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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Food Bank of Northeast Arkansas
Jonesboro, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of The Food Bank of Northeast Arkansas (a nonprofit corporation) (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 controls 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 of America. 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 present fairly, in all material respects, the financial position of the Organization as of June 30, 2019 and 2018, and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 of the financial statements, in 2019, the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) *Presentation of Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters - Other Information

Our audits were conducted for the purpose of forming an opinion of the financial statements as a whole. The accompanying schedule of Expenditures of Federal Awards, as required by *Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are 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 audits 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 January 9, 2020, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.



Jones & Company, Ltd.
Jonesboro, Arkansas

January 9, 2020

The Food Bank of Northeast Arkansas
Statements of Financial Position

ASSETS	June 30, 2019	June 30, 2018
Current Assets		
Cash	\$ 224,655	\$ 336,662
Accounts receivable	28,178	10,302
Grants and other receivables	13,000	-
Food inventory	1,087,778	628,876
Prepaid expenses	5,175	5,173
	<u>\$ 1,358,786</u>	<u>\$ 981,013</u>
Property and Equipment		
Building	\$ 7,679,797	\$ 7,679,797
Furniture and equipment	587,462	572,965
Land	68,000	68,000
Vehicles	604,025	604,025
	<u>\$ 8,939,284</u>	<u>\$ 8,924,787</u>
Less accumulated depreciation	2,220,965	1,932,099
	<u>\$ 6,718,319</u>	<u>\$ 6,992,688</u>
Other Assets		
Building maintenance fund investments	\$ 1,876,925	\$ 1,797,385
Program fund investments	1,359,052	1,393,544
	<u>\$ 3,235,977</u>	<u>\$ 3,190,929</u>
Total Assets	<u>\$ 11,313,082</u>	<u>\$ 11,164,630</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 28,784	\$ 65,564
Accrued and other liabilities	88,395	88,395
	<u>\$ 117,179</u>	<u>\$ 153,959</u>
Total Liabilities	<u>\$ 117,179</u>	<u>\$ 153,959</u>
Net Assets		
Without donor restrictions		
Undesignated	\$ 614,685	\$ 743,971
Board designated	3,235,977	-
With donor restrictions	7,345,241	10,266,700
	<u>\$ 11,195,903</u>	<u>\$ 11,010,671</u>
Total Net Assets	<u>\$ 11,195,903</u>	<u>\$ 11,010,671</u>
Total Liabilities and Net Assets	<u>\$ 11,313,082</u>	<u>\$ 11,164,630</u>

The accompanying notes are an integral part of these financial statements.

The Food Bank of Northeast Arkansas
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions income	\$ 541,882	\$ 116,419	\$ 658,301
Grants	35,500	204,209	239,709
In-kind food donations	12,245,045	-	12,245,045
TEFAP food income	-	1,977,712	1,977,712
CSFP food income	-	257,282	257,282
TEFAP administrative expense reimbursement	-	111,532	111,532
CSFP administrative expense reimbursement	-	67,845	67,845
In-kind contributions - services and non-food	30,986	-	30,986
Interest income	294	-	294
Investment income, net of fees	-	169,709	169,709
Shared maintenance fees and sale of purchased food	281,697	-	281,697
United Way	3,707	67,500	71,207
Facilities, recycling and other	29,847	-	29,847
 Net Assets Released from Restriction			
Expiration of time restrictions	258,949	(258,949)	-
Restrictions satisfied by payments	2,398,741	(2,398,741)	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	\$ 15,826,648	\$ 314,518	\$ 16,141,166
 Expenses			
Program services	\$ 15,510,358	\$ -	\$ 15,510,358
Fundraising	187,550	-	187,550
Support services	258,026	-	258,026
TOTAL EXPENSES	\$ 15,955,934	\$ -	\$ 15,955,934
 CHANGE IN NET ASSETS	\$ (129,286)	\$ 314,518	\$ 185,232
 NET ASSETS, beginning of year	\$ 743,971	\$ 10,266,700	\$ 11,010,671
 Reclassification	3,235,977	(3,235,977)	-
	\$ 3,979,948	\$ 7,030,723	\$ 11,010,671
 NET ASSETS, end of year	\$ 3,850,662	\$ 7,345,241	\$ 11,195,903

The accompanying notes are an integral part of these financial statements.

