

# **Feeding America Southwest Virginia**

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## **Financial Statements**

**Years Ended June 30, 2019 and 2018**

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## **Independent Auditors' Report**

Board of Directors  
Feeding America Southwest Virginia  
Salem, Virginia

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

We have audited the accompanying financial statements of Feeding America Southwest Virginia, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 present fairly, in all material respects, the financial position of Feeding America Southwest Virginia as of June 30, 2019 and June 30, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, Feeding America Southwest Virginia adopted FASB ASU 2016-14, *Not-for-Profit-Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. Our opinion is not modified with respect to that matter.

**Supplementary and Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Food Received and Distributed (the Schedule) and the accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2, *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule and the SEFA are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019 on our consideration of Feeding America Southwest Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Feeding America Southwest Virginia's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
September 23, 2019**

**Feeding America Southwest Virginia  
Statements of Financial Position  
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>As Adjusted 2018</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 478,135	\$ 486,732
Receivables (Note 2)	398,779	513,299
Prepaid expenses	5,000	10,000
Inventory (Note 3)	<u>1,067,979</u>	<u>892,332</u>
Total current assets	1,949,893	1,902,363
Cash restricted for acquisition of property and equipment	92,782	119,432
Reserve funds (Note 4)	138,896	116,747
Contributions receivable (Note 2)	62,230	125,575
Property and equipment, net (Note 5)	<u>5,649,145</u>	<u>5,727,515</u>
Total assets	<u>\$ 7,892,946</u>	<u>\$ 7,991,632</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 118,751	\$ 143,062
Accrued expenses	221,664	176,014
Deferred revenue	64,151	62,159
Current portion of long-term debt (Note 7)	<u>117,366</u>	<u>142,833</u>
Total current liabilities	521,932	524,068
Long-term line of credit (Note 6)	358,297	297,801
Long-term deferred revenue	266,396	291,232
Long-term debt, less \$8,708 and \$10,510 of unamortized debt issuance cost (Note 7)	<u>3,878,020</u>	<u>4,079,305</u>
Total liabilities	<u>5,024,645</u>	<u>5,192,406</u>
Net assets:		
Without donor restrictions	2,305,484	1,936,930
With donor restrictions (Note 8)	<u>562,817</u>	<u>862,296</u>
Total net assets	<u>2,868,301</u>	<u>2,799,226</u>
Total liabilities and net assets	<u>\$ 7,892,946</u>	<u>\$ 7,991,632</u>

See accompanying notes.

**Feeding America Southwest Virginia  
Statements of Activities  
Years Ended June 30, 2019 and 2018**

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contributions - monetary	\$ 2,588,915	\$ 479,004	\$ 3,067,919
Contributions - in-kind	687	-	687
Grants	72,632	-	72,632
USDA reimbursements	779,201	-	779,201
Other handling fees	492,735	-	492,735
Sale of purchased food	1,078,639	-	1,078,639
Other	11,119	-	11,119
Net assets released from restrictions	778,483	(778,483)	-
<b>Total revenues and support</b>	<b>5,802,411</b>	<b>(299,479)</b>	<b>5,502,932</b>
Expenses:			
Program services	4,084,959	-	4,084,959
Management and general	814,056	-	814,056
Fund-raising	737,924	-	737,924
<b>Total expenses</b>	<b>5,636,939</b>	<b>-</b>	<b>5,636,939</b>
Change in net assets before donated food activity	165,472	(299,479)	(134,007)
Donated food activity:			
Donated food received	26,158,093	-	26,158,093
Donated food distributed and disposed	(25,955,011)	-	(25,955,011)
<b>Net donated food activity</b>	<b>203,082</b>	<b>-</b>	<b>203,082</b>
<b>Change in net assets</b>	<b>368,554</b>	<b>(299,479)</b>	<b>69,075</b>
Net assets:			
Beginning	1,936,930	862,296	2,799,226
<b>Ending</b>	<b>\$ 2,305,484</b>	<b>\$ 562,817</b>	<b>\$ 2,868,301</b>

See accompanying notes.

