



VIRGINIA PENINSULA FOODBANK

FINANCIAL REPORT

June 30, 2017 with Summarized Financial Information
for the Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Peninsula Foodbank
Hampton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of **Virginia Peninsula Foodbank** (the Foodbank) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foodbank'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 Foodbank'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 Foodbank as of June 30, 2017, and its changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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 13, 2017 on our consideration of the Foodbank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Foodbank's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Foodbank's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wall, Einhorn + Chernitzky, P.C.

Norfolk, Virginia
September 13, 2017

VIRGINIA PENINSULA FOODBANK
STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 1,903,743	\$ 1,471,868
Investments		3,978,437	3,742,636
Unconditional promises to give, current portion		10,000	60,000
United Way and federal campaign designation receivables		198,912	221,898
Accounts receivable:			
Grants		49,843	67,792
Program service fees		22,487	22,166
Inventory		968,416	790,261
Prepaid expenses		<u>26,085</u>	<u>19,670</u>
Total current assets		<u>7,157,923</u>	<u>6,396,291</u>
PROPERTY AND EQUIPMENT, NET		<u>5,846,644</u>	<u>6,069,870</u>
OTHER ASSETS			
Unconditional promises to give, net of discount, less current portion		9,849	19,550
Land held for investment		<u>9,956</u>	<u>9,956</u>
Total other assets		<u>19,805</u>	<u>29,506</u>
Total assets		<u>\$ 13,024,372</u>	<u>\$ 12,495,667</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable		\$ 38,731	\$ 50,766
Accrued payroll, vacation and related expenses		73,446	79,929
Deferred revenue		<u>10,675</u>	<u>7,542</u>
Total current liabilities		<u>122,852</u>	<u>138,237</u>
NET ASSETS			
Unrestricted:			
General		2,181,595	2,501,558
Invested in property and equipment		5,846,644	6,069,870
Board designated - operating reserve		3,476,471	3,404,250
Board designated - capital reserve		<u>1,114,401</u>	<u>-</u>
		12,619,111	11,975,678
Temporarily restricted		<u>282,409</u>	<u>381,752</u>
Total net assets		<u>12,901,520</u>	<u>12,357,430</u>
Total liabilities and net assets		<u>\$ 13,024,372</u>	<u>\$ 12,495,667</u>

See Independent Auditor's Report and Notes to Financial Statements.

VIRGINIA PENINSULA FOODBANK

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2017 with Summarized Financial Information for the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Summarized Total
REVENUES, SUPPORT AND GAINS				
Contributions	\$ 1,674,807	\$ 52,967	\$ 1,727,774	\$ 1,655,601
Program service fees	422,670	-	422,670	510,919
Grants	755,126	-	755,126	715,604
SHARE sales	130,844	-	130,844	118,192
Special events, net of expenses 2017 \$97,182; 2016 \$97,442	171,505	-	171,505	159,185
United Way allocation	-	100,000	100,000	100,000
Community and Combined Federal Campaign designations	-	142,816	142,816	119,230
Miscellaneous	7,127	-	7,127	4,271
	<u>3,162,079</u>	<u>295,783</u>	<u>3,457,862</u>	<u>3,383,002</u>
Net assets released from restrictions	<u>395,126</u>	<u>(395,126)</u>	<u>-</u>	<u>-</u>
Total revenues, support and gains	<u>3,557,205</u>	<u>(99,343)</u>	<u>3,457,862</u>	<u>3,383,002</u>
EXPENSES				
Program services:				
Food distribution	1,593,259	-	1,593,259	1,517,047
SHARE	157,700	-	157,700	144,567
Culinary and kid's cafe	626,250	-	626,250	694,694
BackPack program	224,782	-	224,782	220,372
Supporting services:				
Fundraising	541,832	-	541,832	520,340
Management and general	163,780	-	163,780	182,399
	<u>3,307,603</u>	<u>-</u>	<u>3,307,603</u>	<u>3,279,419</u>
Change in net assets before donated food transactions and nonoperating revenue (expenses)	<u>249,602</u>	<u>(99,343)</u>	<u>150,259</u>	<u>103,583</u>
DONATED FOOD TRANSACTIONS				
Donated food received	17,718,982	-	17,718,982	16,927,687
Donated food distributed and undistributable food	<u>(17,541,341)</u>	<u>-</u>	<u>(17,541,341)</u>	<u>(17,015,583)</u>
Net change in donated food	<u>177,641</u>	<u>-</u>	<u>177,641</u>	<u>(87,896)</u>
NONOPERATING REVENUE (EXPENSES)				
Investment income, net	238,340	-	238,340	75,925
(Loss) gain on disposal of property and equipment	<u>(22,150)</u>	<u>-</u>	<u>(22,150)</u>	<u>1,789</u>
Total nonoperating revenue (expenses)	<u>216,190</u>	<u>-</u>	<u>216,190</u>	<u>77,714</u>
Change in net assets	<u>643,433</u>	<u>(99,343)</u>	<u>544,090</u>	<u>93,401</u>
Net assets at the beginning of the year	<u>11,975,678</u>	<u>381,752</u>	<u>12,357,430</u>	<u>12,264,029</u>
Net assets at the end of the year	<u>\$ 12,619,111</u>	<u>\$ 282,409</u>	<u>\$ 12,901,520</u>	<u>\$ 12,357,430</u>