The Food Bank of Northeast Arkansas
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Without donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions income	\$ 489,372	\$ 67,303	\$ 556,675
Grants	2,500	168,196	170,696
In-kind food donations	8,660,657	-	8,660,657
TEFAP food income	-	922,525	922,525
CSFP food income	-	211,052	211,052
TEFAP administrative expense reimbursement	-	86,671	86,671
CSFP administrative expense reimbursement	-	55,703	55,703
In-kind contributions - services and non-food	18,450	-	18,450
Interest income	571	-	571
Investment income, net of fees	-	198,212	198,212
Shared maintenance fees and sale of purchased food	294,746	-	294,746
United Way	-	55,527	55,527
Facilities, recycling and other	40,076	-	40,076
 Net Assets Released from Restriction			
Expiration of time restrictions	263,070	(263,070)	-
Restrictions satisfied by payments	1,959,982	(1,959,982)	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	\$ 11,729,424	\$ (457,863)	\$ 11,271,561
Expenses			
Program services	\$ 11,924,432	\$ -	\$ 11,924,432
Fundraising	172,538	-	172,538
Support services	252,757	-	252,757
TOTAL EXPENSES	\$ 12,349,727	\$ -	\$ 12,349,727
 CHANGE IN NET ASSETS	\$ (620,303)	\$ (457,863)	\$ (1,078,166)
 NET ASSETS, beginning of year	\$ 1,364,274	\$ 10,724,563	\$ 12,088,837
 NET ASSETS, end of year	\$ 743,971	\$ 10,266,700	\$ 11,010,671

The accompanying notes are an integral part of these financial statements.

The Food Bank of Northeast Arkansas
Statement of Functional Expenses
For the Year Ended June 30, 2019

	<u>Program Expenses</u>	<u>Fundraising Expenses</u>	<u>Support Services</u>	<u>Total</u>
Agency grants	\$ 78,503	\$ -	\$ -	\$ 78,503
Bank service charges	-	-	4,409	4,409
Backpack supplies and food	138,974	-	-	138,974
Cooking matters	5,518	-	-	5,518
Depreciation	231,093	-	57,773	288,866
Direct mail	-	84,148	-	84,148
Dues & subscriptions	26,076	-	6,519	32,595
Gas and oil	20,569	-	-	20,569
Insurance	110,266	-	27,567	137,833
Licenses and permits	2,421	-	-	2,421
Meetings and training	19,636	-	-	19,636
Miscellaneous	1,881	-	471	2,352
Postage	3,831	-	958	4,789
Printing and publication	6,871	-	-	6,871
Professional fees	13,648	-	13,648	27,296
Professional fees in-kind	5,307	-	5,307	10,614
Purchased food	193,175	-	-	193,175
Food-in-kind	12,267,182	-	-	12,267,182
TEFAP food in-kind	1,611,656	-	-	1,611,656
CSFP food in-kind	142,299	-	-	142,299
Repairs & maintenance	69,120	-	-	69,120
Salaries, wages & employee benefits	450,594	64,371	128,741	643,706
Sanitation	1,330	-	332	1,662
Special events	-	784	-	784
Special events in-kind	-	38,247	-	38,247
Supplies	17,941	-	4,485	22,426
Telephone	6,836	-	-	6,836
Training	5,121	-	-	5,121
Travel	18,328	-	-	18,328
Trucking	30,917	-	-	30,917
Utilities	31,265	-	7,816	39,081
	<u>\$ 15,510,358</u>	<u>\$ 187,550</u>	<u>\$ 258,026</u>	<u>\$ 15,955,934</u>

The accompanying notes are an integral part of these financial statements.