<b>As Adjusted 2018</b>		
<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
\$ 2,491,042	\$ 606,412	\$ 3,097,454
15,547	-	15,547
484,724	-	484,724
632,823	-	632,823
567,390	-	567,390
1,699,102	-	1,699,102
43,069	-	43,069
299,165	(299,165)	-
<u>6,232,862</u>	<u>307,247</u>	<u>6,540,109</u>
4,442,960	-	4,442,960
735,495	-	735,495
<u>678,287</u>	<u>-</u>	<u>678,287</u>
<u>5,856,742</u>	<u>-</u>	<u>5,856,742</u>
<u>376,120</u>	<u>307,247</u>	<u>683,367</u>
27,440,292	-	27,440,292
<u>(27,160,501)</u>	<u>-</u>	<u>(27,160,501)</u>
<u>279,791</u>	<u>-</u>	<u>279,791</u>
655,911	307,247	963,158
<u>1,281,019</u>	<u>555,049</u>	<u>1,836,068</u>
<u>\$ 1,936,930</u>	<u>\$ 862,296</u>	<u>\$ 2,799,226</u>

**Feeding America Southwest Virginia  
Statements of Cash Flows  
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating activities:		
Change in net assets	\$ 69,075	\$ 963,158
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated food received, distributed and disposed, net	(204,987)	(281,509)
Depreciation	355,507	338,854
Amortization of debt issuance costs	1,802	1,802
Contributions restricted for purchase of property and equipment	(197,400)	(684,194)
Change in:		
Receivables	182,865	116,848
Purchased inventory	29,340	26,879
Accounts payable and accrued expenses	21,339	(75,918)
Deferred revenue	(22,844)	5,169
Net cash provided by operating activities	<u>234,697</u>	<u>411,089</u>
Investing activities:		
Purchase of property and equipment	(277,137)	(988,554)
Cash restricted for purchase of property and equipment	<u>26,650</u>	<u>(110,901)</u>
Net cash used in investing activities	<u>(250,487)</u>	<u>(1,099,455)</u>
Financing activities:		
Proceeds from long-term debt	112,450	444,450
Payments on long-term debt	(341,004)	(153,260)
Contributions restricted for purchase of property and equipment	197,400	684,194
Deposit to reserve funds, net	(22,149)	(12,418)
Net borrowings (payments) on line of credit	<u>60,496</u>	<u>(156,415)</u>
Net cash provided by financing activities	<u>7,193</u>	<u>806,551</u>
Increase (decrease) in cash and cash equivalents	(8,597)	118,185
Cash and cash equivalents:		
Beginning	<u>486,732</u>	<u>368,547</u>
Ending	<u>\$ 478,135</u>	<u>\$ 486,732</u>
Supplementary cash flow information:		
Interest paid	<u>\$ 195,504</u>	<u>\$ 177,297</u>
Noncash investing and financial activities:		
Investment in leased equipment	<u>\$ 104,938</u>	<u>\$ 97,700</u>

See accompanying notes.

**Feeding America Southwest Virginia  
Statements of Functional Expenses  
Years Ended June 30, 2019 and 2018**

	2019			
	Program Services	Management and General	Fund Raising	Total
Personnel:				
Salaries	\$ 1,290,653	\$ 518,505	\$ 339,339	\$ 2,148,497
Payroll taxes	96,825	38,898	25,457	161,180
Fringe benefits	212,000	61,837	28,086	301,923
Total personnel	<u>1,599,478</u>	<u>619,240</u>	<u>392,882</u>	<u>2,611,600</u>
Other:				
Cost of purchased food	1,010,450	-	-	1,010,450
Consultants and contract services	178,820	50,796	24,214	253,830
Travel	1,476	5,359	1,415	8,250
Occupancy	195,645	6,968	3,410	206,023
Materials and supplies	43,299	751	34,764	78,814
Postage and printing	2,279	4,439	246,076	252,794
Equipment expense	106,627	-	-	106,627
Depreciation	329,465	19,312	6,730	355,507
Telephone	27,333	13,666	5,327	46,326
General insurance	64,000	16,021	764	80,785
Dues and registrations	28,170	5,501	5,849	39,520
Trucking expenses	304,269	1,452	264	305,985
Promotions and advertising	-	9,451	8,516	17,967
Interest expense	177,336	14,432	3,736	195,504
In-kind expense	687	-	-	687
Other costs	15,625	46,668	3,977	66,270
Total other	<u>2,485,481</u>	<u>194,816</u>	<u>345,042</u>	<u>3,025,339</u>
Total expenses	<u>\$ 4,084,959</u>	<u>\$ 814,056</u>	<u>\$ 737,924</u>	<u>\$ 5,636,939</u>

See accompanying notes.

