on deposit \$231,407 and \$202,758, respectively, in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC).

#### ***Handling fees***

Although food is distributed to agencies at no cost, the Food Bank charges a handling fee to help offset storage and distribution costs. This revenue is recognized when food is distributed to the agency. The Food Bank does not charge a handling fee for federal commodities distributed. This cost is reimbursed by the federal government subject to funding availability and is recorded as revenue when the amount becomes known by the Food Bank.

#### ***Inventory***

Donated food inventories are stated at the nationally calculated average price per pound of \$1.73 and \$1.67 as of June 30, 2017 and 2016, respectively. This average per pound is based on an independent study by Feeding America. Purchased food is valued at cost. U.S. Department of Agriculture (USDA) commodities are stated at the value assigned by USDA.

## **Feeding America Southwest Virginia Notes to Financial Statements**

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### ***Property and equipment***

Property and equipment in excess of \$2,500 is capitalized. Acquisitions are recorded at cost if purchased and at fair value if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets generally as follows:

Buildings	39 years
Improvements	15 years
Refrigerated trucks	5 years
Cooler, freezers, forklifts	7 years
Other equipment, including computers	5 years
Software	3 years
Furniture	7 years

### ***Deferred revenue***

Deferred revenue represents amounts paid by agencies to the Food Bank in advance of the Food Bank distributing food to the agency. The amounts paid do not meet the criteria for revenue recognition, and are therefore deferred until the criteria is met. Additionally, on March 9, 2017, the Food Bank entered into a restrictive gift agreement with Food Lion in the amount of \$350,000 payable in installments over five years with the final installment due on or before December 31, 2021. It has been determined the restricted gift agreement is an exchange transaction; therefore, no revenue has been recognized at this time. For the fiscal year ended June 30, 2017, \$5,834 is shown as short-term deferred revenue for the two months that the asset related to the Food Lion gift will be placed in service in the next fiscal year and \$311,504 as long-term deferred revenue.

### ***Contributions***

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, in the period the donor's commitment is received. Unrestricted, unconditional promises to give are recognized as temporarily restricted revenues unless the donor explicitly stipulates its use to support current period activities.

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year have been discounted at 4% commensurate with the estimated risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Food Bank. In-kind contributions represent amounts for marketing services of approximately \$150,000 in 2016. Volunteers provided various services to the Food Bank throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met. The Food Bank received over 36,000 volunteer hours from approximately 7,420 volunteers during 2017, and over 40,000 volunteer hours from approximately 9,363 volunteers during 2016.

### ***Grants***

The Food Banks' grants received, which are considered exchange transactions, are reported as support and revenues in the period in which related expenditures are incurred. Grants received for which expenditures have

**Feeding America Southwest Virginia  
Notes to Financial Statements**

not been incurred are reported as deferred revenues in the accompanying statements of financial position. The majority of the Organization's grants are from the U.S. Department of Agriculture, the Virginia Department of Agriculture, the Virginia Department of Education, U. S. Department of Housing and Urban Development, and the City of Roanoke, VA. Entitlement to those resources is generally conditioned upon compliance with the terms, commitments and conditions of the grants and applicable federal regulations, including the expenditure of the resources for allowable purposes. Federal and state awards are subject to financial and compliance audits either under the federal Single Audit Act or by contracting agencies of the federal or state government or their designees. Laws and regulations governing the federal and state awards are complex and subject to interpretation. As a result, the ultimate obligations that may arise from cost disallowance or sanctions as a result of those audits, and the related impact on the financial statements, if any, cannot be estimated. The ultimate resolution of the regulatory review process could impact future operations or cash flows in a particular period.

***Debt issuance cost***

The company capitalized certain costs associated with the issuance of its loans. These costs are being amortized to interest expense using the effective interest method over the life of the debt issue.

