

**ARKANSAS FOODBANK**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Arkansas Foodbank  
Little Rock, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of Arkansas Foodbank (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### *Auditor's 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 auditor's 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 presents fairly, in all material respects, the financial position of Arkansas Foodbank as of December 31, 2016, 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*

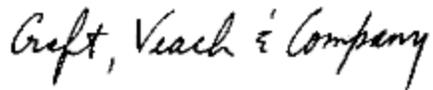
### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of units of service is presented for purposes of additional analysis and is not a required part of the financial statements.

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*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2017, on our consideration of Arkansas Foodbank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arkansas Foodbank's internal control over financial reporting and compliance.



Craft, Veach & Company, PLC  
North Little Rock, Arkansas  
July 21, 2017

## ASSETS

## Current Assets:

Cash and Cash Equivalents	\$ 2,069,367
Investments	5,445,483
Accounts Receivable	174,409
Unconditional Promises to Give - Current Portion	185,000
Inventory - Food Products	4,052,714
Prepaid Items	17,918
Total Current Assets	<u>11,944,891</u>

## Property and Equipment:

Land	1,045,440
Building and Improvements	9,092,318
Furniture, Equipment, and Software	1,556,709
Vehicles	953,655
Construction Work in Progress	200,978
	<u>12,849,100</u>
Accumulated Depreciation	(2,495,814)
Property and Equipment, Net	<u>10,353,286</u>

## Other Assets:

Endowment Funds	130,787
Utility and Security Deposits	329
Unconditional Promises to Give - Noncurrent Portion	150,000
Assets Held in Charitable Remainder Trust	2,613,289
Total Other Assets	<u>2,894,405</u>

## TOTAL ASSETS

25,192,582

## LIABILITIES

## Current Liabilities:

Accounts Payable	148,360
Accrued Payroll and Taxes	146,697
Deferred Revenue	676,978
Total Current Liabilities	<u>972,035</u>

## Noncurrent Liabilities:

Liability Under Charitable Remainder Trust	<u>1,456,203</u>
Total Noncurrent Liabilities	1,456,203

## TOTAL LIABILITIES

2,428,238

## NET ASSETS

Unrestricted	17,596,666
Temporarily Restricted	5,045,648
Permanently Restricted	122,030
TOTAL NET ASSETS	<u>22,764,344</u>

## TOTAL LIABILITIES AND NET ASSETS

\$ 25,192,582

REVENUES AND SUPPORT	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Public Support:				
Contributions	\$ 1,033,824	\$ -	\$ -	\$ 1,033,824
Noncash Contributions	82,537	-	-	82,537
Grants	118,905	1,902,105	-	2,021,010
USDA Assistance	174,364	109,016	-	283,380
USDA Commodities	4,036,390	-	-	4,036,390
Direct Mail	1,527,803	-	-	1,527,803
United Way	55,359	-	-	55,359
Donations of Food	32,981,568	-	-	32,981,568
Special Events	787,821	-	-	787,821
Other Revenue:				
In-Kind Contributions	4,798	-	-	4,798
Interest/Dividends	128,843	-	-	128,843
Gain (Loss) on Investments	493,449	-	-	493,449
Handling Fees	782,678	-	-	782,678
Food Purchased Revenue	1,409,151	-	-	1,409,151
Membership Dues	23,762	-	-	23,762
Cluster Agreement	10,344	-	-	10,344
Gift Sales	67,715	-	-	67,715
Other	(1,342,658)	-	-	(1,342,658)
Net Assets Released From Restrictions:				
Satisfied by Payments	2,374,157	(2,374,157)	-	-
<b>TOTAL REVENUES AND SUPPORT</b>	<b>44,750,810</b>	<b>(363,036)</b>	<b>-</b>	<b>44,387,774</b>
EXPENSES				
Program Services	41,366,524	-	-	41,366,524
Supporting Services	2,507,640	-	-	2,507,640
<b>TOTAL EXPENSES</b>	<b>43,874,164</b>	<b>-</b>	<b>-</b>	<b>43,874,164</b>
<b>CHANGE IN NET ASSETS</b>	<b>876,646</b>	<b>(363,036)</b>	<b>-</b>	<b>513,610</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>15,475,224</b>	<b>3,043,134</b>	<b>31,000</b>	<b>18,549,358</b>
NET ASSETS, BEGINNING OF YEAR (Transfer of Arkansas Rice Depot as of 1/1/2016)	1,244,796	2,365,550	91,030	3,701,376
	16,720,020	5,408,684	122,030	22,250,734
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 17,596,666</b>	<b>\$ 5,045,648</b>	<b>\$ 122,030</b>	<b>\$ 22,764,344</b>

See accompanying notes to the financial statements.