See Independent Auditor's Report and Notes to Financial Statements.

VIRGINIA PENINSULA FOODBANK

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017 with Summarized Financial Information for the Year Ended June 30, 2016

	Program Services					Supporting Services			2017 Total	2016 Summarized Total
	Food Distribution	SHARE	Culinary and Kid's Cafe	BackPack Program	Total	Fund Raising	Management and General	Total		
Agency support	\$ 15,980	\$ -	\$ -	\$ -	\$ 15,980	\$ -	\$ -	\$ -	\$ 15,980	\$ 33,245
Bank charges	-	-	-	-	-	8,305	156	8,461	8,461	6,834
Computer maintenance and support	12,906	400	5,296	906	19,508	4,251	1,632	5,883	25,391	17,223
Conferences and trainings	3,464	-	4,158	-	7,622	4,884	7,764	12,648	20,270	20,634
Dues and subscriptions	10,721	314	4,217	715	15,967	2,770	1,288	4,058	20,025	8,203
Employee benefits	133,802	3,854	16,807	4,376	158,839	16,879	4,497	21,376	180,215	217,320
Equipment rental and maintenance	60,127	127	21,496	-	81,750	-	-	-	81,750	65,781
Food costs	161,729	98,820	164,177	136,243	560,969	-	-	-	560,969	540,864
Freight	68,398	8,100	-	-	76,498	-	-	-	76,498	59,688
Fundraising	-	-	-	-	-	152,320	-	152,320	152,320	142,589
Insurance	32,451	914	12,150	2,079	47,594	6,908	3,745	10,653	58,247	51,963
Miscellaneous	-	-	3,390	-	3,390	-	827	827	4,217	4,464
Occupancy	134,196	353	28,744	6,701	169,994	2,292	4,056	6,348	176,342	177,510
Payroll taxes	53,693	2,191	20,171	3,639	79,694	18,463	8,319	26,782	106,476	103,287
Postage	3,097	1,800	1,784	305	6,986	50,173	550	50,723	57,709	62,310
Printing and publications	6,938	-	2,542	420	9,900	1,396	757	2,153	12,053	11,859
Professional fees	22,152	624	8,294	1,420	32,490	4,716	2,556	7,272	39,762	36,787
Recognition and awards	9,976	-	3,049	522	13,547	1,733	940	2,673	16,220	4,143
Salaries and wages	650,861	25,370	239,603	42,511	958,345	216,442	110,668	327,110	1,285,455	1,281,943
Supplies	29,382	1,473	21,553	3,157	55,565	722	321	1,043	56,608	53,308
Telephone	6,627	75	1,352	172	8,226	2,692	1,684	4,376	12,602	13,469
Temporary services	-	-	-	-	-	-	-	-	-	1,911
Transportation services	37,198	-	13,285	2,657	53,140	-	-	-	53,140	61,169
Travel	3,251	-	1,350	-	4,601	1,188	229	1,417	6,018	7,664
Total expenses before depreciation	1,456,949	144,415	573,418	205,823	2,380,605	496,134	149,989	646,123	3,026,728	2,984,168
Depreciation	136,310	13,285	52,832	18,959	221,386	45,698	13,791	59,489	280,875	295,251
Total Expenses	\$ 1,593,259	\$ 157,700	\$ 626,250	\$ 224,782	\$ 2,601,991	\$ 541,832	\$ 163,780	\$ 705,612	\$ 3,307,603	\$ 3,279,419