**2018**

<b>Program Services</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
\$ 1,216,806	\$ 484,711	\$ 309,733	\$ 2,011,250
91,122	36,298	23,195	150,615
188,627	37,596	16,560	242,783
<u>1,496,555</u>	<u>558,605</u>	<u>349,488</u>	<u>2,404,648</u>
1,534,671	-	-	1,534,671
107,484	68,925	65,672	242,081
1,261	2,249	859	4,369
257,203	6,784	6,310	270,297
26,104	808	15,216	42,128
-	5,360	217,956	223,316
95,082	-	-	95,082
319,878	12,199	6,777	338,854
29,267	11,680	4,855	45,802
78,789	14,291	940	94,020
28,137	4,298	1,259	33,694
298,101	3,185	-	301,286
-	-	2,540	2,540
160,314	13,572	3,411	177,297
4,797	-	-	4,797
5,317	33,539	3,004	41,860
<u>2,946,405</u>	<u>176,890</u>	<u>328,799</u>	<u>3,452,094</u>
<u>\$ 4,442,960</u>	<u>\$ 735,495</u>	<u>\$ 678,287</u>	<u>\$ 5,856,742</u>

## Notes to Financial Statements

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

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

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

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

The accompanying financial statements present information regarding the Food Bank's financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The financial statements report amounts separately by class of net assets as follows:

**Net assets with donor restrictions** are subject to donor-imposed stipulations that may or will be met either by actions of the Food Bank and/or the passage of time.

**Net assets without donor restrictions** are those currently available at the discretion of the Food Bank's Board of Directors for use in the Food Bank's operations.

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

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. All cash accounts are held at one bank. The balance in these accounts may, at times, exceed federally insured limits; however, the Food Bank does not believe it is subject to any significant credit risk as a result of these deposits. As of June 30, 2019, all cash held in the bank was insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2018, the Food Bank had on deposit \$472,911 in excess of the amount insured by the FDIC.

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

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

#### ***Inventory***

Donated food inventories are stated at the nationally calculated average price per pound of \$1.62 and \$1.68 as of June 30, 2019 and 2018, respectively. This average per pound is based on an independent study by Feeding America. Purchased food is valued at cost. U.S. Department of Agriculture (USDA) commodities are stated at the value assigned by USDA. Thus, inventories are stated at the lower of cost or net realizable value.

## Feeding America Southwest Virginia Notes to Financial Statements

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

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

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

### ***Deferred revenue***

Deferred revenue represents amounts paid by agencies to the Food Bank in advance of the Food Bank distributing food to the agency. The amounts paid do not meet the criteria for revenue recognition and are therefore deferred until the criteria is met. Additionally, on March 9, 2017, the Food Bank entered into a restrictive gift agreement with Food Lion in the amount of \$350,000 payable in installments over five years with the final installment due on or before December 31, 2021. It has been determined the restricted gift agreement is an exchange transaction. For the fiscal year ended June 30, 2019 and 2018, \$35,000 is shown as short-term deferred revenue for the twelve months that the asset related to the Food Lion gift will be in service in the next fiscal year. For the fiscal year ended June 30, 2019 and 2018, \$266,396 and \$291,232, respectively, are shown as long-term deferred revenue.

### ***Contributions***

Contributions, including unconditional promises to give or contributions receivable, are recognized as support with or without donor restrictions, depending on the existence and/or nature of any donor restrictions, in the period the donor's commitment is received. Unrestricted, unconditional promises to give are recognized as revenues with restriction unless the donor explicitly stipulates its use to support current period activities.

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

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Food Bank. Volunteers provided various services to the Food Bank throughout the year that are not recognized as contributions in the financial statements since the recognition criteria are not met. The Food Bank received over 27,000 volunteer hours from approximately 6,642 volunteers during 2019, and over 31,000 volunteer hours from approximately 10,865 volunteers during 2018 (unaudited).

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

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### ***Grants***

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

### ***Debt issuance cost***

The company capitalized certain costs associated with the issuance of its loans which are presented in the statements of financial position as a direct reduction from the related long-term debt. These costs are being amortized to interest expense using the effective interest method over the life of the debt issue.

### ***Concentrations***

A significant portion of the Food Bank's support is from the Virginia Department of Agriculture and Consumer Services (VDACS), which is passed through from USDA. During the years ended June 30, 2019 and 2018, approximately 16% and 10%, respectively, of the donated food received was from VDACS for both years, and approximately 14% and 10%, respectively, of the total revenue and support was from VDACS.

