

**ARKANSAS FOODBANK**

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

**DECEMBER 31, 2017**

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position .....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5-6
Statement of Cash Flows.....	7
NOTES TO THE FINANCIAL STATEMENTS .....	8-14
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards .....	15
Schedule of Units of Service.....	16
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	17-18
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE .....	19-20
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	21-22
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	23



## 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, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### *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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

### *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 August 8, 2018, 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  
August 8, 2018

## ASSETS

## Current Assets:

Cash and Cash Equivalents - Unrestricted	\$ 976,871
Cash and Cash Equivalents - Restricted	171,982
Investments	5,824,517
Accounts Receivable	259,604
Unconditional Promises to Give, Net of Allowance - Current Portion - Restricted	422,200
Inventory - Food Products - Unrestricted	1,713,171
Inventory - Food Products - Restricted	495,710
Prepaid Items	20,734
Total Current Assets	<u>9,884,789</u>

## Property and Equipment:

Land - Restricted	1,045,440
Building and Improvements	9,381,692
Furniture, Equipment, and Software	1,697,185
Vehicles	1,076,675
Construction Work in Progress	92,444
	<u>13,293,436</u>
Accumulated Depreciation	<u>(2,939,089)</u>
Property and Equipment, Net	<u>10,354,347</u>

## Other Assets:

Utility and Security Deposits	450
Endowment Funds - Unrestricted	25,276
Endowment Funds - Restricted	122,030
Unconditional Promises to Give - Noncurrent Portion - Restricted	96,294
Assets Held in Charitable Remainder Trust - Restricted	3,138,438
Total Other Assets	<u>3,382,488</u>

## TOTAL ASSETS

23,621,624

## LIABILITIES

## Current Liabilities:

Accounts Payable	186,109
Accrued Payroll and Taxes	149,829
Deferred Revenue - Restricted	460,213
Total Current Liabilities	<u>796,151</u>

## Noncurrent Liabilities:

Liability Under Charitable Remainder Trust - Restricted	1,818,665
Total Noncurrent Liabilities	<u>1,818,665</u>

## TOTAL LIABILITIES

2,614,816

## NET ASSETS

## Unrestricted:

Board Designated	3,353,188
Undesignated	14,440,404
Temporarily Restricted	3,091,186
Permanently Restricted	122,030
TOTAL NET ASSETS	<u>21,006,808</u>

## TOTAL LIABILITIES AND NET ASSETS

\$ 23,621,624

See accompanying notes to the financial statements.