See Independent Auditor's Report and Notes to Financial Statements.

VIRGINIA PENINSULA FOODBANK

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 544,090	\$ 93,401
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated food transactions, net	(177,641)	87,896
Depreciation	280,875	295,251
Loss (gain) on disposal of property and equipment	22,150	(1,789)
Reinvested investment income, net of fees	(85,024)	(92,584)
Net realized and unrealized (gain) loss on investments	(153,316)	16,659
Provision for discount on unconditional promises to give	(299)	(891)
(Increase) decrease in assets:		
Unconditional promises to give	60,000	60,000
United Way and federal campaign designation receivables	22,986	32,974
Accounts receivable:		
Grants	17,949	118,697
Program service fees	(321)	6,419
Prepaid expenses	(6,415)	(3,984)
Inventory	(514)	65,535
Increase (decrease) in liabilities:		
Accounts payable	(12,035)	(11,917)
Accrued payroll, vacation and related expenses	(6,483)	(28,095)
Deferred revenue	3,133	(4,238)
Net cash provided by operating activities	<u>509,135</u>	<u>633,334</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	5,800	-
Net change in investments	2,539	(249,671)
Payments for the purchase of property and equipment	(85,599)	(155,956)
Net change in certificates of deposit	-	250,833
Net cash used in investing activities	<u>(77,260)</u>	<u>(154,794)</u>
Net increase in cash and cash equivalents	431,875	478,540
Cash and cash equivalents, beginning	<u>1,471,868</u>	<u>993,328</u>
Cash and cash equivalents, ending	<u>\$ 1,903,743</u>	<u>\$ 1,471,868</u>

See Independent Auditor's Report and Notes to the Financial Statements.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

Virginia Peninsula Foodbank (Foodbank) is a nonprofit Virginia corporation, exempt under 501(c)(3) of the Internal Revenue Code, organized June 22, 1987, which distributes food effectively through collaborative efforts that minimize hunger, promote nutrition and encourage self-reliance through education. The Foodbank serves Gloucester, Hampton, James City County, Mathews County, Newport News, Poquoson, Surry County, Williamsburg, and York County.

A summary of the Foodbank's significant accounting policies follows:

Basis of accounting:

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP). Under this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

Basis of presentation:

The Foodbank reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as "net assets released from restrictions." As of June 30, 2017 and 2016, the Foodbank had no permanently restricted net assets.

Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand or in demand deposit accounts and highly liquid investments purchased with an original maturity of three months or less. Cash and cash equivalents managed by the Foodbank's investment managers, such as money market funds, are included in investments.

Unconditional promises to give, program service fees and other receivables:

Unconditional promises to give, program service fees, and other receivables are reported at the amount management expects to collect on balances outstanding at year-end, less an allowance for doubtful accounts and discount, if necessary. The Foodbank provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of donors to meet their obligations. Management closely monitors outstanding balances and writes off, as of year-end, all balances that are considered to be uncollectible. Recoveries of unconditional promises to give, program service fees, and other receivables previously written off are recorded as income when received. Program service fees and other receivables are considered past due if any portion of the receivable balance is outstanding for more than 60 days. Past due accounts are not charged a monthly finance fee, and the Foodbank does not require collateral for its receivables.

