

**NORTHERN NECK FOOD BANK, INC.**

**FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**

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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. (the Food Bank) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audit opinion.

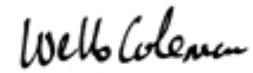
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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Neck Food Bank, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Wells Coleman". The signature is written in a cursive style with a prominent loop at the end of the last name.

May 15, 2018

**NORTHERN NECK FOOD BANK, INC.**  
**STATEMENT OF FINANCIAL POSITION**

June 30, 2017

**ASSETS**

	Unrestricted	Temporarily Restricted	Total
<b>Current Assets</b>			
Cash and cash equivalents	\$ 153,588	\$ 83,105	<b>\$ 236,693</b>
Accounts receivable	2,819	-	<b>2,819</b>
Prepaid insurance	3,462	-	<b>3,462</b>
Prepaid expenses	3,516	-	<b>3,516</b>
Inventory	173,256	-	<b>173,256</b>
<b>Total current assets</b>	<b>336,641</b>	<b>83,105</b>	<b>419,746</b>
<b>Property and Equipment</b>			
Equipment	123,139	-	<b>123,139</b>
Leasehold improvements	7,766	-	<b>7,766</b>
Vehicles	164,647	-	<b>164,647</b>
	295,552	-	<b>295,552</b>
Accumulated depreciation	(122,168)	-	<b>(122,168)</b>
<b>Net property and equipment</b>	<b>173,384</b>	<b>-</b>	<b>173,384</b>
<b>Other Assets</b>			
Rent deposit	1,200	-	<b>1,200</b>
<b>Total other assets</b>	<b>1,200</b>	<b>-</b>	<b>1,200</b>
<b>Total Assets</b>	<b>\$ 511,225</b>	<b>\$ 83,105</b>	<b>\$ 594,330</b>

See accompanying notes to financial statements.

**LIABILITIES AND NET ASSETS**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>Current Liabilities</b>			
Notes payable - current portion	\$ 1,720	\$ -	\$ 1,720
Accounts payable and accrued expenses	1,216	-	1,216
Payroll liabilities	<u>8,202</u>	<u>-</u>	<u>8,202</u>
<b>Total current liabilities</b>	11,138	-	11,138
<b>Notes Payable - Long-Term</b>	<u>15,608</u>	<u>-</u>	<u>15,608</u>
<b>Total liabilities</b>	<u>26,746</u>	<u>-</u>	<u>26,746</u>
<b>Net Assets</b>	<u>484,479</u>	<u>83,105</u>	<u>567,584</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 511,225</u>	<u>\$ 83,105</u>	<u>\$ 594,330</u>

**NORTHERN NECK FOOD BANK, INC.**  
**STATEMENT OF FINANCIAL POSITION**

June 30, 2016

**ASSETS**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 30,466	\$ 62,184	\$ 92,650
Accounts receivable	21,268	-	21,268
Prepaid insurance	2,972	-	2,972
Prepaid expenses	435	-	435
Inventory	<u>189,406</u>	<u>-</u>	<u>189,406</u>
<b>Total current assets</b>	<u>244,547</u>	<u>62,184</u>	<u>306,731</u>
<b>Property and Equipment</b>			
Equipment	104,033	-	104,033
Leasehold improvements	7,766	-	7,766
Vehicles	<u>164,647</u>	<u>-</u>	<u>164,647</u>
	276,446	-	276,446
Accumulated depreciation	<u>(73,251)</u>	<u>-</u>	<u>(73,251)</u>
<b>Net property and equipment</b>	<u>203,195</u>	<u>-</u>	<u>203,195</u>
<b>Other Assets</b>			
Rent deposit	<u>1,200</u>	<u>-</u>	<u>1,200</u>
<b>Total other assets</b>	<u>1,200</u>	<u>-</u>	<u>1,200</u>
<b>Total Assets</b>	<u>\$ 448,942</u>	<u>\$ 62,184</u>	<u>\$ 511,126</u>

See accompanying notes to financial statements.

## LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Total
<b>Current Liabilities</b>			
Notes payable - current portion	\$ 1,672	\$ -	\$ 1,672
Accounts payable and accrued expenses	9,398	-	9,398
Payroll liabilities	3,012	-	3,012
<b>Total current liabilities</b>	14,082	-	14,082
<b>Notes Payable - Long-Term</b>	17,328	-	17,328
<b>Total liabilities</b>	31,410	-	31,410
 <b>Net Assets</b>	 417,532	 62,184	 479,716
 <b>Total Liabilities and Net Assets</b>	 \$ 448,942	 \$ 62,184	 \$ 511,126



**NORTHERN NECK FOOD BANK, INC.**

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2017**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>			
Contributions	\$ 260,859	\$ 82,170	<b>\$ 343,029</b>
Contributions in-kind	3,495,637	-	<b>3,495,637</b>
Program revenue	<u>197,387</u>	<u>-</u>	<u><b>197,387</b></u>
	3,953,883	82,170	<b>4,036,053</b>
Net assets released from restrictions			
Satisfaction of program restrictions	<u>61,249</u>	<u>(61,249)</u>	<u>-</u>
<b>Total support and revenue</b>	<u>4,015,132</u>	<u>20,921</u>	<u><b>4,036,053</b></u>
<b>Expenses</b>			
Program	3,762,998	-	<b>3,762,998</b>
Administrative	64,646	-	<b>64,646</b>
Fundraising	<u>120,541</u>	<u>-</u>	<u><b>120,541</b></u>
<b>Total expenses</b>	<u>3,948,185</u>	<u>-</u>	<u><b>3,948,185</b></u>
<b>Change in net assets</b>	66,947	20,921	<b>87,868</b>
<b>Net Assets, beginning of year</b>	<u>417,532</u>	<u>62,184</u>	<u><b>479,716</b></u>
<b>Net Assets, end of year</b>	<u><u>\$ 484,479</u></u>	<u><u>\$ 83,105</u></u>	<u><u><b>\$ 567,584</b></u></u>

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.**

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue</b>			
Contributions	\$ 268,200	\$ 148,120	\$ 416,320
Contributions in-kind	3,034,984	-	3,034,984
Program revenue	146,159	-	146,159
	3,449,343	148,120	3,597,463
Net assets released from restrictions			
Satisfaction of program restrictions	99,203	(99,203)	-
<b>Total support and revenue</b>	<b>3,548,546</b>	<b>48,917</b>	<b>3,597,463</b>
<b>Expenses</b>			
Program	3,158,790	-	3,158,790
Administrative	55,333	-	55,333
Fundraising	98,734	-	98,734
<b>Total expenses</b>	<b>3,312,857</b>	<b>-</b>	<b>3,312,857</b>
<b>Change in net assets</b>	235,689	48,917	284,606
<b>Net Assets, beginning of year</b>	181,843	13,267	195,110
<b>Net Assets, end of year</b>	<b>\$ 417,532</b>	<b>\$ 62,184</b>	<b>\$ 479,716</b>

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the year ended June 30, 2017**

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 4,457	\$ 4,457
Depreciation	26,904	7,533	14,479	48,916
Direct program expense	20,553	-	-	20,553
Food	3,539,115	-	-	3,539,115
Insurance	1,345	593	724	2,662
Information technology	5,316	512	983	6,811
Meals and entertainment	-	-	2,290	2,290
Office	3,280	917	27,089	31,286
Payroll and benefits	110,978	31,075	59,726	201,779
Professional fees	-	18,425	40	18,465
Rent	12,930	1,515	2,915	17,360
Repairs and maintenance	14,365	40	76	14,481
Taxes	7,077	1,974	3,795	12,846
Travel	2,143	600	1,154	3,897
Truck	12,677	-	-	12,677
Utilities	3,780	1,462	2,813	8,055
Warehouse	2,535	-	-	2,535
	<u>\$ 3,762,998</u>	<u>\$ 64,646</u>	<u>\$ 120,541</u>	<u>\$ 3,948,185</u>

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the year ended June 30, 2016**

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 1,336	\$ 1,336
Depreciation	14,084	3,451	7,614	25,149
Direct program expense	4,315	-	-	4,315
Food	2,978,693	-	-	2,978,693
Insurance	1,154	1,456	624	3,234
Information technology	5,292	526	1,160	6,978
Meals and entertainment	74	18	1,547	1,639
Office	884	1,780	20,467	23,131
Payroll and benefits	104,571	23,152	58,997	186,720
Professional fees	-	19,000	858	19,858
Rent	11,520	898	1,982	14,400
Repairs and maintenance	7,554	11	24	7,589
Taxes	7,411	4,006	1,842	13,259
Travel	4,224	1,035	2,283	7,542
Truck	8,811	-	-	8,811
Utilities	7,866	-	-	7,866
Warehouse	2,337	-	-	2,337
	<u>\$ 3,158,790</u>	<u>\$ 55,333</u>	<u>\$ 98,734</u>	<u>\$ 3,312,857</u>