	PROGRAM SERVICES				
	Food for Families	USDA Commodities	Food for Kids	Food for Seniors	Public Awareness
Compensation and Related Expenses					
Compensation	\$ 1,354,612	\$ 80,154	\$ 200,386	\$ 21,375	\$ 112,216
Payroll taxes	102,007	6,036	15,090	1,610	8,450
Employee benefits	146,273	8,655	21,638	2,308	12,117
Total Compensation and Related Expenses	1,602,892	94,845	237,114	25,293	132,783
Occupancy Expenses					
Utilities	194,202	17,391	40,579	2,899	1,449
Total Occupancy Expenses	194,202	17,391	40,579	2,899	1,449
Administration					
Agency capacity building	196,110	-	-	-	-
Audit and accounting	-	-	-	-	-
Auto expense	166,366	36,752	26,952	490	980
Bad debts	580	-	-	-	-
Cluster handling	17,451	-	-	-	-
Consulting fees	153,839	1,893	4,732	505	2,650
Copier/fax	8,895	526	1,316	140	737
Direct mail expenses	-	-	-	-	-
Disaster relief	8,134	-	-	-	-
Dues and memberships	-	-	-	-	472
Finance fees	-	-	-	-	-
Food/grocery products	33,258,686	3,835,190	452,798	4,738	-
Freight	155,022	-	-	-	-
Information technology	36,158	2,139	5,349	571	2,995
In-kind services	-	-	-	-	-
Insurance	33,324	1,972	4,930	526	2,760
Interest	-	-	-	-	-
Investment management fees	-	-	-	-	-
Office supplies	14,312	847	2,117	226	1,186
Other expenses	4,454	264	659	70	369
Payroll service fees	-	-	-	-	-
Postage	2,085	-	-	-	894
Printing and production	13,577	803	2,009	214	1,125
Public awareness	-	-	-	-	17,594
Rent	21,000	-	-	-	-
Seminars and training	18,558	-	-	-	-
Special events	-	-	-	-	-
Taxes, licenses, permits	2,694	-	-	-	-
Travel	4,576	-	-	-	-
Warehouse expenses	106,359	24,544	24,544	8,182	-
Total Other Expenses	34,222,180	3,904,930	525,406	15,662	31,762
Total expenses before depreciation	36,019,274	4,017,166	803,099	43,854	165,994
Depreciation	242,883	14,372	35,929	3,832	20,121
Total expenses	\$ 36,262,157	\$ 4,031,538	\$ 839,028	\$ 47,686	\$ 186,115

Continued on the following page.

	SUPPORTING SERVICES		TOTALS		
	General Admin	Fund Development	Total Program Services	Total Supporting Services	Total Functional Expenses
Compensation and Related Expenses					
Compensation	\$ 515,661	\$ 387,414	\$ 1,768,743	\$ 903,075	\$ 2,671,818
Payroll taxes	38,831	29,173	133,193	68,004	201,197
Employee benefits	55,682	41,834	190,991	97,516	288,507
Total Compensation and Related Expenses	610,174	458,421	2,092,927	1,068,595	3,161,522
Occupancy Expenses					
Utilities	21,739	11,594	256,520	33,333	289,853
Total Occupancy Expenses	21,739	11,594	256,520	33,333	289,853
Administration					
Agency capacity building	-	-	196,110	-	196,110
Audit and accounting	19,250	-	-	19,250	19,250
Auto expense	6,125	7,351	231,540	13,476	245,016
Bad debts	-	-	580	-	580
Cluster handling	-	-	17,451	-	17,451
Consulting fees	145,993	91,832	163,619	237,825	401,444
Copier/fax	3,386	2,544	11,614	5,930	17,544
Direct mail expenses	-	566,221	-	566,221	566,221
Disaster relief	-	-	8,134	-	8,134
Dues and memberships	49,664	2,562	472	52,226	52,698
Finance fees	9,346	21,806	-	31,152	31,152
Food/grocery products	-	-	37,551,412	-	37,551,412
Freight	-	-	155,022	-	155,022
Information technology	13,764	10,341	47,212	24,105	71,317
In-kind services	4,798	-	-	4,798	4,798
Insurance	12,685	9,530	43,512	22,215	65,727
Interest	37,361	-	-	37,361	37,361
Investment management fees	55,725	-	-	55,725	55,725
Office supplies	5,448	4,093	18,688	9,541	28,229
Other expenses	1,695	1,274	5,816	2,969	8,785
Payroll service fees	13,241	-	-	13,241	13,241
Postage	2,979	23,834	2,979	26,813	29,792
Printing and production	5,168	3,883	17,728	9,051	26,779
Public awareness	-	-	17,594	-	17,594
Rent	-	-	21,000	-	21,000
Seminars and training	24,600	9,600	18,558	34,200	52,758
Special events	-	76,690	-	76,690	76,690
Taxes, licenses, permits	600	400	2,694	1,000	3,694
Travel	-	-	4,576	-	4,576
Warehouse expenses	-	-	163,629	-	163,629
Total Other Expenses	411,828	831,961	38,699,940	1,243,789	39,943,729
Total expenses before depreciation	1,043,741	1,301,976	41,049,387	2,345,717	43,395,104
Depreciation	92,459	69,464	317,137	161,923	479,060
Total expenses	\$ 1,136,200	\$ 1,371,440	\$ 41,366,524	\$ 2,507,640	\$ 43,874,164