### ***Income taxes***

The Food Bank is exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code* and did not conduct unrelated business activities. In addition, the Food Bank has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the *Internal Revenue Code*. The Food Bank has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2019 and 2018.

### ***Advertising costs***

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

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

The costs of providing the various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on quantitative amounts such as square footage or number of assets in service.

### ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

## Feeding America Southwest Virginia Notes to Financial Statements

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### **Recent accounting pronouncements**

In fiscal year 2019, the Food Bank adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, (“ASU 2016-14”). The provisions of ASU 2016-14 are intended to simplify and improve the presentation of net assets, as well as information regarding liquidity, financial performance and cash flows. ASU 2016-14 revises the net asset classification structure to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three. ASU 2016-14 also enhances disclosures for self-imposed limits on the use of resources both with and without donor-imposed restrictions and requires qualitative disclosures on liquidity and the availability of resources to fund operations. The Food Bank has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented. The retrospective application resulted in temporarily restricted net assets of \$834,596 and permanently restricted net assets of \$27,700 being reported as net assets with donor restrictions totaling \$862,296 and unrestricted net assets of \$1,936,930 being reported as net assets without donor restrictions as of June 30, 2018.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for the Food Bank as of June 1, 2019. The Food Bank is currently evaluating the impact on the financial statements and the options of adopting using either a full retrospective or a modified approach.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-8, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Contribution revenue may be presented in the financial statements of an entity using different terms (for example, gift, grant, donation, or other terms). This standard is effective for the Food Bank beginning on July 1, 2019. The amendments in this Update should be applied on a modified prospective basis. Retrospective application is permitted. The Food Bank has not yet determined what the effects of adopting this ASU will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The amendments in this ASU are effective for the Food Bank beginning on July 1, 2020, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. FASB has proposed a one year extension for non-public entities which, if approved, would delay implementation for the Organization to July 1, 2021. The Food Bank has not yet determined what the effects of adopting this ASU will have on its financial statements.

### **Subsequent events**

Management has evaluated subsequent events through September 23, 2019, the date on which the financial statements were available for issue.

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

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**2. Receivables**

Receivables consist of the following:

	<u>2019</u>	<u>2018</u>
Due from member organizations	\$ 30,902	\$ 37,210
Contributions receivable	274,890	335,473
Insurance proceeds receivable	-	161,484
Other accounts receivable	153,632	104,992
Payroll advance	<u>4,170</u>	<u>2,300</u>
	<b>463,594</b>	641,459
Less allowance for doubtful accounts	<u>(2,585)</u>	<u>(2,585)</u>
	<b>461,009</b>	638,874
Less non-current contribution receivable	<u>(62,230)</u>	<u>(125,575)</u>
	<u><b>\$ 398,779</b></u>	<u><b>\$ 513,299</b></u>

Included in contributions receivable is a long term receivable with a face value of \$70,000 due as of June 30, 2019. This amount has been discounted at 4% to \$62,230, which is due from one donor representing 23% of the outstanding contribution receivable balance. In addition, contributions receivable includes a short-term receivable from a single donor for approximately \$171,000, which represents 62% of the outstanding contribution receivable balance. The contributions receivable are due as follows:

Less than one year	\$ 212,660
One to five years	\$ 62,230

An insurance proceeds receivable in the amount of \$161,484 was shown on the books as of June 30, 2018. The balance was subsequently collected on September 17, 2018.

**3. Inventory**

Inventory consists of the following:

	<u>2019</u>	<u>2018</u>
Purchased	\$ 119,010	\$ 148,350
Donated	589,847	642,173
USDA commodities	<u>359,122</u>	<u>101,809</u>
	<u><b>\$ 1,067,979</b></u>	<u><b>\$ 892,332</b></u>

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

**4. Reserve Funds**

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

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

	<u>2019</u>	<u>2018</u>
RHS sinking funds	\$ 100,453	\$ 88,357
Endowments, including interest (Note 8)	<u>38,443</u>	<u>28,390</u>
	<u>\$ 138,896</u>	<u>\$ 116,747</u>