The Food Bank of Northeast Arkansas
Statement of Functional Expenses
For the Year Ended June 30, 2018

	<u>Program Expenses</u>	<u>Fundraising Expenses</u>	<u>Support Services</u>	<u>Total</u>
Agency grants	\$ 78,143	\$ -	\$ -	\$ 78,143
Bank service charges	-	-	3,763	3,763
Backpack supplies and food	131,650	-	-	131,650
Cooking matters	3,217	-	-	3,217
Depreciation	232,610	-	58,153	290,763
Direct mail	-	77,767	-	77,767
Dues & subscriptions	27,025	-	6,756	33,781
Gas and oil	16,585	-	-	16,585
Insurance	100,183	-	25,046	125,229
Licenses and permits	2,511	-	-	2,511
Meetings and training	12,667	-	-	12,667
Miscellaneous	9,549	-	2,387	11,936
Postage	3,503	-	876	4,379
Printing and publication	3,586	-	-	3,586
Professional fees	12,911	-	12,910	25,821
Professional fees in-kind	5,088	-	5,089	10,177
Purchased food	272,822	-	-	272,822
Food-in-kind	9,161,971	-	-	9,161,971
TEFAP food in-kind	987,689	-	-	987,689
CSFP food in-kind	171,213	-	-	171,213
Repairs & maintenance	44,664	-	-	44,664
Salaries, wages & employee benefits	430,073	61,439	122,878	614,390
Sanitation	1,358	-	339	1,697
Special events	-	14,882	-	14,882
Special events in-kind	-	18,450	-	18,450
Supplies	23,895	-	5,974	29,869
Telephone	7,130	-	-	7,130
Training	1,153	-	-	1,153
Travel	29,282	-	-	29,282
Trucking	119,610	-	-	119,610
Utilities	34,344	-	8,586	42,930
	<u>\$ 11,924,432</u>	<u>\$ 172,538</u>	<u>\$ 252,757</u>	<u>\$ 12,349,727</u>

The accompanying notes are an integral part of these financial statements.

The Food Bank of Northeast Arkansas
Statements of Cash Flows
For the Years Ended

	June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 185,232	\$ (1,078,166)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	288,866	290,763
Unrealized (gains) losses on investment accounts	(102,965)	(139,619)
(Increase) decrease in:		
Accounts, grants & other receivables	(30,876)	30,682
Food inventory	(458,902)	526,638
Prepaid expenses	(2)	885
Increase (decrease) in:		
Accounts payable	(36,780)	60,427
Accrued and other liabilities	-	27,975
Net cash used for operating activities	\$ (155,427)	\$ (280,415)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (14,497)	\$ (111,518)
Proceeds from sale of investments	124,661	168,500
Investment income reinvested, net of fees	(66,744)	(58,592)
Net cash (used for) provided by investing activities	\$ 43,420	\$ (1,610)
NET CHANGE IN CASH	\$ (112,007)	\$ (282,025)
Cash, Beginning of the Year	336,662	618,687
Cash, End of the Year	\$ 224,655	\$ 336,662
<i>Supplemental Disclosures for Cash Flows</i>		
Non-Cash Activities		
Donation of food inventory	\$ 14,480,039	\$ 9,794,234
Donations for special events	\$ 30,986	\$ 18,450

The accompanying notes are an integral part of these financial statements

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

1) NATURE OF BUSINESS

Organization

The Food Bank of Northeast Arkansas (the “Organization”) was formed to provide food for families in need in the Northeast Arkansas area through a network of other nonprofit agencies. The Organization also functions as a central warehouse for donated food to be distributed through the agencies. The Organization’s support comes primarily through grants, contributions, in-kind donations and shared maintenance fees.

2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Under this method of accounting, revenue is recognized when amounts are earned and when the amount and timing of the revenue can be reasonably estimated. Expenses are recognized as they are incurred.

Basis of Presentation

Financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210, *Presentation of Statements of Not-For-Profit Entities*. Under FASB ASC 958-210, the Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions: – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the School or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increase in net assets with donor restrictions.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable class of net assets.

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable are reported at the amount the Organization expects to collect on balances outstanding at year end. If necessary, the Organization provides for an allowance for doubtful accounts receivable. Accounts are written off against the allowance when deemed to be uncollectible. Accounts receivable have been adjusted for all known uncollectible accounts, and no reserve was considered necessary.

Cash and Cash Equivalents

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

Contributions

FASB ASC 958-605, *Revenue Recognition for Contributions*, states contributions received are recorded as either net assets with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose of the restriction. Contributions that have donor restrictions are reported as an increase in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. Donations are recorded at their fair market value at the date of their receipt.