REVENUES AND SUPPORT	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Public Support:				
Contributions	\$ 856,215	\$ -	\$ -	\$ 856,215
Noncash Contributions	81,114	-	-	81,114
Capital Campaign	-	384,000	-	384,000
Grants	240,741	751,042	-	991,783
USDA Assistance	226,944	81,064	-	308,008
USDA Commodities	3,718,835	-	-	3,718,835
Direct Mail	1,395,494	-	-	1,395,494
United Way	108,499	-	-	108,499
Donations of Food	30,134,119	-	-	30,134,119
Special Events	745,306	-	-	745,306
Other Revenue:				
In-Kind Contributions	12,741	-	-	12,741
Interest/Dividends	150,053	-	-	150,053
Gain (Loss) on Investments	621,922	-	-	621,922
Handling Fees	842,346	-	-	842,346
Food Purchased Revenue	1,624,660	-	-	1,624,660
Membership Dues	23,050	-	-	23,050
Cluster Agreement	10,526	-	-	10,526
Gift Sales	79,793	-	-	79,793
Other	31,972	-	-	31,972
Net Assets Released From Restrictions	3,170,568	(3,170,568)	-	-
<b>TOTAL REVENUES AND SUPPORT</b>	<b>44,074,898</b>	<b>(1,954,462)</b>	<b>-</b>	<b>42,120,436</b>
EXPENSES				
Program Services	41,278,390	-	-	41,278,390
Supporting Services	2,599,582	-	-	2,599,582
<b>TOTAL EXPENSES</b>	<b>43,877,972</b>	<b>-</b>	<b>-</b>	<b>43,877,972</b>
<b>CHANGE IN NET ASSETS</b>	<b>196,926</b>	<b>(1,954,462)</b>	<b>-</b>	<b>(1,757,536)</b>
NET ASSETS, BEGINNING OF YEAR	17,596,666	5,045,648	122,030	22,764,344
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 17,793,592</b>	<b>\$ 3,091,186</b>	<b>\$ 122,030</b>	<b>\$ 21,006,808</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	\$ 1,118,160	\$ 153,755	\$ 224,777	\$ 19,541	\$ 123,079
Payroll taxes	83,115	11,355	16,885	1,501	9,452
Employee benefits	125,626	17,163	25,521	2,268	14,286
Total Compensation and Related Expenses	1,326,901	182,273	267,183	23,310	146,817
Occupancy Expenses					
Utilities	138,724	27,290	16,147	5,458	5,685
Total Occupancy Expenses	138,724	27,290	16,147	5,458	5,685
Administration					
Agency capacity building	262,938	-	270	-	-
Audit and accounting	-	-	-	-	-
Auto expense	165,981	34,911	20,448	-	831
Bad debts	727	-	-	-	-
Capital campaign	-	-	-	-	-
Cluster handling	21,253	-	-	-	-
Consulting fees	1,556	-	-	-	-
Copier/fax	818	-	-	-	-
Direct mail expenses	-	-	-	-	-
Disaster relief	9,167	-	-	-	-
Dues and memberships	200	-	26	-	-
Facility and equipment	140,115	28,360	11,236	2,371	2,396
Finance fees	-	-	-	-	-
Food/grocery products	33,068,181	4,113,109	408,611	12,778	-
Freight	148,930	-	-	-	-
Information technology	13,539	2,456	1,228	-	-
In-kind services	-	-	-	-	-
Insurance	17,147	3,737	1,561	47	166
Investment management fees	-	-	-	-	-
Office supplies	2,532	-	1,379	-	107
Other expenses	-	-	-	-	6,900
Payroll service fees	-	-	-	-	-
Postage	-	-	-	-	-
Printing and production	2,694	627	-	-	386
Program support	71,833	15,942	12,196	94	-
Public awareness	-	-	-	-	57,595
Seminars and training	18,007	-	5,055	1,128	3,917
Special events	-	-	-	-	-
Taxes, licenses, permits	2,268	454	988	-	-
Travel	379	-	-	-	-
Total Other Expenses	33,948,265	4,199,596	462,998	16,418	72,298
Total expenses before depreciation	35,413,890	4,409,159	746,328	45,186	224,800
Depreciation	329,958	70,116	30,246	5,499	3,208
Total expenses	\$ 35,743,848	\$ 4,479,275	\$ 776,574	\$ 50,685	\$ 228,008

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	\$ 642,114	\$ 463,361	\$ 1,639,312	\$ 1,105,475	\$ 2,744,787
Payroll taxes	49,310	35,395	122,308	84,705	207,013
Employee benefits	74,532	53,499	184,864	128,031	312,895
Total Compensation and Related Expenses	765,956	552,255	1,946,484	1,318,211	3,264,695
Occupancy Expenses					
Utilities	18,193	15,919	193,304	34,112	227,416
Total Occupancy Expenses	18,193	15,919	193,304	34,112	227,416
Administration					
Agency capacity building	-	-	263,208	-	263,208
Audit and accounting	18,500	-	-	18,500	18,500
Auto expense	3,325	1,996	222,171	5,321	227,492
Bad debts	-	-	727	-	727
Capital campaign	-	59,269	-	59,269	59,269
Cluster handling	-	-	21,253	-	21,253
Consulting fees	52,576	20,758	1,556	73,334	74,890
Copier/fax	19,267	1,868	818	21,135	21,953
Direct mail expenses	-	526,500	-	526,500	526,500
Disaster relief	-	-	9,167	-	9,167
Dues and memberships	53,485	2,146	226	55,631	55,857
Facility and equipment	7,667	6,709	184,478	14,376	198,854
Finance fees	-	18,178	-	18,178	18,178
Food/grocery products	-	-	37,602,679	-	37,602,679
Freight	-	-	148,930	-	148,930
Information technology	62,397	42,338	17,223	104,735	121,958
In-kind services	12,741	-	-	12,741	12,741
Insurance	6,736	473	22,658	7,209	29,867
Investment management fees	62,414	-	-	62,414	62,414
Office supplies	10,617	1,012	4,018	11,629	15,647
Other expenses	16,235	-	6,900	16,235	23,135
Payroll service fees	17,564	-	-	17,564	17,564
Postage	6,293	30,736	-	37,029	37,029
Printing and production	2,449	4,233	3,707	6,682	10,389
Program support	-	-	100,065	-	100,065
Public awareness	-	7,718	57,595	7,718	65,313
Seminars and training	41,823	17,018	28,107	58,841	86,948
Special events	-	92,757	-	92,757	92,757
Taxes, licenses, permits	113	100	3,710	213	3,923
Travel	-	-	379	-	379
Total Other Expenses	394,202	833,809	38,699,575	1,228,011	39,927,586
Total expenses before depreciation	1,178,351	1,401,983	40,839,363	2,580,334	43,419,697
Depreciation	10,082	9,166	439,027	19,248	458,275
Total expenses	\$ 1,188,433	\$ 1,411,149	\$ 41,278,390	\$ 2,599,582	\$ 43,877,972

