

ARKANSAS FOODBANK
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As described in Note 16 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

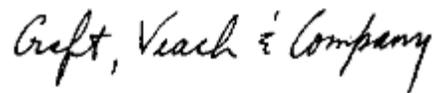
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of state awards and schedule of units of service are presented for purposes of additional analysis and are 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 September 26, 2019, 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
September 26, 2019

ASSETS

Current Assets:	
Cash and Cash Equivalents - Unrestricted	\$ 438,929
Cash and Cash Equivalents - Restricted	1,044,472
Investments	5,277,293
Accounts Receivable	114,253
Unconditional Promises to Give, Net of Allowance - Current Portion - Restricted	267,067
Inventory - Food Products - Unrestricted	2,200,353
Inventory - Food Products - Restricted	567,076
Prepaid Items	18,631
Total Current Assets	<u>9,928,074</u>
Property and Equipment:	
Land - Restricted	1,045,440
Building and Improvements	9,381,692
Furniture, Equipment, and Software	1,742,341
Vehicles	1,096,213
Construction Work in Progress	241,068
	<u>13,506,754</u>
Accumulated Depreciation	<u>(3,399,154)</u>
Property and Equipment, Net	<u>10,107,600</u>
Other Assets:	
Utility and Security Deposits	450
Endowment Funds - Unrestricted	9,908
Endowment Funds - Restricted	122,030
Unconditional Promises to Give - Noncurrent Portion - Restricted	238,973
Assets Held in Charitable Remainder Trust - Restricted	2,638,674
Total Other Assets	<u>3,010,035</u>
TOTAL ASSETS	<u>23,045,709</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	180,878
Accrued Payroll and Taxes	167,956
Deferred Revenue - Restricted	261,819
Total Current Liabilities	<u>610,653</u>
Noncurrent Liabilities:	
Liability Under Charitable Remainder Trust - Restricted	<u>1,597,336</u>
Total Noncurrent Liabilities	<u>1,597,336</u>
TOTAL LIABILITIES	<u>2,207,989</u>
NET ASSETS	
Without Donor Restrictions:	
Board Designated	3,693,371
Undesignated	12,900,968
With Donor Restrictions	4,243,381
TOTAL NET ASSETS	<u>20,837,720</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,045,709</u>

See accompanying notes to the financial statements.

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUES AND SUPPORT			
Public Support:			
Contributions	\$ 866,427	\$ -	\$ 866,427
Noncash Contributions	70,051	-	70,051
Capital Campaign	-	596,896	596,896
Capital Campaign - Noncash Contributions	-	51,503	51,503
Grants	319,333	986,222	1,305,555
USDA Assistance	206,885	170,182	377,067
USDA Commodities	3,084,639	-	3,084,639
Direct Mail	1,303,019	-	1,303,019
United Way	28,454	-	28,454
Donations of Food	34,373,324	-	34,373,324
Special Events	601,024	162,050	763,074
Other Revenue:			
In-Kind Contributions	29,261	-	29,261
Investment Return, Net	(509,956)	-	(509,956)
Handling Fees	789,694	-	789,694
Food Purchased Revenue	1,408,491	-	1,408,491
Membership Dues	22,600	-	22,600
Cluster Agreement	3,345	-	3,345
Gift Sales	84,511	-	84,511
Other	34,946	-	34,946
Net Assets Released From Restrictions	936,688	(936,688)	-
TOTAL REVENUES AND SUPPORT	<u>43,652,736</u>	<u>1,030,165</u>	<u>44,682,901</u>
EXPENSES			
Program Services	42,366,443	-	42,366,443
Supporting Services	2,485,546	-	2,485,546
TOTAL EXPENSES	<u>44,851,989</u>	<u>-</u>	<u>44,851,989</u>
CHANGE IN NET ASSETS	<u>(1,199,253)</u>	<u>1,030,165</u>	<u>(169,088)</u>
NET ASSETS, BEGINNING OF YEAR	17,793,592	3,213,216	21,006,808
NET ASSETS, END OF YEAR	<u>\$ 16,594,339</u>	<u>\$ 4,243,381</u>	<u>\$ 20,837,720</u>