See accompanying notes to the financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 513,610
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Noncash items:	
Depreciation	479,060
Noncash donations	(37,022,756)
Noncash distributions	35,480,368
Net realized and unrealized (gain) loss on endowment funds and investments	(290,053)
Net unrealized (gain) loss on assets held in charitable remainder trust	(261,826)
Loss on sale of fixed assets	1,376,097
(Increase) Decrease in:	
Accounts receivable	(71,088)
Unconditional promises to give	(335,000)
Purchased inventory	(85,972)
Prepaid expenses	4,739
Increase (Decrease) in:	
Accounts payable	(6,881)
Payroll and taxes payable	96,136
Deferred revenue	(472,736)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(596,302)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net endowment funds activity	3,988
Net investments activity	206,614
Utility and security deposits	8,775
Net purchases of capital assets	(358,788)
Proceeds from sale of assets	1,333,200
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>1,193,789</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on long-term debt	(1,370,601)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(1,370,601)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(773,114)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,076,232
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Transfer of Arkansas Rice Depot as of 1/1/2016)	766,249
	<u>2,842,481</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,069,367</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	\$ 37,361

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

Arkansas Foodbank is a nonprofit corporation established to collect and distribute donated food and other items. The Organization is an affiliated member of Feeding America (the Nation's Foodbank Network), the Arkansas Hunger Relief Alliance, and the Heart of Arkansas United Way. The receipt of food is primarily from retail stores, wholesalers, manufacturers, processors and food drives. After careful inspection, the food and products are distributed to not-for-profit agencies such as food pantries, soup kitchens, shelters, after-school feeding programs and other similar groups in 33 central and southern counties in Arkansas. As disclosed in the notes to the December 31, 2015 audited financial statements, the Arkansas Foodbank merged with the Arkansas Rice Depot effective January 1, 2016.

*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. Under this method of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Organization are included in the statement of financial position.

The financial statements are presented in accordance with the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to the following three classes of net assets:

- Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation.
- Temporarily restricted net assets are those net assets whose use by the Organization has been limited by donors to later periods of time or after specified dates or to specified purposes.
- Permanently restricted net assets are those net assets whose use by the Organization has donor-imposed restrictions that stipulate resources be maintained permanently but may permit the Organization to use up or expend part or all of the income (or economic benefits) derived from the donated assets.

*Functional Allocation of Expenses*

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

*Cash Flows*

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

*Donated Services*

Unpaid volunteers have made contributions of their time in conjunction with the Organization's programs and services. There was a total of 26,034 volunteer hours valued at \$498,295 in 2016. However, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services are reflected in the financial statements at their fair market value. These services are provided in connection with fundraising activities.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Advertising*

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

*Support and Revenues*

The Organization solicits contributions from private individuals, through direct mail campaigns, corporate promotions and grant applications. Unsolicited contributions are also received from the general public. Another source of funding is the allocation received from the United Way. During the year ended December 31, 2016, the Organization received \$5,425,817 in public support from these sources.