**5. Property and Equipment**

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Buildings and other equipment	\$ 6,376,028	\$ 6,356,444
Vehicles	1,549,996	1,399,484
Equipment under capital lease	<u>202,639</u>	<u>97,700</u>
	8,128,663	7,853,628
Less accumulated depreciation and amortization	<u>(3,807,118)</u>	<u>(3,453,713)</u>
	4,321,545	4,399,915
Land	<u>1,327,600</u>	<u>1,327,600</u>
	<u>\$ 5,649,145</u>	<u>\$ 5,727,515</u>

On May 11, 2017, the Food Bank purchased the property located at 2328 Melrose Avenue NW, Roanoke, Virginia. The property has been converted into a Community Solutions Center (CSC) that promotes childhood health and wellness by increasing the nutritional quality of food distributed; stimulates economic development by providing job training skills to unemployed and underemployed adults to grow job-readiness and self-sufficiency; and rehabilitated a previously high-crime property with collaborative community support. The Food Bank is required to meet certain performance obligations and use the CSC for the purposes outlined in the grant agreements. As of and for the years ended June 30, 2019 and 2018, management believes the terms of the grant agreements were met.

**6. Line of Credit**

During the year, HomeTown Bank merged with American National Bank. All the credit facilities previously with HomeTown Bank are now with American National Bank. The Food Bank has a line of credit with American National Bank. The line is due on March 1, 2021 and secured by a first credit line deed of trust and a blanket lien on all assets. The maximum credit amount available was \$750,000 for 2019 and 2018. Interest during the year ended June 30, 2019 was at the bank prime rate less 0.5%. At June 30, 2019, the bank prime rate was 5.50%. Interest during the year ended June 30, 2018 was the bank prime rate until April 18, 2018, at which time the rate was changed to prime less 0.5%. At June 30, 2018, the bank prime rate was 5.00%. At June 30, 2019 and 2018, the outstanding principal balance was \$358,297 and \$297,801, respectively. There are additional terms under the line of credit agreement. As of and for the year ended June 30, 2019, management believes the additional terms of the agreement were met.

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

**7. Long-Term Debt**

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
Rural Housing Service (RHS) Abingdon Facility: Note payable, \$8,627 payable monthly with interest at 4.5% through 2049. Secured by real property, equipment, and reserve funds.	\$ 1,692,822	\$ 1,719,515
American National Bank Salem Facility: Note payable, \$10,601 payable monthly with interest at 4.0% through 2027. Secured by real property and assignment of rents.	1,891,636	1,941,033
American National Bank Vehicle Loan: Note payable, \$3,250 payable annually with interest at 3.5% through 2022. All remaining principal due on the loan is payable at maturity. Secured by vehicle.	-	14,750
American National Bank CSC Capital Campaign Loan: Line of credit, the Food Bank has a line of credit with American National Bank to fund the capital campaign at the CSC. The line is due on December 31, 2020 and is cross-collateralized with the line of credit listed in Note 6 above. The maximum credit amount available was \$300,000 for 2019. Interest during the year ended June 30, 2019 was the bank prime rate less 0.35%. At June 30, 2019, the bank prime rate was 5.50%. All remaining principal due on the loan is payable at maturity. Secured by existing inventory, accounts, equipment, and general intangibles.	-	160,000
American National Bank CSC Loan: Note payable, the Food Bank has a note payable with American National Bank to fund amounts to be received from the restrictive gift agreement with Food Lion at the CSC. The note payable is cross-collateralized with the line of credit listed in Note 6 above. The interest rate is 4% and payable monthly. The maximum credit amount available was \$280,000 for 2019. All remaining principal due on the loan is payable at June 16, 2022. Secured by existing inventory, accounts, equipment, and general intangibles.	70,000	124,000
City of Roanoke, Roanoke Facility: Note payable, this non-interest-bearing Community Development Block Grant is secured by a deed of trust on real property of the facility. Total amount of principal is \$250,000 with a balloon payment of such amount due on May 11, 2027. The note has been recorded at net present value over 10 years at 4.0%, resulting in unamortized discount of \$67,325 at June 30, 2019. However, if the Food Bank remains in good standing for the 120-month compliance period the note is to be forgiven in its entirety.	182,675	175,650
Capital Lease Obligations: Capital lease for equipment obtained June 2018, \$1,880 payable monthly with interest at 7.61% through September 2023, followed by a final payment of \$849 in October 2023. Secured by equipment	82,811	97,700