Effective July 1, 2016, the Company adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which amends current presentation guidance by requiring debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. Prior to the issuance of this ASU, the Company presented debt issuance costs as an asset. The new accounting guidance simplifies the presentation as debt issuance costs are now shown as a direct deduction from long-term debt. The financial statements as of and for the year-ended June 30, 2016 have been adjusted to reflect retrospective application of the new accounting guidance as follows:

	<u>As Previously Reported</u>	<u>Retrospective Adjustment</u>	<u>As Adjusted</u>
Assets:			
Other assets, net	\$ 15,080	\$ (15,080)	\$ -
Total assets	6,699,680	(15,080)	6,684,600
Liabilities and net assets:			
Long-term debt	3,744,878	(15,080)	3,729,798
Total liabilities	4,150,626	(15,080)	4,135,546
Total liabilities and net assets	6,699,680	(15,080)	6,684,600
Expenses:			
Depreciation and amortization	373,483	(3,351)	370,132
Interest	175,349	3,351	178,700
Statement of cash flows:			
Depreciation and amortization	373,483	(3,351)	370,132
Amortization of debt issuance costs	-	3,351	3,351

***Concentrations***

A significant portion of the Food Bank's support is from the Virginia Department of Agriculture and Consumer Services (VDACS), which is passed through from USDA. During the years ended June 30, 2017 and 2016, approximately 9% of the donated food received was from VDACS for both years, and approximately 4% and 11%, respectively, of the total revenue and support was from VDACS.

## Feeding America Southwest Virginia Notes to Financial Statements

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### ***Income taxes***

The Food Bank is exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code* and did not conduct unrelated business activities. In addition, the Food Bank has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the *Internal Revenue Code*. The Food Bank has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2017 and 2016.

### ***Advertising costs***

The Food Bank utilizes many forms of self-promotion and advertising as part of its fundraising activities. All costs are expensed as incurred and are included in promotion expense on the statements of functional expenses.

### ***Functional allocation of expenses***

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

### ***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 disclosures 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 and assumptions.

### ***Reclassification***

Certain amounts related to debt issuance costs have been reclassified from their 2016 presentation to conform to the 2017 presentation, as previously described under debt issuance costs. Such reclassifications had no effect on previously reported change in net assets.

### ***Subsequent events***

Management has evaluated subsequent events through November 10, 2017, the date on which the financial statements were available for issue.

## **2. Receivables**

Receivables consist of the following:

	<u>2017</u>	<u>2016</u>
Due from member organizations	\$ 24,491	\$ 22,499
Contributions receivable	577,019	136,187
Insurance proceeds receivable	127,880	-
Other accounts receivable	37,867	33,118
Payroll advance	<u>1,050</u>	<u>350</u>
	768,307	192,154
Less allowance for doubtful accounts	<u>(2,585)</u>	<u>(3,000)</u>
	765,722	189,154
Less non-current contribution receivable	<u>(217,338)</u>	<u>(15,000)</u>
	<u>\$ 548,384</u>	<u>\$ 174,154</u>

**Feeding America Southwest Virginia  
Notes to Financial Statements**

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Included in contributions receivable is a long term receivable with a face value of \$310,000 due as of June 30, 2017. This amount has been discounted at 4% to \$277,388, which is due from one donor representing 48% of the outstanding receivable balance. The contributions receivable are due as follows:

Less than one year	\$359,681
One to five years	\$217,338

The rights to the insurance proceeds receivable amount reflected above is currently being disputed by a third party. The Food Bank has an assignment of insurance claim and after consultation with legal counsel, management believes that it is entitled to the proceeds and it is probable that they will prevail in the dispute. Accordingly, the receivable has been recorded. However, given the general uncertainty of the judicial system the ultimate outcome of this matter cannot be determined at this time.

**3. Inventory**

Inventory consists of the following:

	<u>2017</u>	<u>2016</u>
Purchased	\$ 175,229	\$ 97,338
Donated	344,318	750,595
USDA commodities	<u>118,155</u>	<u>212,076</u>
	<u>\$ 637,702</u>	<u>\$ 1,060,009</u>

**4. Reserve Funds**

Both Rural Housing Service (RHS) notes require a sinking fund deposit equal to 10% of the monthly debt payment until an amount equal to 12 monthly payments is accumulated. The reserve funds also consist of principal and interest on the Pamela Irvine Endowment.