Date of Management Review

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 9, 2020, the date the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

Donated Noncash Assets and Donated Services

The Organization receives donated food from its food bank network affiliations and local retailers and manufacturers. Contributions of in-kind foods, as well as the related food disbursement expense and the food inventory amounts, are computed by valuing the Organization's respective pounds of food at a weighted average wholesale price per pound, as determined by a valuation report issued by Feeding America, The Nation's Food Bank Network. The Organization treats donated food as an unrestricted contribution, unless identified otherwise according to distribution agreements.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the years ended June 30, 2019 and 2018, there were not any impairment losses recognized for long-lived assets.

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is exempt from federal income tax under the provisions of Internal Revenue Code Section 501(c)(3). Therefore, no provision for federal or state income taxes has been made. U.S. GAAP require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed all tax positions and does not feel any meet the requirements for reporting under the standard. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Investments

Investments with readily determinable fair values are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Cash and cash equivalent carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

Property and Equipment

Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation and are depreciated using the straight-line method over estimated lives as follows:

Building	10-39 years
Furniture and equipment	5-10 years
Vehicles	5 years

Depreciation expense for the years ended June 30, 2019 and 2018 was \$288,866 and \$290,763, respectively. Additions that extend the lives of the assets are capitalized while repairs and maintenance costs are expensed as incurred. When property and equipment are retired, the related cost and accumulated depreciation is removed from the statement of financial position and the resultant gain or loss is recorded.

Reclassifications

Certain reclassifications have been made to the financial statements as of and for the year ending June 30, 2018, to conform to the financial statements as of and for the year ending June 30, 2019.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

3) DONATED SERVICES

In addition to the significant number of hours donated by volunteers for the Organization's programs, the Organization also receives donated transportation, advertising and other services. These services meet the criteria for financial statement recognition in accordance with FASB ASC 958-605 *Not-for-Profit Entities Revenue Recognition*. However, the value to the Organization is indeterminable and therefore is not recognized.

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

4) ACCOUNTS, GRANTS AND OTHER RECEIVABLES

The Organization receives reimbursement for a small portion of its storage, handling and other redistribution expenses from the recipient agencies and charitable organizations receiving donated food and other items. Food distributions by the Organization are charged to agencies through a shared maintenance fee of \$0.18 or less per pound for donated food items and at cost for items purchased by the Organization. The receivable arises from the policy of allowing agencies to pay for cooperative support on a monthly billing basis. The receivable totaled \$12,943 and \$10,302 as of June 30, 2019 and 2018, respectively.

As of June 30, 2019 and 2018 the Organization had administrative fees receivable of \$15,235 and \$0, respectively, from the Arkansas Department of Human Services, The Emergency Food Assistance Program – Administrative Costs. No allowance is deemed necessary.

As of June 30, 2019 the Organization had grant funds receivable of \$13,000. No allowance is deemed necessary.

5) INVENTORY

The estimated value of donated food inventory is valued at a weighted average price per pound of \$1.62 based on the most current determination as calculated by KMPG, LLP on behalf of Feeding America, and totals \$101,765 as of June 30, 2019. The weighted average price as of June 30, 2018 was \$1.68 and the value of the donated food inventory was \$154,491. Purchased food is valued at cost as paid by the Organization and was \$85,803 and \$55,215 as of June 30, 2019 and 2018, respectively. Donated commodities received from USDA are valued at USDA prices as provided, and this inventory was \$900,210 and \$419,170 at June 30, 2019 and 2018, respectively. For purposes of grant expenditures, food acquired through programs is not considered expended until it is distributed and revenue is temporarily restricted until the expenses are realized.

During the year ended June 30, 2019 approximately 7,558,670 food pounds at an average price per pound of \$1.62 totaling \$12,245,045 were donated. During the year ended June 30, 2018 approximately 5,155,153 food pounds at an average price per pound of \$1.68 totaling \$8,660,657 were donated. Food commodities received from the USDA for the years ended June 30, 2019 and 2018 totaled \$2,234,994 and \$1,133,577, respectively. Donated food is recorded in the period received.

6) EMPLOYEE RETIREMENT PLAN

The Organization maintains a defined contribution plan. Substantially all employees are eligible and participate. Eligibility requirements include a minimum of ninety days of service and a minimum age of eighteen. For the years ended June 30, 2019 and 2018, the Organization contributed \$4,755 and \$0, respectively.