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Inventory:

Purchased food inventory has been valued at the lower of (first-in, first-out) cost or market. Donated inventory has been valued using approximate average wholesale values of one pound of donated product of \$1.73 and \$1.67 at June 30, 2017 and 2016, respectively, as determined by Feeding America, the Nation's Foodbank Network valuation study performed as of December 31, 2016 and 2015, respectively. Certain agreed upon procedures were applied to the Feeding America methodology by other auditors in 2017 and 2016. Inventory of commodities is valued at the amount stated by the U.S. Department of Agriculture (USDA). Undistributable food for the years ended June 30, 2017 and 2016 amounted to \$343,320 and \$362,969, respectively, which was written off when it was identified as undistributable.

Property and equipment:

Property and equipment is stated at cost, if purchased, and at estimated or market value, if donated. Assets purchased of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Depreciation is provided using the straight line method over the estimated useful lives of the assets. The estimated lives of property and equipment are as follows:

	<u>Years</u>
Buildings and improvements	5 - 40
Equipment	3 - 40
Transportation equipment	5 - 10

Impairment of long-lived assets:

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Recognition of income:

Allocations from other organizations are recognized as income in the period in which they are received unless they are specifically designated as being for a future period. In the latter case, they are initially recorded as deferred revenue and are then recorded as income in the period for which they were designated.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. These contributions are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. The Foodbank's policy is to report as unrestricted support, contributions with donor-imposed restrictions when these restrictions are met in the same year that the contribution was received.

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Grants:

Revenue from cost reimbursement-based grants is recognized when reimbursable costs are incurred under the terms of the agreements. Revenue from performance-based grants is recognized when performance objectives pursuant to the agreement have been accomplished. Grant payments received in excess of the qualified costs or performance are accounted for as deferred revenues.

Deferred revenue:

Deferred revenue results primarily from recipient agency payments received in advance, which will be recognized as revenue when the recipient agency incurs its shared maintenance fee (See Note 7).

In-kind contributions and expenditures:

Donated services for work requiring specialized skills and are performed by individuals possessing those skills are valued at rates consistent with regular rates paid for similar work. Donated supplies, materials and rent are valued at their estimated fair market value at the date of receipt.

Many individuals volunteer their time to perform a variety of tasks that assist the Foodbank's program services. Volunteer services neither create nor enhance financial assets nor do they require special skills, and thus are not recognized as support in the accompanying statements of activities and changes in net assets.

Advertising:

Advertising costs are expensed as incurred. Advertising costs for special events totaled \$27,184 and \$23,433 during the year ended June 30, 2017 and 2016, respectively.

Income taxes:

The Foodbank is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. Currently the Foodbank has no obligation for any unrelated business income tax. The Foodbank believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be specifically identified to a functional area are allocated directly. Expenses that are common to more than one function are allocated by various statistical means and by the use of management's estimates.

Use of estimates in the preparation of financial statements:

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Summarized financial statement information:

The financial statements include certain prior year summarized comparative information in total but not by net asset or functional expense classifications. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foodbank's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications:

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications have no effect on total net assets previously reported.

Note 2. Investments

Investments are summarized as follows:

	June 30, 2017		
	Adjusted Cost Basis	Fair Market Value	Cumulative Unrealized Gain (Loss)
Money market funds	\$ 40,839	\$ 40,839	\$ -
Bond and fixed income mutual funds	3,039,598	2,983,694	(55,904)
Equity mutual funds	799,086	953,904	154,818
	\$ 3,879,523	\$ 3,978,437	\$ 98,914
	June 30, 2016		
	Adjusted Cost Basis	Fair Market Value	Cumulative Unrealized Gain (Loss)
Money market funds	\$ 41,444	\$ 41,444	\$ -
Bond and fixed income mutual funds	2,949,746	2,867,587	(82,159)
Equity mutual funds	799,807	833,605	33,798
	\$ 3,790,997	\$ 3,742,636	\$ (48,361)