See accompanying notes to the financial statements.

## CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (1,757,536)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Noncash items:	
Depreciation	458,275
Noncash donations	(33,865,695)
Noncash distributions	35,551,724
Net realized and unrealized (gain) loss on endowment funds and investments	(444,657)
Net unrealized (gain) loss on assets held in charitable remainder trust	(162,687)
Loss on sale of fixed assets	(2,500)
(Increase) Decrease in:	
Accounts receivable	(85,195)
Unconditional promises to give	(183,494)
Purchased inventory	157,804
Prepaid expenses	(2,816)
Increase (Decrease) in:	
Accounts payable	37,749
Payroll and taxes payable	3,132
Deferred revenue	(216,765)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(512,661)</u>

## CASH FLOWS FROM INVESTING ACTIVITIES:

Net endowment funds activity	3,184
Net investments activity	45,920
Utility and security deposits	(121)
Net purchases of capital assets	(459,336)
Proceeds from sale of assets	2,500
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(407,853)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (920,514)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 2,069,367

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 1,148,853

Presented on the Statement of Financial Position as follows:

Cash and Cash Equivalents - Unrestricted	\$ 976,871
Cash and Cash Equivalents - Restricted	171,982
	<u>\$ 1,148,853</u>

## 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.

*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 33,413 volunteer hours valued at \$656,900 in 2017. 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, 2017, the Organization received \$4,097,297 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, 2017, fundraising costs of \$92,757 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, 2017, the average wholesale value used was \$1.52 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. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2017, the allowance was \$3,300.

*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 \$1,148,853 at December 31, 2017. The bank balance of the Organization's cash deposits was \$1,209,288 at December 31, 2017. Approximately \$879,147 of the bank balance was uninsured by the Federal Depository Insurance Corporation (FDIC) at December 31, 2017.

## NOTE 4: PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at December 31, 2017:

Current:	
Within one year	\$ 425,500
Less: allowance for uncollectible promises to give	<u>(3,300)</u>
	422,200
Noncurrent:	
One to 5 years	104,794
Less: discount to net present value at a 4.309% rate	<u>(8,500)</u>
	96,294
Total	<u>\$ 518,494</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.

## NOTE 5: FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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, 2017 were as follows:

	Level 1	Level 2	Level 3	Total
Money Market Accounts	\$ 208,232	\$ -	\$ -	\$ 208,232
Government Securities	1,040,640	-	-	1,040,640
Corporate Bonds	1,151,243	-	-	1,151,243
Mutual Funds	386,677	-	-	386,677
Equities	3,037,725	-	-	3,037,725
Endowment Funds	-	-	147,306	147,306
Interest in Charitable Remainder Trust	-	-	3,138,438	3,138,438
	<u>\$ 5,824,517</u>	<u>\$ -</u>	<u>\$ 3,285,744</u>	<u>\$ 9,110,261</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, 2016	\$2,613,289	\$ 130,787
Additions	349,500	1,500
Change in value in charitable remainder trust	404,804	-
Investment income (loss)	57,439	21,905
Disbursements	(286,594)	(6,886)
Balance at December 31, 2017	<u>\$3,138,438</u>	<u>\$ 147,306</u>

**NOTE 5: FAIR VALUE MEASUREMENTS (CONTINUED)**

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, 2017 was \$147,306.