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

The Organization accounts for contributions in accordance with the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. In accordance with FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions, including pledges, represent amounts raised from the public and are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Cash donations are recorded when received. Contributions of assets other than cash are recorded at estimated fair value. New equipment donated to the Organization is included in the financial statements at the suggested retail price. Used equipment donated to the Organization is recorded at estimated fair market value.

For the year ended December 31, 2016, fundraising costs of \$76,690 is reflected as Special Events expense on the Statement of Functional Expenses.

*Food and Grocery Products*

Food and grocery products donated to the Arkansas Foodbank that are distributed and on-hand at year end are valued at an average wholesale value as determined by a survey conducted annually by Feeding America, the Nation's Food Bank Network. For the year ended December 31, 2016, the average wholesale value used was \$1.67 per pound.

*Property and Equipment*

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

Building and improvements	10-40 years
Furniture, equipment, and software	3-20 years
Vehicles	5-10 years

It is the Organization's policy to capitalize all asset purchases that have a useful life of more than one year and a unit cost greater than \$2,500.

*Accounts Receivable*

Accounts receivable consists of funds owed to the Organization from government awarding agencies, donations and other services. Management believes that all of these receivables are fully collectible; therefore, no provision for doubtful accounts has been made.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Unconditional Promises to Give*

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional promises to give that are expected to be collected or paid within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected or paid in more than one year are recognized at the present value of estimated future cash flows and included in promises to give. Management believes that all of these receivables are fully collectible; therefore, no provision for doubtful accounts has been made.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## NOTE 2: FEDERAL INCOME TAX

The Organization is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and a similar section of Arkansas statutes. Generally, the Organization's tax returns are open for examination by federal and state taxing authorities for three years after they were filed. The Organization has been determined by the Internal Revenue Service not to be a private foundation with the meaning of Section 509(a) of the Code. Additionally, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A).

## NOTE 3: DEPOSITS

The carrying amount of the Organization's cash deposits was \$2,069,367 at December 31, 2016. The bank balance of the Organization's cash deposits was \$2,164,153 at December 31, 2016. Approximately \$1,914,153 of the bank balance was uninsured by the Federal Depository Insurance Corporation (FDIC) at December 31, 2016.

## NOTE 4: PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at December 31, 2016:

Within one year	\$ 185,000
One to 5 years	<u>150,000</u>
Total	<u>\$ 335,000</u>

## NOTE 5: FAIR VALUE MEASUREMENTS

The Organization accounts for its investments in accordance with the FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. In accordance with FASB ASC 820, investments in equity securities with readily determinable fair values and all debt securities are measured at fair value. The Organization has characterized its financial assets into a three-level hierarchy based on the priority of the inputs used to value these assets. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial assets fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the asset.

## NOTE 5: FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1: These are assets where values are based on unadjusted quoted prices for identical assets in an active market to which the Organization has access.

Level 2: These are assets where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3: These are assets where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the assumptions of management about assumptions market participants would use in pricing the investments.

The fair values of the Organization's investments that are reported in the accompanying statement of financial position as of December 31, 2016 were as follows:

	Level 1	Level 2	Level 3	Total
Money Market Accounts	\$ 299,452	\$ -	\$ -	\$ 299,452
Government Securities	838,809	-	-	838,809
Corporate Bonds	674,393	-	-	674,393
Mutual Funds	1,359,861	-	-	1,359,861
Equities	2,272,968	-	-	2,272,968
Endowment Funds	-	-	130,787	130,787
Interest in Charitable Remainder Trust	-	-	2,613,289	2,613,289
	<u>\$ 5,445,483</u>	<u>\$ -</u>	<u>\$ 2,744,076</u>	<u>\$ 8,189,559</u>

Fair value for investments is determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for endowment funds is based upon the balance of the accounts held at Arkansas Community Foundation. Fair value for the interest in charitable remainder trust is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 4.00% discount rate.

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3 inputs):

	Charitable Remainder Trust	Endowment Funds
Balance at December 31, 2015	\$ -	\$ 31,624
Transfers in from Arkansas Rice Depot at 1/1/2016	2,118,877	99,553
Additions	565,000	130
Change in value in charitable remainder trust	135,863	-
Investment income (loss)	40,521	6,170
Disbursements	(246,972)	(6,690)
Balance at December 31, 2016	<u>\$2,613,289</u>	<u>\$ 130,787</u>

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its 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 fair value measurement at the reporting date.