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

7) INVESTMENTS

The market value of the Organization's portfolio of investments as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Certificates of deposit	\$ 596,000	\$ 596,000
Money market	59,709	105,535
Mutual funds	2,580,268	2,489,394
	<u>\$ 3,235,977</u>	<u>\$ 3,190,929</u>

The Organization's investments are in general exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment, it is reasonably possible that changes in the values of the investments will occur in the near term, and that such changes could materially affect the amounts reported in the statement of activities.

Net investment income for the year ended June 30, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Dividend and interest income	\$ 95,050	\$ 58,592
Net realized and unrealized gain	102,965	168,006
Investment fees	(28,306)	(28,386)
Net investment income	<u>\$ 169,709</u>	<u>\$ 198,212</u>

8) FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

7) FAIR VALUE MEASUREMENTS (continued)

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We have evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total net assets. For the years ended June 30, 2019 and 2018 there were no transfers in or out of levels 1, 2, or 3.

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used.

Certificates of Deposit: Certificates of deposit are valued at amortized cost, which approximates fair value.

Money Market and Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The preceding method 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.

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the Organization's financial statements at fair value as of June 30, 2019 and 2018:

	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Money market	\$ 59,709	\$ -	\$ -	\$ 59,709
Certificates of deposit	-	596,000	-	596,000
Mutual funds				
Bond	1,131,726	-	-	1,131,726
Equity	297,196	-	-	297,196
Small cap	207,913	-	-	207,913
Real estate	31,856	-	-	31,856
Large cap	911,577	-	-	911,577
	<u>\$ 2,639,977</u>	<u>\$ 596,000</u>	<u>\$ -</u>	<u>\$ 3,235,977</u>

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

8) FAIR VALUE MEASUREMENTS (continued)

	June 30, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 105,535	\$ -	\$ -	\$ 105,535
Certificates of deposit	-	596,000	-	596,000
Mutual funds				
Bond	1,083,125	-	-	1,083,125
Equity	90,883	-	-	90,883
Small cap	118,485	-	-	118,485
International	186,506	-	-	186,506
Large cap	1,010,395	-	-	1,010,395
	<u>\$ 2,594,929</u>	<u>\$ 596,000</u>	<u>\$ -</u>	<u>\$ 3,190,929</u>

9) BOARD DESIGNATED NET ASSETS

The Organization has established two funds to provide for the future capital maintenance and repairs as well as the operations and programs of the Donald W. Reynolds Food Distribution Center. The "Restricted Maintenance Fund" (Building Maintenance Fund) consists of a grant awarded in the amount of \$1,590,039 by the Donald W. Reynolds Foundation for the purpose of maintenance and upkeep of the Donald W. Reynolds Food Distribution Center. As a condition of the grant funding, the Organization was required to fund the "Restricted Program Fund" (Program Fund) for the purpose of program and operations of the Donald W. Reynolds Distribution Center. These are hereafter collectively referred to as the "Funds."

These Funds were originally directed by the Donald W. Reynolds Foundation to provide resources for the specified purposes, for a minimum of 20 years. The Organization received notice that the funds had been released from the original restrictions and as a result, were reclassified as net assets without donor restrictions. The board has designated these funds for the purpose of maintenance.

The Funds balances as of June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Building maintenance fund investments	\$ 1,876,925	\$ 1,797,385
Program fund investments	1,359,052	1,393,544
	<u>\$ 3,235,977</u>	<u>\$ 3,190,929</u>

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

9) BOARD DESIGNATED NET ASSETS (continued)

Changes in the Funds' net assets for the years ended June 30, 2019 and 2018, are summarized as follows:

The Funds' Net Assets as of June 30, 2017	\$ 3,161,218
Investment income, net of fees	198,212
Amounts appropriated for expenditures:	
Building maintenance fund investments	(89,001)
Program fund investments	(79,500)
The Funds' Net Assets as of June 30, 2018	<u>\$ 3,190,929</u>
Investment income, net of fees	169,709
Amounts appropriated for expenditures:	
Building maintenance fund investments	(20,161)
Program fund investments	(104,500)
The Funds' Net Assets as of June 30, 2019	<u><u>\$ 3,235,977</u></u>