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	\$ 994,995	\$ 202,947	\$ 201,500	\$ 5,197	\$ 110,249
Payroll taxes	73,628	14,846	15,648	401	8,627
Employee benefits	113,647	22,915	24,154	619	13,316
Total Compensation and Related Expenses	1,182,270	240,708	241,302	6,217	132,192
Occupancy Expenses:					
Utilities	104,037	39,600	10,639	885	4,548
Total Occupancy Expenses	104,037	39,600	10,639	885	4,548
Administrative:					
Agency capacity building	212,532	-	-	-	-
Audit and accounting	-	-	-	-	-
Auto expense	113,552	46,353	51,743	886	886
Bad debts	438	-	-	-	-
Capital campaign	-	-	-	-	-
Cluster handling	1,222	-	-	-	-
Consulting fees	3,956	-	15,000	-	-
Copier/fax	-	-	-	-	-
Direct mail expenses	-	-	-	-	76,307
Dues and memberships	-	-	125	-	-
Facility and equipment	136,383	39,111	5,965	527	2,274
Finance fees	-	-	-	-	-
Food/grocery products	33,086,358	5,471,005	373,720	7,360	-
Freight	215,263	-	-	-	-
Information technology	10,708	1,428	164	9	3,526
In-kind services	-	-	-	-	-
Insurance	14,690	5,544	1,226	128	639
Office supplies	1,441	184	21	1	104
Other expenses	-	-	-	-	4,479
Payroll service fees	-	-	-	-	-
Postage	75	-	-	-	-
Printing and production	220	901	445	-	22
Program support	38,075	4,462	9,932	2,474	-
Public awareness	-	-	-	-	20,372
Seminars and training	14,894	-	1,265	-	192
Special events	-	-	-	-	-
Taxes, licenses, permits	6,408	3,074	4,851	68	-
Travel	-	-	-	-	-
Total Administrative Expenses	33,856,215	5,572,062	464,457	11,453	108,801
Total expenses before depreciation	35,142,522	5,852,370	716,398	18,555	245,541
Depreciation	280,640	55,208	32,665	11,042	11,502
Total expenses	\$ 35,423,162	\$ 5,907,578	\$ 749,063	\$ 29,597	\$ 257,043

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	\$ 758,921	\$ 358,948	\$ 1,514,888	\$ 1,117,869	\$ 2,632,757
Payroll taxes	59,384	28,087	113,150	87,471	200,621
Employee benefits	99,285	43,352	174,651	142,637	317,288
Total Compensation and Related Expenses	917,590	430,387	1,802,689	1,347,977	3,150,666
Occupancy Expenses:					
Utilities	11,986	11,922	159,709	23,908	183,617
Total Occupancy Expenses	11,986	11,922	159,709	23,908	183,617
Administrative:					
Agency capacity building	-	-	212,532	-	212,532
Audit and accounting	18,500	-	-	18,500	18,500
Auto expense	1,773	2,658	213,420	4,431	217,851
Bad debts	-	-	438	-	438
Capital campaign	-	43,348	-	43,348	43,348
Cluster handling	-	-	1,222	-	1,222
Consulting fees	17,111	57,476	18,956	74,587	93,543
Copier/fax	16,149	2,713	-	18,862	18,862
Direct mail expenses	-	400,770	76,307	400,770	477,077
Dues and memberships	54,809	3,466	125	58,275	58,400
Facility and equipment	5,912	5,912	184,260	11,824	196,084
Finance fees	705	28,167	-	28,872	28,872
Food/grocery products	-	27,917	38,938,443	27,917	38,966,360
Freight	-	-	215,263	-	215,263
Information technology	101,060	30,288	15,835	131,348	147,183
In-kind services	-	29,261	-	29,261	29,261
Insurance	8,393	1,661	22,227	10,054	32,281
Office supplies	8,227	1,267	1,751	9,494	11,245
Other expenses	4,062	-	4,479	4,062	8,541
Payroll service fees	16,008	-	-	16,008	16,008
Postage	4,849	24,096	75	28,945	29,020
Printing and production	1,023	13,209	1,588	14,232	15,820
Program support	-	-	54,943	-	54,943
Public awareness	-	5,444	20,372	5,444	25,816
Seminars and training	37,873	5,356	16,351	43,229	59,580
Special events	-	59,702	-	59,702	59,702
Taxes, licenses, permits	119	3,632	14,401	3,751	18,152
Travel	1,737	-	-	1,737	1,737
Total Administrative Expenses	298,310	746,343	40,012,988	1,044,653	41,057,641
Total expenses before depreciation	1,227,886	1,188,652	41,975,386	2,416,538	44,391,924
Depreciation	36,803	32,205	391,057	69,008	460,065
Total expenses	\$ 1,264,689	\$ 1,220,857	\$ 42,366,443	\$ 2,485,546	\$ 44,851,989