**NOTE 6: ENDOWMENT AND INVESTMENT RETURN**

In October 2001, an endowment fund in the amount of \$31,000 was established at the Arkansas Community Foundation (the "Foundation"), with \$21,000 raised specifically for this purpose by Arkansas Foodbank and \$10,000 in a matching contribution by the Foundation. Prior to the merger with the Arkansas Rice Depot, the Arkansas Rice Depot irrevocably transferred assets to the Foundation in the amount of \$91,030. These endowment funds total \$122,030 and are permanently restricted.

The endowment funds are accounted for in accordance with the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. In accordance with FASB ASC 958, the endowment funds are considered a reciprocal transfer of funds since the Organization is both the donor and beneficiary of the endowments, even though the variance power has been granted to the Foundation and the Foundation is the legal owner of the fund under the terms of the endowment agreement. The fund may expend that portion of its total assets as permitted by the spending rate policy. The fair value of the endowment funds as of December 31, 2016 was \$130,787.

Unrealized gains and losses on the endowment funds and other investments are included in the change in net assets in the accompanying statement of activities. Investment income and gains are reported as increases in unrestricted net assets in the reporting period in which the income and gains are recognized.

Investment return is summarized as follows:

Investment interest/dividend income	\$ 128,843
Net realized gains (losses)	136,506
Net unrealized gains (losses)	<u>356,943</u>
Total investment gain (loss)	<u>\$ 622,292</u>

**NOTE 7: CHARITABLE REMAINDER TRUST**

Arkansas Foodbank administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Organization's use. The portion of the trust attributable to the present value of future benefits to be received by the Organization is recorded in the statement of activities as a temporarily restricted contribution in the period the trust was established. Assets held in the charitable remainder trust totaled \$2,613,289 at December 31, 2016 and are reported at fair market value in the Organization's statement of financial position.

On an annual basis, the Organization revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. At December 31, 2016, the present value of the estimated future payments was \$1,456,203 and is calculated using a discount rate and applicable mortality tables.

**NOTE 8: COMMODITIES**

Arkansas Foodbank has an agreement with the Arkansas Department of Human Services (DHS), under the authority of the Stewart B. McKinney Homeless Assistance Act, to distribute excess commodities to needy households. Under this agreement, the Organization receives commodities from DHS and distributes them to food pantries and other agencies throughout the state. Inventory is carried at the values assigned by DHS. Year-end inventory totaled \$432,458.

## NOTE 9: PROPERTY AND EQUIPMENT

Property and equipment consists of:

	Beginning Balance	Transfers In		Decreases	Ending Balance
		From Arkansas Rice Depot	Increases		
Land	\$ 1,045,440	\$ -	\$ -	\$ -	\$ 1,045,440
Building and Improvements	8,932,901	3,299,756	159,417	(3,299,756)	9,092,318
Furniture, Equipment, and Software	1,435,136	501,582	49,289	(429,298)	1,556,709
Vehicles	798,750	274,283	15,000	(134,378)	953,655
Construction Work in Progress	50,896	-	150,082	-	200,978
Total Cost	12,263,123	4,075,621	373,788	(3,863,432)	12,849,100
Less: Accumulated Depreciation	(1,933,827)	(1,293,122)	(479,060)	1,210,195	(2,495,814)
Net Book Value	<u>\$10,329,296</u>	<u>\$ 2,782,499</u>	<u>\$ (105,272)</u>	<u>\$(2,653,237)</u>	<u>\$10,353,286</u>

Depreciation expense for the year ended December 31, 2016 amounted to \$479,060.

## NOTE 10: NOTE PAYABLE

The Arkansas Foodbank acquired a mortgage payable in the amount of \$1,370,601 as part of the merger with the Arkansas Rice Depot on January 1, 2016. During 2016, the mortgage was paid off as part of the sale of the Arkansas Rice Depot building.

## NOTE 11: RESTRICTIONS ON NET ASSETS

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

Net assets subject to restrictions by the donors include:

Temporarily Restricted:	
Investments	\$ 2,843,122
Charitable Remainder Trust	1,157,086
Land	<u>1,045,440</u>
Total	<u>\$ 5,045,648</u>
Permanently Restricted:	
Endowment Funds	<u>\$ 122,030</u>

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

## NOTE 12: CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash balances with financial institutions. The Organization maintains its cash at institutions insured by the Federal Deposit Insurance Corporation (FDIC). These accounts, at times, may exceed federally insured limits.