The Organization has adopted investment policies for the Funds that attempt to provide a predictable stream of funding for capital improvements, maintenance, and programs. Under this policy, as approved by the Board of Directors, the Funds are invested in a manner that is intended to produce results that preserve the capital with moderate growth and income; to provide market (S&P 500) equivalent returns for the equity portion of the investments, and Barclays Capital Aggregate Bond index (average maturity four to five years) for the fixed income portion; and to provide asset growth at a rate greater than inflation as measured by Consumer Price Index (CPI). Actual results in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation plan that places a greater emphasis on fixed income investments for the Program Fund (a maximum position of 100% and minimum of 75%) and emphasis on equity-based investments for the Maintenance Fund (a maximum position of 75% and minimum of 25%) to achieve objectives within prudent risk constraints. The Board of Directors requires approval for any deviation of fifteen percentage points or more of the total portfolio beyond these limits in any asset category.

10) CONCENTRATIONS

The Organization maintains cash balances at several banks, which are insured by the FDIC up to \$250,000. Amounts in excess of insured limits at June 30, 2019, were \$0.

11) MEMBERSHIPS

The Organization is a member of the Arkansas Hunger Relief Alliance and pays annual membership dues. Dues are based on the following formula: 2% times (total operating expenses from the Statement of Functional Expenses, less the in-kind value of food and less fundraising expenses). The dues are billed on a quarterly basis.

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

12) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Back pack program	\$ 58,283	\$ 25,813
Building maintenance fund	-	1,797,385
Donald W. Reynolds Foundation Distribution Center	6,209,894	6,443,794
Donald W. Reynolds Foundation Enrichment & Sustainability	123,354	178,649
Program fund	-	1,393,544
USDA commodities	900,209	419,170
Fresh produce program	42,889	-
Other	10,612	8,345
	<u>\$ 7,345,241</u>	<u>\$ 10,266,700</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended June 30, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Purpose for restriction accomplished:		
Amounts appropriated for expenditures	\$ 124,661	\$ 168,500
Cooking Matters at the Store	4,600	11,624
Distributions of USDA commodities	1,753,955	1,158,902
USDA storage and distribution	179,377	142,374
Other food distribution programs:		
Back pack	176,127	147,874
Enrichment & sustainability	31,173	146,453
Fresh produce	26,611	133,000
Feeding America Senior Hunger	41,166	-
Other	61,071	51,255
	<u>\$ 2,398,741</u>	<u>\$ 1,959,982</u>
Time restrictions expired from depreciation and/or disposals on assets purchase with grant funds:	258,949	263,070
	<u>\$ 2,657,690</u>	<u>\$ 2,223,052</u>

13) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among program, fundraising and supporting services benefited, based upon various subjective factors including an estimate of employees' time dedicated to program services and the amount of physical space utilized.

The Food Bank of Northeast Arkansas
Notes to the Financial Statements

14) AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30, 2019:

Financial assets at year end:

Cash	\$ 224,655
Accounts receivable	28,178
Grants receivable	13,000
Investments	3,235,977
	<u>\$ 3,501,810</u>

**Less amounts not available to be used
within one year:**

Board designated assets	3,235,977
Net assets with donor restrictions	13,000
Less net assets with purpose restrictions to be met in less than one year	(13,000)
	<u>3,235,977</u>

**Financial assets available to meet general
expenditures over the next twelve months:**

\$ 265,833

15) RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of this new guidance is that "an entity should recognize 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". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606), which deferred the effective date for all entities by one year. These new standards, which the Organization is not required to adopt until its year ending June 30, 2020, deal with the timing of reporting revenues from contracts with customers and disclosures related thereto. The Organization is presently evaluating the effects that this ASU will have on its future financial statements, including related disclosures.

