

NORTHERN NECK FOOD BANK, INC.

FINANCIAL STATEMENTS

June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Neck Food Bank, Inc.
Warsaw, Virginia

We have audited the accompanying financial statements of Northern Neck Food Bank, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Food Bank'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 Food Bank'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 qualified audit opinion.

- Continued -

Basis for Qualified Opinion

We did not observe the taking of the physical inventories at June 30, 2014 (stated at \$54,560), since that date was prior to the time we were initially engaged as auditors for the Food Bank. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Northern Neck Food Bank, Inc. as of June 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



April 28, 2015

NORTHERN NECK FOOD BANK, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2014

ASSETS

	Unrestricted	Temporarily Restricted	Total
Current Assets			
Cash and cash equivalents	\$ 7,343	\$ 16,800	\$ 24,143
Accounts receivable	96	-	96
Prepaid insurance	1,000	-	1,000
Inventory	54,560	-	54,560
Total current assets	62,999	16,800	79,799
Property and Equipment			
Equipment	87,077	-	87,077
Leasehold improvements	7,766	-	7,766
Vehicles	19,276	-	19,276
Accumulated depreciation	(44,212)	-	(44,212)
Net property and equipment	69,907	-	69,907
Other Assets			
Rent deposit	1,200	-	1,200
Total other assets	1,200	-	1,200
Total Assets	\$ 134,106	\$ 16,800	\$ 150,906

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current Liabilities			
Accounts payable	\$ 7,041	\$ -	\$ 7,041
Payroll liabilities	<u>11,710</u>	<u>-</u>	<u>11,710</u>
Total current liabilities	<u>18,751</u>	<u>-</u>	<u>18,751</u>
Net Assets			
Unrestricted net assets	115,355	-	115,355
Temporarily restricted net assets	<u>-</u>	<u>16,800</u>	<u>16,800</u>
Total net assets	<u>115,355</u>	<u>16,800</u>	<u>132,155</u>
Total Liabilities and Net Assets	<u>\$ 134,106</u>	<u>\$ 16,800</u>	<u>\$ 150,906</u>

NORTHERN NECK FOOD BANK, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 154,995	\$ 112,000	\$ 266,995
Contributions in-kind	1,736,513	-	1,736,513
Program revenue	<u>89,433</u>	<u>-</u>	<u>89,433</u>
	1,980,941	112,000	2,092,941
Net assets released from restrictions			
Satisfaction of program restrictions	<u>95,200</u>	<u>(95,200)</u>	<u>-</u>
Total support and revenue	<u>2,076,141</u>	<u>16,800</u>	<u>2,092,941</u>
Expenses			
Program	2,194,902	-	2,194,902
Administrative	30,464	-	30,464
Fundraising	<u>51,156</u>	<u>-</u>	<u>51,156</u>
Total expenses	<u>2,276,522</u>	<u>-</u>	<u>2,276,522</u>
Change in net assets	(200,381)	16,800	(183,581)
Net Assets, beginning of year	<u>315,736</u>	<u>-</u>	<u>315,736</u>
Net Assets, end of year	<u>\$ 115,355</u>	<u>\$ 16,800</u>	<u>\$ 132,155</u>

See accompanying notes to financial statements.

NORTHERN NECK FOOD BANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2014

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 4,921	\$ 4,921
Depreciation	9,758	1,236	1,880	12,874
Food	1,954,385	-	-	1,954,385
Insurance	1,266	793	244	2,303
IT	4,154	123	188	4,465
Meals and entertainment	1,192	151	229	1,572
Office	6,706	849	7,351	14,906
Payroll and benefits	145,548	18,433	28,034	192,015
Professional fees	-	3,411	-	3,411
Rent	16,320	1,342	2,039	19,701
Repairs and maintenance	13,563	6	9	13,578
Taxes	10,763	1,363	2,073	14,199
Travel	2,750	348	530	3,628
Truck	17,985	-	-	17,985
Utilities	4,243	2,409	3,658	10,310
Warehouse	6,269	-	-	6,269
	<u>\$ 2,194,902</u>	<u>\$ 30,464</u>	<u>\$ 51,156</u>	<u>\$ 2,276,522</u>

See accompanying notes to financial statements.

NORTHERN NECK FOOD BANK, INC.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2014

Cash Flows from Operating Activities	
Change in net assets	\$ (183,581)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities	
Depreciation	12,874
(Increase) decrease in operating assets	
Accounts receivable	9,157
Inventory	164,843
Prepaid expenses	(1,000)
Deposits	(699)
Increase (decrease) in operating liabilities	
Accounts payable	4,980
Payroll liabilities	<u>8,602</u>
Net cash and cash equivalents provided by operating activities	<u>15,176</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(40,538)</u>
Net cash and cash equivalents used by investing activities	<u>(40,538)</u>
Decrease in cash and cash equivalents	(25,362)
Cash and Cash Equivalents, beginning of year	<u>49,505</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 24,143</u></u>

See accompanying notes to financial statements.