**NOTE 13: RETIREMENT PLAN**

The Organization provides a plan for employees to contribute to individual retirement accounts. Distributions from these accounts to the employees are taxed at that time. Employer contributions totaled \$66,215 for the year.

**NOTE 14: DATE OF MANAGEMENT'S REVIEW**

Management has evaluated subsequent events through July 21, 2017, the date on which the financial statements were available to be issued.

A review of the Arkansas Foodbank 403b retirement plan was conducted in 2016. It was noted that certain operational failures required correction necessary to place all participants in the same position they would be in but for the failures. Accordingly, the plan sponsor made corrective contributions and claims for overpayments as well as other corrective measures necessary to comply with the Self Correction Program regulations under the Internal Revenue Service Employee Plans Compliance Resolution System. Currently, the exact impact is unknown but the overall amount is anticipated to have an immaterial impact on financial results.

**SUPPLEMENTARY INFORMATION**

<u>Federal Grantor/ CLUSTER NAME/ Program Name/ Pass-through Entity</u>	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Agriculture:</u>				
FOOD DISTRIBUTION CLUSTER				
Commodity Supplemental Food Program				
Pass-through from Arkansas Department of Human Services Emergency Food Assistance Program (Administrative Costs)	10.565	FCX	\$ -	\$ 20,224
Pass-through from Arkansas Department of Human Services Emergency Food Assistance Program (Commodities)	10.568	FGX	-	160,248
Pass-through from Arkansas Department of Human Services	10.569	N/A	3,835,172	3,835,172
Total FOOD DISTRIBUTION CLUSTER			<u>3,835,172</u>	<u>4,015,644</u>
Child and Adult Care Food Program (CACFP)				
Pass-through from Arkansas Department of Human Services	10.558	FA1, FA2	-	75,777
Summer Food Service Program for Children (SFSP)				
Pass-through from Arkansas Department of Human Services	10.559	FB1	-	47,355
Total U.S. Department of Agriculture			<u>3,835,172</u>	<u>4,138,776</u>
<u>U.S. Department of Homeland Security:</u>				
Emergency Food and Shelter Program (EFSP)	97.024	N/A	-	23,006
Total U.S. Department of Homeland Security			<u>-</u>	<u>23,006</u>
Total Expenditures of Federal Awards			<u>\$ 3,835,172</u>	<u>\$ 4,161,782</u>

## Notes to Schedule:

*Note 1. Basis of Presentation*

The accompanying schedule of expenditures of federal awards includes the federal award activity of Arkansas Foodbank under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

*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 types of expenditures are not allowable or are limited as to reimbursement.

*Note 3. Indirect Cost Rates*

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

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

CACFP:

<u>Month</u>	<u>Number of Supplements</u>
January	5,221
February	5,714
March	5,421
April	6,675
May	5,495
June	-
July	-
August	2,748
September	5,084
October	5,200
November	3,629
December	3,460
Total	<u>48,647</u>

SFSP:

<u>Month</u>	<u>Number of Breakfasts</u>	<u>Number of Lunches</u>
June	815	968
July	627	800
August	156	208
Total	<u>1,598</u>	<u>1,976</u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Arkansas Foodbank

We have audited, 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, the financial statements of Arkansas Foodbank (a nonprofit organization) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated July 21, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Arkansas Foodbank'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 Arkansas Foodbank's internal control. Accordingly, we do not express an opinion on the effectiveness of Arkansas Foodbank'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 the 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 Arkansas Foodbank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Craft, Veach & Company*

Craft, Veach & Company, PLC  
North Little Rock, Arkansas  
July 21, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Arkansas Foodbank

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

We have audited Arkansas Foodbank's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arkansas Foodbank's major federal programs for the year ended December 31, 2016. Arkansas Foodbank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Arkansas Foodbank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Arkansas Foodbank's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

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

*Opinion on Each Major Federal Program*

In our opinion, Arkansas Foodbank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

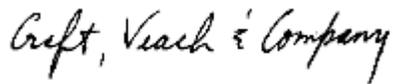
**Report on Internal Control Over Compliance**

Management of Arkansas Foodbank 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 Arkansas Foodbank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arkansas Foodbank'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.