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 2. Investments (continued)

Investment income, net consists of the following:	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 106,847	\$ 114,250
Unrealized gain (loss)	152,463	(61,805)
Realized gain	853	45,146
Investment fees	<u>(21,823)</u>	<u>(21,666)</u>
	<u>\$ 238,340</u>	<u>\$ 75,925</u>

Note 3. Unconditional Promises to Give

Unconditional promises to give and grants that are not expected to be collected within one year are discounted to their estimated present value at a rate of 1.53%. Unconditional promises to give receivables at June 30 are estimated as follows:

	<u>2017</u>	<u>2016</u>
Current:		
Receivable in less than one year	\$ <u>10,000</u>	\$ <u>60,000</u>
Long-term:		
Receivable in one-to-five years	10,000	20,000
Less discount to present value	<u>(151)</u>	<u>(450)</u>
	<u>9,849</u>	<u>19,550</u>
	<u>\$ 19,849</u>	<u>\$ 79,550</u>

Note 4. Inventory

Inventories consist of USDA commodities and purchased food inventory stated at the lower of (first-in, first-out) cost or market. Donated foods inventory is stated at the wholesale value per pound of donated product as determined by Feeding America at June 30, 2017 and 2016 (See Note 1). Inventories are summarized as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Poundage</u>	<u>Value</u>	<u>Poundage</u>	<u>Value</u>
Donated food inventory	401,040	\$ 693,799	324,887	\$ 542,561
USDA commodities	275,442	205,197	185,543	157,088
Purchased food inventory	<u>80,328</u>	<u>69,420</u>	<u>102,786</u>	<u>90,612</u>
	<u>756,810</u>	<u>\$ 968,416</u>	<u>613,216</u>	<u>\$ 790,261</u>

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 5. Property and Equipment

Property and equipment consists of the following as of June 30:

	2017	2016
Buildings and improvements	\$ 5,313,507	\$ 5,305,523
Equipment	673,172	669,109
Transportation equipment	742,999	776,354
Land	898,867	898,867
	7,628,545	7,649,853
Less accumulated depreciation	1,781,901	1,579,983
	\$ 5,846,644	\$ 6,069,870

Note 6. Land Held for Investment

At June 30, 2017 and 2016, land held for investment consisted of two donated lots in Gloucester, Virginia.

Note 7. Program Service Fees Receivable

The Foodbank charges a shared maintenance fee (maximum of 19 cents per pound) to the recipient agency, church, or other charitable organization which takes the donated food and commodities and redistributes such items to the poor, needy and hungry. This fee offsets a portion of the handling and redistribution costs incurred by the Foodbank. Many donated items, specifically fresh produce and bread, are distributed free of a shared maintenance fee. Accounts receivables - program service fees of \$22,487 and \$22,166 at June 30, 2017 and 2016, respectively, are for outstanding shared maintenance fees.

Note 8. Retirement Plans

The Foodbank has a tax deferred annuity plan under Internal Revenue Code Section 403(b) for all employees who wish to participate. Contributions to the plan are not made by the Foodbank.

The Foodbank has a defined contribution plan (the Plan) covering employees who have been employed with the Foodbank three of the last five years. The Foodbank makes a contribution to the Plan each year equal to 3% of all participants' compensation. Annual contributions to the plan amounted to \$29,796 and \$23,720 for the years ended June 30, 2017 and 2016, respectively.

Note 9. Public Support

The Foodbank received 7% and 6.5% of its total revenue for the years ended June 30, 2017 and 2016, respectively, through allocations and designations from the United Way of the Virginia Peninsula and the Peninsula Combined Federal Campaign. The United Way determines allocations annually and funds the Foodbank at their discretion.

Note 10. Related Party Transactions

The Foodbank's board members include volunteers from the financial, legal and medical communities who provide valuable assistance to the Foodbank's development of policies and programs. As of June 30, 2017 and 2016, a significant amount of the Foodbank's cash and investments were maintained in banks with which board members were associated.