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	\$ 150,053
Net realized gains (losses)	311,459
Net unrealized gains (losses)	<u>310,463</u>
Total investment gain (loss)	<u>\$ 771,975</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 \$3,138,438 at December 31, 2017 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, 2017, the present value of the estimated future payments was \$1,818,665 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.

## NOTE 8: COMMODITIES (CONTINUED)

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 \$495,710.

## NOTE 9: PROPERTY AND EQUIPMENT

Property and equipment consists of:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 1,045,440	\$ -	\$ -	\$ 1,045,440
Building and Improvements	9,092,318	307,206	(17,832)	9,381,692
Furniture, Equipment, and Software	1,556,709	140,476	-	1,697,185
Vehicles	953,655	138,020	(15,000)	1,076,675
Construction Work in Progress	200,978	198,672	(307,206)	92,444
Total Cost	<u>12,849,100</u>	<u>784,374</u>	<u>(340,038)</u>	<u>13,293,436</u>
Less: Accumulated Depreciation	<u>(2,495,814)</u>	<u>(458,275)</u>	<u>15,000</u>	<u>(2,939,089)</u>
Net Book Value	<u>\$ 10,353,286</u>	<u>\$ 326,099</u>	<u>\$ (325,038)</u>	<u>\$ 10,354,347</u>

Depreciation expense for the year ended December 31, 2017 amounted to \$458,275.

## NOTE 10: LINE OF CREDIT

As of December 31, 2017, the Organization had a \$100,000 revolving line of credit that matured on January 25, 2018. At December 31, 2017, the outstanding balance against the line was \$0. Interest was calculated at a variable rate, with an interest rate of 5% at December 31, 2017.

On January 29, 2018, the Organization renewed the agreement with a maturity date of January 25, 2019. Interest was calculated at a variable rate, with an interest rate of 5.069% as of the date of the agreement.

## 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:	
Cash and Cash Equivalents	\$ 171,982
Unconditional Promises to Give	518,494
Inventory - Food Products	495,710
Land	1,045,440
Charitable Remainder Trust, Net	1,319,773
Deferred Revenue	<u>(460,213)</u>
Total	<u>\$ 3,091,186</u>
Permanently Restricted:	
Endowment Funds	<u>\$ 122,030</u>

**NOTE 11: RESTRICTIONS ON NET ASSETS (CONTINUED)**

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 \$76,863 for the year.

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

Management has evaluated subsequent events through August 8, 2018, the date on which the financial statements were available to be issued.

**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	\$ -	\$ 64,798
Pass-through from Arkansas Department of Human Services Emergency Food Assistance Program (Commodities)	10.568	FGX	-	165,683
Pass-through from Arkansas Department of Human Services	10.569	N/A	3,655,583	3,655,583
Total FOOD DISTRIBUTION CLUSTER			<u>3,655,583</u>	<u>3,886,064</u>
Child and Adult Care Food Program (CACFP)				
Pass-through from Arkansas Department of Human Services	10.558	FA1, FA2	-	57,767
Summer Food Service Program for Children (SFSP)				
Pass-through from Arkansas Department of Human Services	10.559	FB1	-	39,800
Total U.S. Department of Agriculture			<u>3,655,583</u>	<u>3,983,631</u>
<u>U.S. Department of Homeland Security:</u>				
Emergency Food and Shelter Program (EFSP)	97.024	N/A	-	66,068
Total U.S. Department of Homeland Security			<u>-</u>	<u>66,068</u>
Total Expenditures of Federal Awards			<u>\$ 3,655,583</u>	<u>\$ 4,049,699</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, 2017. 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 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	5,524
February	5,240
March	5,171
April	5,406
May	4,595
June	-
July	-
August	3,699
September	7,247
October	8,498
November	6,714
December	5,512
Total	<u><u>57,606</u></u>

SFSP:

<u>Month</u>	<u>Number of Breakfasts</u>	<u>Number of Lunches</u>	<u>Number of Suppers</u>
June	2,568	1,765	1,788
July	2,570	1,669	1,793
August	258	340	-
Total	<u><u>5,396</u></u>	<u><u>3,774</u></u>	<u><u>3,581</u></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, 2017, 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 August 8, 2018.

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  
August 8, 2018



**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, 2017. 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, 2017.

**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  
August 8, 2018

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

None.

Findings Required to be Reported by the Uniform Guidance

Reference

Number      Finding

Questioned

Costs

No matters are reportable.

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Status
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None.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Status
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None.