Reserve funds, which are held in cash and cash equivalents, consist of the following:

	<u>2017</u>	<u>2016</u>
RHS sinking funds	\$ 76,261	\$ 64,165
Pamela Irvine Endowment, including interest (Note 8)	<u>28,068</u>	<u>28,031</u>
	<u>\$ 104,329</u>	<u>\$ 92,196</u>

**Feeding America Southwest Virginia  
Notes to Financial Statements**

**5. Property and Equipment**

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings and other equipment	\$ 5,587,492	\$ 5,303,750
Vehicles	1,269,639	1,366,486
Equipment under capital lease	<u>58,400</u>	<u>58,400</u>
	<b>6,915,531</b>	6,728,636
Less accumulated depreciation and amortization	<u>(3,165,316)</u>	<u>(3,022,665)</u>
	<b>3,750,215</b>	3,705,971
Land	<u>1,327,600</u>	<u>1,277,000</u>
	<u><b>\$ 5,077,815</b></u>	<u>\$ 4,982,971</u>

On May 11, 2017 The Food Bank purchased the property located at 2328 Melrose Ave. NW Roanoke, Virginia. The Food Bank is grateful for our collaborative partners that include City of Roanoke, Roanoke Police Department, Goodwill Industries of the Valleys, Food Lion, and the Northwest Roanoke community. The goal is to convert this property into a Community Solutions Center (CSC) that will promote childhood health and wellness by increasing the nutritional quality of food distributed; stimulate economic development by providing job training skills to unemployed and underemployed adults to grow job-readiness and self-sufficiency; and rehabilitate a previously high-crime property with collaborative community support. The purchase price of this property was \$275,000 and the rehabilitation costs are estimated to be no more than \$590,000. The estimated projected costs of \$865,000 are expected to be paid from Community Development Block Grants (CDBG) totaling \$500,000, and \$365,000 in private funding. The majority of the funding for the project was secured by June 30, 2017, with the second CDBG grant for \$250,000 secured in August 2017. The Food Bank is required to meet certain performance obligations and use the CSC for the purposes outlined in the grant agreements.

**6. Line of Credit**

During the year, the Food Bank changed financial institutions. The Food Bank had a line of credit with BNC Bank for the year ended June 30, 2016, and closed this account during the current fiscal year. The Food Bank now has a line of credit with HomeTown Bank. The line is due on March 1, 2019 and secured by a first credit line deed of trust and a blanket lien on all assets. The maximum credit amount available was \$750,000 and \$500,000 for 2017 and 2016, respectively. Interest during the year ended June 30, 2017 was at the bank prime rate. At June 30, 2017, the bank prime rate was 4.25%. Interest during the year ended June 30, 2016 was 4.25% until March 23, 2016, at which time the floor was removed and the variable rate was changed to 3.50% based on the bank prime rate. At June 30, 2017, the outstanding principal balance was \$454,216. No balance was outstanding at June 30, 2016. There are additional terms under the line of credit agreement. As of and for the year ended June 30, 2017, management believes the additional terms of the agreement were met.



**Feeding America Southwest Virginia  
Notes to Financial Statements**

**7. Long-Term Debt**

Long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
Rural Housing Service (RHS) Abingdon Facility:		
Note payable, \$8,627 payable monthly with interest at 4.5% through 2049. Secured by real property, equipment, and reserve funds.	\$ 1,745,031	\$ 1,769,327
Note payable, \$1,447 payable monthly with interest at 4.5% through 2017. Secured by equipment and reserve funds.	-	6,999
HomeTown Bank Salem Facility:		
Note payable, \$10,601 payable monthly with interest at 4.0% through 2027. Secured by real property and assignment of rents.	1,988,471	-
HomeTown Bank Vehicle Loan:		
Note payable, \$3,250 payable annually with interest at 3.5% through 2022. All remaining principal due on the loan is payable at maturity. Secured by vehicle.	18,000	-
City of Roanoke, Roanoke Facility:		
Note payable, This non-interest bearing Community Development Block Grant is secured by a deed of trust on real property of the facility. Total amount of principal is \$250,000 with a balloon payment of such amount due on May 11, 2027. The note has been recorded at net present value over 10 years at 4.0%, resulting in unamortized discount of \$81,100 at June 30, 2017. However, if the Food Bank remains in good standing for the 120 month compliance period the note is to be forgiven in its entirety.	168,900	-
BNC Bank Salem Facility:		
Note payable, \$11,923 payable monthly with interest at 4.5% through 2020. Secured by real property and assignment of rents.	-	2,014,105
BNC Bank Vehicle Loan:		
Note payable, \$3,250 payable annually beginning March 2017 with interest at 3.5% through 2021. All remaining principal due on the loan is payable at maturity. Secured by vehicle.	-	20,307
Capital Lease Obligation:		
Capital lease for equipment, \$1,268 payable monthly with interest at 12.46% through December 2018, followed by a final payment of \$418 in January 2019. Secured by equipment.	<u>21,056</u>	<u>32,832</u>
	<b>3,941,458</b>	3,843,570
Less current portion	<u>(89,576)</u>	<u>(98,692)</u>
	<b>3,851,882</b>	\$ 3,744,878
Less debt issuance costs	<u>(12,312)</u>	<u>(15,080)</u>
Total long term debt	<u><b>\$ 3,839,570</b></u>	<u><b>\$ 3,729,798</b></u>