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

*(continued)*

	<u>2019</u>	<u>2018</u>
Capital lease for equipment obtained March 2019, \$458 payable monthly with interest at 5.5% through February 2023. Secured by equipment.	\$ 17,887	\$ -
Capital lease for equipment obtained August 2018, \$2,595 payable monthly with interest at 5.5% through January 2022. Secured by equipment.	<u>66,263</u>	<u>-</u>
	<b>4,004,094</b>	4,232,648
Less current portion	<u>(117,366)</u>	<u>(142,833)</u>
	<b>3,886,728</b>	4,089,815
Less debt issuance costs	<u>(8,708)</u>	<u>(10,510)</u>
Total long-term debt	<u><b>\$ 3,878,020</b></u>	<u><b>\$ 4,079,305</b></u>

Amortization of loan issuance costs included in interest expense were \$1,802 and \$1,802 for the years ending June 30, 2019 and 2018, respectively. The remaining loan issuance costs will be amortized over six years at approximately \$1,800 per year.

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

<u>Fiscal Year Ended</u>	<u>Long-Term Debt</u>	<u>Sinking Fund</u>
2020	\$ 117,366	\$ 12,088
2021	194,221	8,371
2022	119,169	-
2023	107,045	-
2024	91,595	-
2025 and thereafter	<u>3,374,698</u>	<u>-</u>
	<u><b>\$ 4,004,094</b></u>	<u><b>\$ 20,459</b></u>

**8. Net Assets**

Net assets with donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Other food programs	\$ 432,335	\$ 582,458
Property and equipment	92,782	119,432
Endowments	37,700	27,700
Revolving food fund	<u>-</u>	<u>132,706</u>
	<u><b>\$ 562,817</b></u>	<u><b>\$ 862,296</b></u>

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

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**9. Pension Plan**

The Food Bank has a 401(k) plan (the “Plan”) for the benefit of its employees. Employees become eligible to make elective deferrals after 30 days of employment and are eligible to have employer contributions credited to their account after two years of service. The Food Bank may make matching, non-elective, and discretionary contributions to the Plan. During 2019 and 2018, the Food Bank contributed \$34,697 and \$32,756, respectively, to the Plan.

**10. Leases**

During the year ended June 30, 2019, the Food Bank began leasing unused warehouse space to a third party on a short-term basis with options for renewal. Rental income for 2019 was \$6,777. During the year ended June 30, 2018, the Food Bank completed its requirements in long-term lease agreement for a truck rental.

**11. Related Parties**

The Food Bank is a member of the Feeding America national network of food banks. During the normal course of business, the Food Bank purchased food, paid hosting fees, and membership dues to Feeding America. At year-end June 30, 2019 and 2018, the accounts payable balance with Feeding America was \$0 and \$27,072, respectively. The food purchased, hosting fees, and membership dues paid to Feeding America total \$64,131 and \$64,936, respectively, during the years ended June 30, 2019 and 2018.

**12. Liquidity & Availability**

The Food Bank has working capital of \$1,427,961 and \$1,378,295 and average days cash on hand of 31 and 30, at June 30, 2019 and 2018, respectively.

Financial assets available for general expenditure within one year of the statements of financial position, consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 478,135	\$ 486,732
Receivables	<u>398,779</u>	<u>513,299</u>
	<u>\$ 876,914</u>	<u>\$ 1,000,031</u>

The Food Bank has sinking funds and endowment reserves that are not intended to be available for general expenditure within the next year and are not reflected in the amounts above.

## ***Compliance Section***

**Feeding America Southwest Virginia  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2019**

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**Schedule of Expenditures of Federal Awards**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Pass Through to Subrecipients</u>
Pass-through Virginia Department of Agriculture and Consumer Services (VDACS Agency Number 67-500):			
USDA – Food Distribution Cluster:			
Emergency Food Assistance Program (Food Commodities)	10.569	\$ 3,462,568	\$ 3,083,974
Emergency Food Assistance Program (Administrative Costs)	10.568	684,837	-
Commodity Supplemental Food Program (Food Commodities and Administrative Costs)	10.565	<u>345,436</u>	<u>217,020</u>
Cluster Total		4,492,841	3,300,994
Pass-through from the City of Roanoke:			
Community Development Block Grant	14.218	30,000	-
USDA Child and Adult Care Food Program	10.558	330,835	-
USDA – Child Nutrition Cluster – Summer Food Service Program for Children	10.559	<u>119,736</u>	<u>-</u>
Total Federal Expenditures		<u>\$ 4,973,412</u>	<u>\$ 3,300,994</u>

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

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

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Feeding America Southwest Virginia under the programs of the federal government for the year ended June 30, 2019. The information in this SEFA is presented in accordance with the requirements of Title 2, *US Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Feeding America Southwest Virginia, it is not intended to and does not present the financial position, changes in net assets or cash flows of Feeding America Southwest Virginia.