See accompanying notes to the financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (169,088)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Noncash items:	
Depreciation	460,065
Noncash donations	(37,505,893)
Noncash distributions and expenses	37,014,184
Stock donations	(51,381)
Net realized and unrealized (gain) loss on endowment funds and investments	345,645
Net unrealized (gain) loss on assets held in charitable remainder trust	278,435
(Increase) Decrease in:	
Accounts receivable	145,351
Unconditional promises to give	12,454
Purchased inventory	(66,839)
Prepaid expenses	2,103
Increase (Decrease) in:	
Accounts payable	(5,231)
Payroll and taxes payable	18,127
Deferred revenue	(198,394)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>279,538</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Net endowment funds activity	4,084
Net investments activity	212,741
Net purchases of capital assets	(213,318)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>3,507</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from sale of donated financial assets restricted for capital campaign	51,503
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>51,503</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 334,548

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 1,148,853

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 1,483,401

Presented on the Statement of Financial Position as follows:

Cash and Cash Equivalents - Unrestricted	\$ 438,929
Cash and Cash Equivalents - Restricted	1,044,472
	<u>\$ 1,483,401</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 two classes of net assets:

- Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.
- Net assets with donor restrictions are those net assets whose use is subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by actions of the Organization or by the passage of time. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

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.

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. Accordingly, certain costs have been allocated by management among the program and supporting services benefited. The methods of allocations are described below:

- Allocation of personnel expenses is based on functional assignments by full time employees.
- Allocation of depreciation and facility expenses is based on square footage.
- Allocation of transportation expenses is based on mileage and number of deliveries.
- Allocation of program service expenses is allocated between programs when necessary based on the volume of product distributed.

Advertising

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Unpaid volunteers have made contributions of their time in conjunction with the Organization's programs and services. There was a total of 31,085 volunteer hours valued at \$636,900 in 2018. 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.

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, 2018, the Organization received \$4,984,979 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 support with donor restrictions or without donor restrictions, 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, 2018, fundraising costs of \$59,702 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, 2018, the average wholesale value used was \$1.57 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018, 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 \$1,483,401 at December 31, 2018. The bank balance of the Organization's cash deposits was \$1,572,274 at December 31, 2018. Approximately \$1,072,274 of the bank balance was uninsured by the Federal Depositary Insurance Corporation (FDIC) at December 31, 2018.

NOTE 4: PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at December 31, 2018:

Current:		
Within one year	\$	270,367
Less: allowance for uncollectible promises to give		(3,300)
		<u>267,067</u>
Noncurrent:		
One to 5 years		244,340
Less: discount to net present value at a 5.069% rate		(5,367)
		<u>238,973</u>
Total	\$	<u>506,040</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.

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, 2018 were as follows:

	Level 1	Level 2	Level 3	Total
Money Market Accounts	\$ 226,318	\$ -	\$ -	\$ 226,318
Government Securities	1,405,791	-	-	1,405,791
Corporate Bonds	1,153,819	-	-	1,153,819
Equities	2,491,365	-	-	2,491,365
Endowment Funds	-	-	131,938	131,938
Interest in Charitable Remainder Trust	-	-	2,638,674	2,638,674
	<u>\$ 5,277,293</u>	<u>\$ -</u>	<u>\$ 2,770,612</u>	<u>\$ 8,047,905</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, 2017	\$3,138,438	\$ 147,306
Additions	-	105
Change in value in charitable remainder trust	(291,975)	-
Investment income (loss)	106,055	(8,453)
Disbursements	(313,844)	(7,020)
Balance at December 31, 2018	<u>\$2,638,674</u>	<u>\$ 131,938</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 NET 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, 2018 was \$131,938.