Amortization of loan issuance costs included in interest expense were \$3,093 and \$3,351 for the years ending June 30, 2017 and 2016, respectively. The remaining loan issuance costs will be amortized over seven years at approximately \$1,800 per year.

**Feeding America Southwest Virginia  
Notes to Financial Statements**

Long-term debt maturities and sinking fund requirements are as follows:

<u>Fiscal Year Ended</u>	<u>Long-Term Debt</u>	<u>Sinking Fund</u>
2018	\$ 89,576	\$ 12,088
2019	87,070	12,088
2020	82,404	12,088
2021	86,012	8,371
2022	89,567	-
2023 and thereafter	<u>3,506,829</u>	<u>-</u>
	<u>\$ 3,941,458</u>	<u>\$ 44,635</u>

**8. Net Assets**

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Revolving food fund	\$ 132,706	\$ 132,706
Other food programs	305,012	182,018
Property and equipment	<u>89,631</u>	<u>43,000</u>
	<u>\$ 527,349</u>	<u>\$ 357,724</u>

Permanently restricted net assets consist of the following:

	<u>Pamela Irvine Endowment</u>	<u>Revolving Food Fund</u>	<u>Total Permanently Restricted Net Assets</u>
Permanently restricted net assets:			
June 30, 2015	\$ 27,700	\$ 82,706	\$ 110,406
Re-designation of funds	<u>-</u>	<u>(82,706)</u>	<u>(82,706)</u>
June 30, 2016	<u>27,700</u>	<u>-</u>	<u>27,700</u>
<b>June 30, 2017</b>	<b><u>\$ 27,700</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 27,700</u></b>

The revolving food fund represents amounts contributed to be used to purchase food for resale to member agencies. During the year ended June 30, 2016, management determined the requirements of the revolving food fund were satisfied, and the balance was re-designated as a temporarily restricted net asset.

**9. Pension Plan**

The Food Bank has a 401(k) plan (the "Plan") for the benefit of its employees. Employees become eligible to make elective deferrals after 30 days of employment, and are eligible to have employer contributions credited to their account after two years of service. The Food Bank may make matching, non-elective, and discretionary contributions to the Plan. During 2017 and 2016, the Food Bank contributed \$27,192 and \$25,978, respectively, to the Plan.

**10. Leases**

During the year ended June 30, 2016, the Food Bank leased unused warehouse and parking space to third parties on a short-term basis. Rental income for 2017 and 2016 was \$0 and \$3,622, respectively.

During the year ended June 30, 2016, the Food Bank entered into a lease agreement for a truck rental. The fixed lease charge is \$1,084 per month for 18 months that began in fiscal year 2017.

***Compliance Section***

**Feeding America Southwest Virginia  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017**

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**Schedule of Expenditures of Federal Awards**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Pass Through to Subrecipients</u>
Pass-through Virginia Department of Agriculture and Consumer Services (VDACS Agency Number 67-500):			
USDA – Food Distribution Cluster:			
Emergency Food Assistance Program (Food Commodities)	10.569	\$ 2,720,738	\$ 2,720,738
Emergency Food Assistance Program (Administrative Costs)	10.568	<u>239,984</u>	<u>-</u>
Cluster Total		2,960,722	2,720,738
Pass-through from the Virginia Department of Education:			
USDA – Child Nutrition Hunger Demonstration Project	10.579	586,857	-
Pass-through from the City of Roanoke:			
Community Development Block Grant	14.218	250,000	-
USDA Child and Adult Care Food Program	10.558	181,035	-
USDA – Child Nutrition Cluster – Summer Food Service Program for Children	10.559	<u>79,053</u>	<u>-</u>
Total Federal Expenditures		<u>\$ 4,057,667</u>	<u>\$ 2,720,738</u>