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

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

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

## **Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

Board of Directors  
Feeding America Southwest Virginia  
Salem, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Feeding America Southwest Virginia (the "Food Bank"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2019.

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

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

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

Our consideration of 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

As part of obtaining reasonable assurance about whether the Food Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.



The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

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

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
September 23, 2019**

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

Board of Directors  
Feeding America Southwest Virginia  
Salem, Virginia

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

We have audited Feeding America Southwest Virginia's (the "Food Bank") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2019. The Food Bank's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

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

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

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

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

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

### ***Other Matters***

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

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
September 23, 2019**

## Schedule of Findings, Questioned Costs and Response

### 1. Summary of Auditors' Results

#### *Financial Statements*

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States:

	Unmodified	
	Yes	No
Internal control over financial reporting:		
• Material weakness(es) identified?	_____	_____X_____
• Significant deficiency(ies) that are not considered to be material weaknesses?	_____	_____X_____
Noncompliance material to financial statements noted?	_____	_____X_____

#### *Federal Awards*

Internal control over major programs:

• Material weakness(es) identified?	_____	_____X_____
• Significant deficiency(ies) that are not considered to be material weaknesses?	_____	_____X_____

Type of auditors' report issued:

	Unmodified	
Any audit findings disclosed that are required to be reported?	_____	_____X_____

Identification of major programs:

<u>CFDA/Contract Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Amount Expended</u>
	Food Distribution Cluster:	
10.569	USDA – Emergency Food Assistance Program (Food Commodities)	\$ 3,462,568
10.568	USDA – Emergency Food Assistance Program (Administrative Costs)	684,837
10.565	USDA – Commodity Supplemental Food Program	345,436
		<u>\$ 4,492,841</u>

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee

\_\_\_\_\_X\_\_\_\_\_

### 2. Financial Statement Findings

None

### 3. Federal Award Findings, Questioned Costs and Response

None



## **Feeding America Southwest Virginia Summary Schedule of Prior Audit Finding Year Ended June 30, 2019**

### **Federal Award Prior Audit Finding for the Year Ended June 30, 2018**

*Finding 2018-01: Internal control over financial reporting and special tests and provisions applicable to inventory and the U.S. Department of Agriculture Food Distribution Cluster*

*Recommendation:* The Food Bank should train those involved in the year-end inventory counts and emphasize the importance of producing accurate count results. Also, management should evaluate the current perpetual inventory process and make necessary enhancements to properly relieve food as distributed to avoid large book to physical adjustments at year-end.

*Status:* We implemented our corrective action plan including additional training for employees and enhanced inventory procedures and controls. Thus, this finding was remediated in 2019.

### **Federal Award Prior Audit Finding for the Year Ended June 30, 2017**

*There were no findings reported in 2017*

***Supplementary Information***

**Feeding America Southwest Virginia  
Schedules of Food Received and Distributed  
Years Ended June 30, 2019 and 2018**

	<u>Pounds</u>	<u>Dollars</u>
Year Ended June 30, 2019:		
Beginning inventory	909,946	\$ 892,332
Donated food received	13,223,330	21,421,794
USDA commodities received	4,812,628	3,969,877
Purchased food	<u>1,230,616</u>	<u>980,941</u>
 Total food available	 <u>20,176,520</u>	 <u>27,264,944</u>
 Less food distributed and adjustments	 <u>19,218,079</u>	 <u>26,196,965</u>
 Ending Inventory	 <u><u>958,441</u></u>	 <u><u>\$ 1,067,979</u></u>
Year Ended June 30, 2018:		
Beginning inventory	560,726	\$ 637,702
Donated food received	14,688,015	24,675,857
USDA commodities received	4,157,008	2,692,874
Purchased food	<u>1,764,347</u>	<u>891,699</u>
 Total food available	 <u>21,170,096</u>	 <u>28,898,132</u>
 Less food distributed and adjustments	 <u>20,260,150</u>	 <u>28,005,800</u>
 Ending Inventory	 <u><u>909,946</u></u>	 <u><u>\$ 892,332</u></u>

**DHG**