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 net assets without donor restrictions in the reporting period in which the income and gains are recognized.

Net investment return is summarized as follows:

Investment interest/dividend income	\$ 170,563
Net realized gains (losses)	199,265
Net unrealized gains (losses)	(808,811)
Investment fees	<u>(70,973)</u>
Investment return, net	<u>\$ (509,956)</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 donor restricted contribution in the period the trust was established. Assets held in the charitable remainder trust totaled \$2,638,674 at December 31, 2018 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, 2018, the present value of the estimated future payments was \$1,597,336 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 \$567,076.

NOTE 9: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2018:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 1,045,440	\$ -	\$ -	\$ 1,045,440
Building and Improvements	9,381,692	-	-	9,381,692
Furniture, Equipment, and Software	1,697,185	45,156	-	1,742,341
Vehicles	1,076,675	19,538	-	1,096,213
Construction Work in Progress	92,444	148,624	-	241,068
Total Cost	<u>13,293,436</u>	<u>213,318</u>	<u>-</u>	<u>13,506,754</u>
Less: Accumulated Depreciation	<u>(2,939,089)</u>	<u>(460,065)</u>	<u>-</u>	<u>(3,399,154)</u>
Net Book Value	<u>\$ 10,354,347</u>	<u>\$ (246,747)</u>	<u>\$ -</u>	<u>\$ 10,107,600</u>

Depreciation expense for the year ended December 31, 2018 amounted to \$460,065.

NOTE 10: LINE OF CREDIT

As of December 31, 2018, the Organization had a \$100,000 revolving line of credit that matured on January 25, 2019. At December 31, 2018, the outstanding balance against the line was \$0. Interest was calculated at a variable rate, with an interest rate of 5.069% at December 31, 2018.

On January 28, 2019, the Organization renewed the agreement with a maturity date of January 25, 2020. Interest was calculated at a variable rate, with an interest rate of 6.083% as of the date of the agreement.

NOTE 11: 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 12: 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 \$88,121 for the year.

NOTE 13: 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

NOTE 13: RESTRICTIONS ON NET ASSETS (CONTINUED)

Net assets with donor restrictions were as follows at December 31, 2018:

Specific Purpose:	
Advocacy	\$ 16,635
Agency capacity building	150,000
Cereal acquisition	70,177
Food for Kids support	115,795
Food for Seniors support	8,087
Healthy food initiatives	120,731
Program capacity support	212,067
Retail program support	3,023
Veterans program support	2,365
Warren branch expansion	125,000
USDA inventory for distribution	567,076
Land dedicated to Foodbank operations	<u>1,045,440</u>
Total Specific Purpose	<u>\$ 2,436,396</u>
Passage of Time:	
Capital campaign	\$ 726,633
Deferred Revenue - agency and special events payments for future use	(83,016)
United Methodist Foundation of Arkansas - net of liability under charitable remainder trust	<u>1,041,338</u>
Total Passage of Time	<u>\$ 1,684,955</u>
Endowment Funds	
Arkansas Community Foundation - corpus permanently restricted	<u>\$ 122,030</u>
Total Endowment Funds	<u>\$ 122,030</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 4,243,381</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Food for Kids Programs (\$470,075), Cereal Acquisition (\$247,206), and Capital Campaign (\$195,164) were the primary initiatives supported by funds released from restrictions in 2018.

Net assets without donor restrictions were as follows at December 31, 2018:

Undesignated	\$12,900,968
Board Designated:	
Investments held for programming and maintenance initiatives	\$ 2,072,453
Investments pledged to Capital Campaign	1,448,089
Cash pledged primarily to Warehouse Automation project, less deferred revenue of \$178,804	31,053
Cash pledged to cover significant facility repairs and food procurement initiatives	<u>141,776</u>
Total Board Designated	<u>\$ 3,693,371</u>
Total Net Assets without Donor Restrictions	<u><u>\$16,594,339</u></u>

NOTE 14: FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects the Organization's financial assets, reduced by amounts that are not available to meet general expenditures as of December 31, 2018 due to donor restrictions or internal board designations:

Cash and Cash Equivalents	\$ 1,483,401
Investments	5,277,293
Accounts Receivable	114,253
Unconditional Promises to Give, net of Allowance, Current Portion	<u>267,067</u>
Total Financial Assets	<u>\$ 7,142,014</u>