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 11. Board Designated Funds

The Foodbank's board agreed to designate a portion of the Foodbank's available cash to serve as a reserve fund for future capital and operational expenses. The operating reserve fund requires twelve months of operations to be designated to ensure the stability of the Foodbank's mission and ongoing operations. In 2017, the Foodbank implemented a capital reserve fund that is designated for future capital needs of the Foodbank. The designated funds are held in short-term highly liquid investments.

Note 12. Fair Value Measurement

FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the 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 Foodbank has the ability to access.

Level 2: Inputs to the valuation methodology include: (1) Quoted prices for similar assets or liabilities in active markets; (2) Quoted prices for identical or similar assets or liabilities in inactive markets; (3) Inputs other than quoted prices that are observable for the asset or liability; and/or (4) 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 asset or liability's fair value measurement 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 following is a description of the valuation methodologies used for assets measured at fair value. There has been no change in the methodologies used at June 30, 2017 and 2016.

Mutual funds:

Valued at the daily close price as reported by the fund. Mutual funds held by the Foodbank are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish a daily net asset value and transact at that price.

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 12. Fair Value Measurement (continued)

The following tables set forth by level, within the fair value hierarchy as measured on a recurring basis, the Foodbank's assets at fair value as of June 30, 2017 and 2016:

	Total Fair Value	<i>Fair Value as of June 30, 2017</i>		
		Level 1	Level 2	Level 3
Money market funds	\$ 40,839	\$ 40,839	\$ -	\$ -
Bond and fixed income mutual funds	2,983,694	2,983,694	-	-
Equity mutual funds:				
Growth	449,121	449,121	-	-
Value	491,670	491,670	-	-
Balanced	13,113	13,113	-	-
Total fair value measurements	\$ 3,978,437	\$ 3,978,437	\$ -	\$ -

	Total Fair Value	<i>Fair Value as of June 30, 2016</i>		
		Level 1	Level 2	Level 3
Money market funds	\$ 41,444	\$ 41,444	\$ -	\$ -
Bond and fixed income mutual funds	2,867,587	2,867,587	-	-
Equity mutual funds:				
Growth	384,277	384,277	-	-
Value	435,870	435,870	-	-
Balanced	13,458	13,458	-	-
Total fair value measurements	\$ 3,742,636	\$ 3,742,636	\$ -	\$ -

Note 13. Concentrations

The Foodbank is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Foodbank to risk consist principally of cash and investments. The Foodbank places its cash and investments with high quality financial institutions that participate in Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) programs. As of June 30, 2017, the Foodbank had cash and investments in excess of the insured limit at financial institutions in the amount of \$1,300,410 of FDIC coverage and \$2,356,310 of SIPC coverage.

The Foodbank's potential credit risk in regard to accounts receivable is limited due to the nature of the Foodbank's receivables as well as the Foodbank's collection history.

The Foodbank receives substantial donations of food from federal and state governments. If a significant reduction in the amount of donated food were to occur, it would affect the Foodbank's future programs and activities.

See Independent Auditor's Report. Notes continued on next page.

VIRGINIA PENINSULA FOODBANK
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

Note 14. Commitments

The Foodbank leases three copiers under non-cancelable operating leases which expire from March 2018 to October 2021. Lease expense totaled \$10,003 and \$10,443, respectively, for the years ended June 30, 2017 and 2016. Future minimum lease payments by year and in the aggregate under these operating leases are as follows:

	2018		\$	7,747
	2019			3,733
	2020			3,733
	2021			1,244
				1,244
			\$	16,457

Note 15. Restrictions on Net Assets

Temporarily restricted net assets of the Foodbank were released from donor restrictions by incurring expenses that satisfy the purpose or time restrictions specified by donors as follows:

	2017		2016
Program and support services	\$ 127,686	\$	253,993
Time restrictions	267,440	\$	246,489
	\$ 395,126	\$	500,482