## **Notes to Schedule of Expenditures of Federal Awards**

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Feeding America Southwest Virginia under the programs of the federal government for the year ended June 30, 2017. The information in this SEFA is presented in accordance with the requirements of Title 2 US *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Feeding America Southwest Virginia, it is not intended to and does not present the financial position, changes in net assets or cash flows of Feeding America Southwest Virginia.

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

Expenditures reported in the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Food commodities expenditures are recognized when distributed or consumed.

Feeding America Southwest Virginia has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## **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  
Feeding America Southwest Virginia  
Salem, 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 Feeding America Southwest Virginia (the "Food Bank"), 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 November 10, 2017.

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

In planning and performing our audit of the financial statements, we considered the Food Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Food Bank'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 Food Bank'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 Food Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
November 10, 2017**



## **Independent Auditors' Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By The Uniform Guidance**

Board of Directors  
Feeding America Southwest Virginia  
Salem, Virginia

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

We have audited Feeding America Southwest Virginia's (the "Food Bank") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2017. The Food Bank's major federal program is 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, contracts, and the terms and conditions applicable to its federal programs.

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

Our responsibility is to express an opinion on compliance for the Food Bank'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* 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 the Food Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Food Bank's compliance.

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

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

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

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures

that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 the Food Bank's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
November 10, 2017**

**Feeding America Southwest Virginia  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2017**

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**1. Summary Of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:	<u>Yes</u>	<u>No</u>
• Material weakness(es) identified?	<u>                    </u>	<u>X</u>
• Significant deficiency(ies) that are not considered to be material weaknesses?	<u>                    </u>	<u>X</u> None Reported
Noncompliance material to financial statements noted?	<u>                    </u>	<u>X</u>

***Federal Awards***

Internal control over major programs:		
• Material weakness(es) identified?	<u>                    </u>	<u>X</u>
• Significant deficiency(ies) that are not considered to be material weaknesses?	<u>                    </u>	<u>X</u> None Reported
Type of auditors' report issued:	Unmodified	
Any audit findings disclosed that are required to be reported?	<u>                    </u>	<u>X</u>
Identification of major programs:		

<u>CFDA/Contract Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Amount Expended</u>
	Food Distribution Cluster:	
10.569	USDA – Emergency Food Assistance Program (Food Commodities)	\$ 2,720,738
10.568	USDA – Emergency Food Assistance Program (Administrative Costs)	<u>239,984</u>
		<u>\$ 2,960,722</u>
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000	
Auditee qualified as low-risk auditee	<u>X</u>	

**2. Financial Statement Findings**

None

**3. Federal Award Findings and Questioned Costs**

None

**Feeding America Southwest Virginia  
Schedules of Food Received and Distributed  
Years Ended June 30, 2017 and 2016**

	<u>Pounds</u>	<u>Dollars</u>
Year Ended June 30, 2017:		
Beginning inventory	\$ 827,353	\$ 1,060,009
Donated food received	15,155,221	26,218,532
USDA commodities received	4,154,814	2,626,817
Purchased food	<u>1,529,517</u>	<u>1,321,823</u>
Total food available	<u>21,666,905</u>	<u>31,227,181</u>
Less food distributed and adjustments	<u>21,106,179</u>	<u>30,589,479</u>
Ending Inventory	<u>\$ 560,726</u>	<u>\$ 637,702</u>
Year Ended June 30, 2016:		
Beginning inventory	\$ 537,580	\$ 553,123
Donated food received	15,247,071	25,462,609
USDA commodities received	3,923,705	2,663,877
Purchased food	<u>1,065,258</u>	<u>657,298</u>
Total food available	<u>20,773,614</u>	<u>29,336,907</u>
Less food distributed and adjustments	<u>19,946,261</u>	<u>28,276,898</u>
Ending Inventory	<u>\$ 827,353</u>	<u>\$ 1,060,009</u>

**DHG**