**The Food Bank of Northeast Arkansas
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Identification Number	Subrecipients	Expenditures
Food Distribution Cluster				
U.S. Department of Agriculture, Pass-Through from Arkansas Department of Human Services - The Emergency Food Assistance Program - Administrative Costs	10.568	9070	\$ -	\$ 111,532
U.S. Department of Agriculture, Pass-Through from Arkansas Department of Human Services - The Commodity Supplemental Food Program - Administrative Costs	10.565	9070	-	67,845
U.S. Department of Agriculture, Pass-Through from Arkansas Department of Human Services - The Commodity Supplemental Food Program - Food Commodities	10.565	9070	142,299	142,299
U.S. Department of Agriculture, Pass-Through from Arkansas Department of Human Services - The Emergency Food Assistance Program - Food Commodities	10.569	9070	1,611,656	1,611,656
Total Federal			<u>\$ 1,753,955</u>	<u>\$ 1,933,332</u>

Notes to Schedule

1 Significant Accounting Policies

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared in accordance with the requirements of Title 2, U.S. *Cost of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit and Administrative Requirements for Federal Awards* (the "Uniform Guidance"). The purpose of the Schedule is to present a summary of those activities of The Food Bank of Northeast Arkansas (the "Organization") for the year ended June 30, 2019, which have been financed by the U. S. Government ("Federal Awards") they are not intended to and do not present the financial position, changes in net assets or cash flows of the Organization.

For the purposes of the Schedule, Federal awards include all Federal assistance entered into directly between the Organization and the federal government and also between the Organization and other primary recipients of Federal government funds (pass-through), recorded on the accrual basis of accounting.

2 Food Commodities

Food commodities are expended when distributed to agencies. Distributed food is valued at the amounts provided by the U.S. Department of Agriculture.

3 Administrative Costs

The Organization elects not to use the 10% de minimus rate allowed under Uniform Guidance.

4 Federal Loan Programs

The organization did not have any federal loan programs during the year ended June 30, 2019.

The accompany footnotes are an integral part of the Supplemental Schedule of Expenditures of Federal Awards.

**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***

To the Board of Directors
The Food Bank of Northeast Arkansas
Jonesboro, Arkansas

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 of America, the financial statements of The Food Bank of Northeast Arkansas (a nonprofit corporation)(the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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.

A handwritten signature in cursive script that reads "Jones & Company, LTD". The signature is written in black ink and is positioned above the printed name of the firm.

Jones & Company, Ltd.
Jonesboro, Arkansas

January 9, 2020

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

To the Board of Directors of
The Food Bank of Northeast Arkansas

Report on Compliance for Each Major Federal Program

We have audited The Food Bank of Northeast Arkansas' (The "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2019. The Organization's major federal program is 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for The Food Bank of Northeast Arkansas' 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 of Northeast Arkansas'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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.

Report on Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Organization'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.

The Organization's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.



Jones & Company, Ltd.

January 9, 2020

**The Food Bank of Northeast Arkansas
Schedule of Findings and Questioned Cost
For the Year Ended June 30 , 2019**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified		
Internal controls over financial reporting:			
- Material weakness(es) identified?	_____ Yes	_____ X _____ No	
- Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ X _____ No	
Noncompliance material to financial statements noted?	_____ Yes	_____ X _____ No	

Federal awards

Internal controls over major program:			
- Material weakness(es) identified?	_____ Yes	_____ X _____ No	
- Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ X _____ No	
Type of auditors' report issued on compliance for major program:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	_____ Yes	_____ X _____ No	

Identification of Major Programs:

CFDA Number	<u>Name of Federal Program or Cluster</u>
10.569 10.565 10.568	U.S. Department of Agriculture, Food Distribution Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	_____ X _____ Yes _____ No

**The Food Bank of Northeast Arkansas
Schedule of Findings and Questioned Cost
For the Year Ended June 30, 2019**

SECTION II - FEDERAL PROGRAMS FINDINGS AND QUESTIONED COSTS

None.

**The Food Bank of Northeast Arkansas
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018**

SECTION III-SUMMARY OF PRIOR YEAR AUDIT FINDINGS

2018-001 Monitoring of Subrecipients

Type: Significant deficiency internal control over federal awards.

Program: U.S. Department of Agriculture; CFDA Numbers 10.569; Passed through the State of Arkansas Department of Human Services; RA #9070.

Condition/Context: Management obtains information from the subrecipients showing they are properly identifying food recipients' criteria prior to the distribution of the food. Auditors noted one of twenty-two items tested had not completed the identification form, which was not noted by the auditee.

Recommendation: Remind employees responsible for monitoring to thoroughly review all data for completeness.

Current Status: Management has personnel assigned to gather and monitor subrecipients. Subrecipients are given notice as issues arise.