Craft, Veach & Company, PLC  
North Little Rock, Arkansas  
July 21, 2017

Summary of Auditor’s Results

1. The independent auditor’s report on the financial statements expressed an unmodified opinion.
2. No deficiencies considered to be material weaknesses in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No deficiencies considered to be material weaknesses in internal control over compliance with requirements applicable to major federal awards programs were reported in the independent auditor’s report on internal control over compliance.
5. The independent auditor’s report on compliance with requirements applicable to major federal awards programs expressed an unmodified opinion.
6. The audit disclosed no findings required to be reported by the Uniform Guidance as it relates to major federal programs.

7. The Organization’s major federal programs are:

<u>Cluster Name/Program Name</u>	<u>CFDA Number</u>
Food Distribution Cluster:	
Commodity Supplemental Food Program	10.565
Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	10.569

8. A threshold of \$750,000 was used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance.
9. The Organization did not qualify as a low risk auditee as that term is defined in the Uniform Guidance.

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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None.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Status
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*NOTE: This finding was issued as part of the audit of the Arkansas Rice Depot for the year ended 12/31/2015, prior to the 1/1/2016 merger with the Arkansas Foodbank.*

2015-001	<p><u>Criteria:</u> Client is expected to maintain complete and accurate perpetual inventory procedures and records to adequately track the activity and balances of food products within its possession and control.</p>	<i>Resolved</i>
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Condition: During the performance of our inventory audit procedures and discussions with management during our engagement, we noted that the Organization’s perpetual inventory system was basically nonexistent as of the Organization’s year end. Significant adjustments were needed to record the year’s activity and to bring the general ledger inventory balances in agreement with the physical inventory.

Cause: An adequate perpetual inventory system was not developed or implemented by the Organization.

Effect or Potential Effect: The Organization did not have the information necessary to adequately manage or report the inventory activities and/or volumes.

Recommendation: Craft, Veach & Company, PLC recommends that the Organization fully integrate its inventory activities into the inventory system of the Arkansas Foodbank and adopt their policies and procedures.

Management’s Response/Corrective Action Plan: Perpetual inventory records have been an issue at the Rice Depot going back to 2013 when the old system irretrievably failed. Subsequent attempts to replace the system were not effective. When the merger with Arkansas Foodbank became a likely event in the fall of 2015, it was decided to finish the year using Excel to compile the paper records and to move all inventory activity into Ceres at the Foodbank beginning 1/1/2016. This has now been accomplished.

Reference Number	Finding	Status
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*NOTE: This finding was issued as part of the audit of the Arkansas Rice Depot for the year ended 12/31/2015, prior to the 1/1/2016 merger with the Arkansas Foodbank.*

2015-002	<p><u>Criteria:</u> All aspects of operations should be clearly documented in an up-to-date procedures manual. Procurement policies and procedures should include specific requirements regarding approvals of purchases, matching of supporting documents, and determination of general ledger account coding.</p>	<i>Resolved</i>
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Condition: The Organization did not have an up-to-date written procedures manual. In our testing of controls over disbursements, we noted several areas where the controls (as stated by management) were not being followed. These issues included the following:

- A significant number of invoices and purchase orders in which the approval of management was not documented in advance of the purchase.
- A significant number of disbursements did not have a purchase order.
- A significant number of disbursements did not have the general ledger account coding documented.

Cause: An up-to-date procurement policy was not documented or implemented by the Organization.

Effect or Potential Effect: Reviews and approvals of purchases were not adequately documented which heightens the opportunity for unauthorized and/or inappropriate use of the Organization's funds.

Recommendation: Craft, Veach & Company, PLC recommends that the Organization fully integrate its procurement/purchasing functions into the purchasing system of the Arkansas Foodbank and adopt their policies and procedures.

Management's Response/Corrective Action Plan: The finance function in the organization was fully vested in the Director of Finance with no other support resources in the organization. The position was turned over in April 2015 after having been previously turned over in the summer of 2014. This lack of consistency in the position with no backup was partly responsible for the inconsistency in documentation and practice. Having said that, every expenditure was reviewed by both the CEO and Director of Finance when checks were issued, even if exact documentation was lacking.

With the Foodbank merger there is now a finance staff in place to ensure policies are followed completely. Also, the Foodbank has a manual of policies and procedures in place which will serve as a good foundation for ensuring processes are in place to handle Rice Depot transactions in the new organization.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Status
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No matters are reportable.