NORTHERN NECK FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. Nature of Organization

Northern Neck Food Bank, Inc. (the Food Bank), a Virginia non-profit corporation, was established in 2010. The Food Bank advocates for new and existing food banks in the Northern Neck area by providing low-cost nutritional food and logistical support in the way of storage, transportation, and distribution. The Food Bank is supported primarily through contributions.

2. Summary of Significant Accounting Policies

Method of Accounting: The financial statements of the Food Bank have been prepared on the accrual basis of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Basis of Presentation: The Food Bank adheres to Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205-45, "Financial Statements of Not-for-Profit Organizations", whereby the Food Bank is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- *Unrestricted* amounts are those available for use in the Food Bank's operations without donor restrictions.
- *Temporarily restricted* amounts are those which are stipulated by donors for specific purposes or time periods. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- *Permanently restricted* amounts are restricted by donors to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

Cash and Cash Equivalents: Cash and cash equivalents consist of unrestricted demand deposits and all highly liquid debt securities with maturities of three months or less at purchase.

Inventory: Inventory consists primarily of in-kind donations of food and is valued at estimated fair value based on average value per pound of food. The average value per pound of food was \$1.72 at June 30, 2014 and is based upon a study performed by Feeding America to assist food banks in valuing their inventory.

Property and Equipment: Property and equipment are recorded at historical cost. Items are depreciated using the straight-line method over the estimated useful lives of assets, which range from 3 to 15 years. Maintenance and repairs are expensed as incurred.

Contributions: The Food Bank adheres to FASB ASC 958-605, "Revenue Recognition", whereby contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Advertising: Advertising costs are expensed as incurred.

NORTHERN NECK FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

2. Summary of Significant Accounting Policies - Continued

Functional Expenses: Functional expenses are allocated according to percentages determined by management.

Income Tax Status: The Food Bank is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, the financial statements do not reflect a provision for income taxes. The Food Bank is required to file annually a Return of Organization Exempt from Income Tax (Form 990). The Food Bank's tax returns from 2011 forward are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Evaluation of Subsequent Events: Management has evaluated subsequent events through April 28, 2015, which is the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Food Bank to concentrations of credit risk consist principally of cash in excess of FDIC insurance limits and accounts receivable. As of June 30, 2014, the Food Bank did not have any balances at risk.

4. Fair Value Measurements

Accounting standards established 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 the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Food Bank 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 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 asset 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.

NORTHERN NECK FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

4. Fair Value Measurements - Continued

The donated food inventory is valued using Level 3 inputs, which is based upon a study performed by Feeding America (see Note 2).

The following table sets forth by level, within the fair value hierarchy, the Food Bank's assets at fair value as of June 30, 2014:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
June 30, 2014			
Inventory	\$ -	\$ -	\$ 54,560

The table below sets forth a summary of changes in the fair value of the donated inventory classified as Level 3 assets:

Balance at June 30, 2013	\$ 219,403
Donated food	1,736,513
Food destroyed	(108,656)
Food distributed	(1,792,700)
Balance at June 30, 2014	\$ <u>54,560</u>

5. Line of Credit

In May 2014, the Food Bank obtained a line of credit with a financial institution that allows it to borrow up to \$40,000. The line is secured by any or all real or personal property the Food Bank owns or may acquire in the future. Interest is based on the Wall Street Journal U.S. Prime Rate, with a floor of 5.00% (5.00% at June 30, 2014). There was no outstanding balance on the line as of June 30, 2014.

6. In-Kind Contributions

The Food Bank recognizes contribution revenue for food inventory received at fair value based on the average value per pound of food on the date of the contribution. In-kind contributions of food for the year ended June 30, 2014 totaled \$1,736,513.

7. Leases

The Food Bank leases certain commercial property under an operating lease, which expires on August 31, 2016. Rent expense for the year ended June 30, 2014 was \$19,701. Future minimum rental commitments under the lease are as follows:

<u>June 30</u>	
2015	\$ 14,400
2016	14,400
2017	2,400
	\$ <u>31,200</u>

NORTHERN NECK FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

8. Temporarily Restricted Net Assets

The temporarily restricted net assets as of June 30, 2014 are as follows:

	<u>Balance</u> <u>6/30/2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>6/30/2014</u>
Temporarily Restricted				
DuPont Fund	\$ -	\$ 97,000	\$ 92,700	\$ 4,300
CFO Services	-	15,000	2,500	12,500
	<u>\$ -</u>	<u>\$ 112,000</u>	<u>\$ 95,200</u>	<u>\$ 16,800</u>

The remaining balance of the DuPont Fund is restricted for the purpose of purchasing a new truck.

9. Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to aid the Food Bank in its general activities. The value of this contributed time is not reflected in these statements since it does not meet the recognition criteria as defined in FASB ASC 958-225-45, "Accounting for Contributions Received and Contributions Made".

10. Major Contributors

The Food Bank receives its in-kind contributions primarily from regional food distributors and governmental agencies. In-kind contributions from two organizations totaled 46% of total revenue for the year ended June 30, 2014.