Temporarily restricted net assets are restricted for the following reasons at June 30:

	2017		2016
Timing restrictions related to United Way receivable	\$ 198,912	\$	221,898
Timing restrictions related to unconditional promises to give	19,849		79,550
Timing restrictions related to other receivables	49,755		67,792
Land held for investment	9,956		9,956
Mobile pantry	3,937		2,662
	\$ 282,409	\$	381,858

Note 16. Subsequent Events

The Foodbank evaluated its June 30, 2017 financial statements for subsequent events through September 13, 2017, the date the financial statements were available to be issued. The Foodbank is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

See Independent Auditor's Report.

VIRGINIA PENINSULA FOODBANK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
Emergency Food Assistance Program Cluster:				
U.S. Department of Agriculture				
Pass-through from Virginia Department of Agriculture & Consumer Services:				
The Emergency Food Assistance Program (Administrative Costs)	10.568	67-350	\$ -	\$ 76,176
The Emergency Food Assistance Program (Food Commodities - Note 4)	10.569	67-350	<u>616,391</u>	<u>946,105</u>
Total Emergency Food Assistance Cluster and Pass-through from Virginia Department of Agriculture & Consumer Services			<u>616,391</u>	<u>1,022,281</u>
Pass-through from Virginia Department of Health:				
Virginia Child and Adult Care Food Program	10.558		-	200,690
Summer Food Service Program for Children	10.559		<u>-</u>	<u>155,986</u>
Total Pass-through from Virginia Department of Health			<u>-</u>	<u>356,676</u>
Total U.S. Department of Agriculture			<u>616,391</u>	<u>1,378,957</u>
U.S. Department of Homeland Security				
Emergency Food and Shelter National Board Program	97.024		<u>31,475</u>	<u>31,475</u>
TOTAL FEDERAL AWARDS			<u>\$ 647,866</u>	<u>\$ 1,410,432</u>

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards.

VIRGINIA PENINSULA FOODBANK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Foodbank under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foodbank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foodbank.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Foodbank has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. The Emergency Food Assistance Program (Food Commodities)

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the Foodbank had food commodities from the program totaling \$205,197 in inventory.

Note 5. Pass-Through State Agencies

Expenditures of federal awards for funds passed through state agencies are based on information provided by the respective agencies. Pass-through entity identifying numbers are presented where available.

See Independent Auditor's Report.

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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Peninsula Foodbank
Hampton, Virginia

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **Virginia Peninsula Foodbank** (the Foodbank), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, 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 13, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foodbank'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 Foodbank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foodbank'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 Foodbank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wall, Einhorn + Chernitzger, P.C.

Norfolk, Virginia
September 13, 2017

REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Peninsula Foodbank
Hampton, Virginia

Report on Compliance for Major Federal Program

We have audited Virginia Peninsula Foodbank's (the Foodbank) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foodbank's major federal program for the year ended June 30, 2017. The Foodbank'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.

Auditor's Responsibility

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

Opinion on Major Federal Program

In our opinion, the Foodbank 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, 2017.

Report on Internal Control over Compliance

Management of the Foodbank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foodbank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foodbank's internal control over compliance.

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

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

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

Wall, Einhorn + Chernitzky, P.C.

Norfolk, Virginia
September 13, 2017

VIRGINIA PENINSULA FOODBANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued:	<u>unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ X _____ No	
Significant deficiency(ies) identified?	_____ Yes	_____ X _____ None Reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ X _____ No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	_____ X _____ No	
Significant deficiency(ies) identified?	_____ Yes	_____ X _____ None Reported	

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	_____ X _____ No
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Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.568 / 10.569	Emergency Food Assistance Program Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?	_____ X _____ Yes	_____ _____ No
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Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

See Independent Auditor's Report.

VIRGINIA PENINSULA FOODBANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

Audit Finding Reference: 2016-001

Status of Prior Finding: Planned corrective action completed this fiscal year.

See Independent Auditor's Report.