Cash and cash equivalents restricted by donors and grantors for agency capacity building, program capacity support, food for kids support, Warren branch expansion, cereal acquisition, healthy food initiatives, and advocacy	\$ 1,044,472
Cash and cash equivalents restricted by the board for warehouse automation, facility repairs, and food procurement initiatives	351,633
Investments designated by the board for Capital Campaign	1,448,089
Investments designated by the board for significant program and maintenance initiatives	2,072,453
Unconditional promises to give restricted by donors and grantors for agency capacity building, program capacity support, healthy food initiatives, Warren branch expansion, and food for kids support	<u>267,067</u>
Total Restricted Financial Assets	<u>\$ 5,183,714</u>

Financial Assets available to meet financial expenditures within one year	<u>\$ 1,958,300</u>
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The Organization considers contributions that are restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves by following these guiding principles:

- Operate within a prudent range of financial soundness and stability
- Maintain adequate liquid assets to fund near term operating needs
- Maintain sufficient reserves to provide reasonable assurance that the mission of the Arkansas Foodbank continues in an adverse financial environment.

Investments act as a board directed resource which may be accessed upon board approval when the need arises. The Organization also has access to a \$100,000 bank line of credit which may be drawn upon to meet operating shortfalls during the year.

NOTE 15: DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events through September 26, 2019, the date on which the financial statements were available to be issued.

NOTE 16: CHANGE IN ACCOUNTING PRINCIPLE

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in its financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, ASU 2016-14 replaces the previously required three classes of net assets into two new classes, "net assets with donor restrictions" and "net assets without donor restrictions" and expands disclosures about the nature and amount of any donor restrictions. Amounts the board of directors have designated from net assets without donor restrictions are presented separately. The Organization adopted this ASU as of and for the year ended December 31, 2018.

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	\$ -	\$ 92,898
Pass-through from Arkansas Department of Human Services Emergency Food Assistance Program (Commodities)	10.568	FGX	-	163,123
Pass-through from Arkansas Department of Human Services	10.569	N/A	3,075,549	3,075,549
Total FOOD DISTRIBUTION CLUSTER			<u>3,075,549</u>	<u>3,331,570</u>
Child and Adult Care Food Program (CACFP)				
Pass-through from Arkansas Department of Human Services	10.558	FA1, FA2	-	95,254
Summer Food Service Program for Children (SFSP)				
Pass-through from Arkansas Department of Human Services	10.559	FB1	-	45,832
Total U.S. Department of Agriculture			<u>3,075,549</u>	<u>3,472,656</u>
Total Expenditures of Federal Awards			<u>\$ 3,075,549</u>	<u>\$ 3,472,656</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, 2018. 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.

<u>State Grantor</u> Program Name/ Pass-through Entity	<u>Revenues / Expenditures</u>
<u>Arkansas General Assembly</u>	
2018 Hunger Relief Capacity Building Grant Pass-through from Arkansas Hunger Relief Alliance, Inc.	\$ 22,610
Total Arkansas General Assembly	<u>22,610</u>
Total Expenditures of State Awards	<u>\$ 22,610</u>

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>	<u>Number of Suppers</u>
January	5,622	1,080
February	6,810	1,125
March	7,209	2,516
April	10,183	4,723
May	899	3,135
June	-	-
July	-	-
August	-	-
September	4,461	-
October	8,730	-
November	6,115	-
December	3,928	-
Total	<u>53,957</u>	<u>12,579</u>

SFSP:

<u>Month</u>	<u>Number of Supplements</u>	<u>Number of Breakfasts</u>	<u>Number of Lunches</u>	<u>Number of Suppers</u>
June	1,062	3,651	5,406	52
July	1,145	1,179	2,517	36
August	3	90	208	8
Total	<u>2,210</u>	<u>4,920</u>	<u>8,131</u>	<u>96</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, 2018, 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 September 26, 2019.

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
September 26, 2019



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, 2018. 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, 2018.

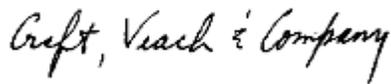
Report on Internal Control Over Compliance

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
September 26, 2019

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 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.