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.**

**STATEMENTS OF CASH FLOWS**

**For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 87,868	\$ 284,606
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation	48,916	25,149
Forgiveness of debt	-	(25,071)
(Increase) decrease in operating assets		
Accounts receivable	18,449	(17,548)
Inventory	16,150	(87,069)
Prepaid expenses	(3,571)	(2,774)
Increase (decrease) in operating liabilities		
Accounts payable	(8,182)	497
Payroll liabilities	5,190	(1,288)
	<u>164,820</u>	<u>176,502</u>
<b>Net cash and cash equivalents provided by operating activities</b>		
	<u>164,820</u>	<u>176,502</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	<u>(19,105)</u>	<u>(118,143)</u>
<b>Net cash and cash equivalents used by investing activities</b>		
	<u>(19,105)</u>	<u>(118,143)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from borrowings of debt	-	19,000
Repayment of loan	<u>(1,672)</u>	<u>-</u>
<b>Net cash and cash equivalents provided (used) by financing activities</b>		
	<u>(1,672)</u>	<u>19,000</u>
<b>Increase in cash and cash equivalents</b>	<b>144,043</b>	<b>77,359</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<u><b>92,650</b></u>	<u><b>15,291</b></u>
<b>Cash and Cash Equivalents, end of year</b>	<u><b>\$ 236,693</b></u>	<u><b>\$ 92,650</b></u>

See accompanying notes to financial statements.

## NORTHERN NECK FOOD BANK, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### 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.

*Receivables:* Bad debts are written off as the receivables are determined to be uncollectible. No allowance for doubtful accounts is considered necessary.

*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 \$1.73 and \$1.70 at June 30, 2017 and 2016, respectively, 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.

## NORTHERN NECK FOOD BANK, INC.

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

#### 2. Summary of Significant Accounting Policies - Continued

*Advertising:* Advertising costs are expensed as incurred.

*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 2013 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 May 15, 2018, which is the date the financial statements were available to be issued.

#### 3. Concentrations 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, 2017, and 2016, the Food Bank did not have any cash balances at risk.

#### 4. Supplemental Disclosures of Cash Flow Information

During the year ended June 30, 2016, a loan payable in the amount of \$25,071 was forgiven by the lender.

#### 5. 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.

**NORTHERN NECK FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2017 and 2016**

**5. Fair Value Measurements - Continued**

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.

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, 2017 and 2016:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
<b>June 30, 2017</b>			
Inventory	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,256</u>

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
June 30, 2016			
Inventory	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,406</u>

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

<b>Balance at June 30, 2016</b>	<u>\$ 189,406</u>
Donated food	3,495,637
Food destroyed	(82,054)
Other food cost	(105,661)
Food distributed	<u>(3,324,072)</u>
<b>Balance at June 30, 2017</b>	<u>\$ 173,256</u>

**6. 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, and expires on August 1, 2019. Interest is based on the Wall Street Journal U.S. Prime Rate, with a floor of 5.00% (5.00% at June 30, 2017). There was no outstanding balance on the line as of June 30, 2017 or 2016.

**7. Notes Payable and Related Party Transactions**

In June 2016, the Food Bank signed a loan agreement with the USDA and borrowed \$19,000, to be repaid in 120 monthly installments of \$183, including principal and interest at 2.875%. The loan is collateralized by a refrigerated box truck. The loan matures in June 2026.



**NORTHERN NECK FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2017 and 2016**

**7. Notes Payable and Related Party Transactions - Continued**

Long-term debt repayment requirements for the succeeding five years are as follows:

<u>June 30</u>	
2018	\$ 1,720
2019	\$ 1,770
2020	\$ 1,823
2021	\$ 1,875
2022	\$ 1,930
Thereafter	\$ 8,210

**8. 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, 2017, and 2016 totaled \$3,495,637 and \$3,034,984, respectively.

**9. Leases**

The Food Bank leases certain commercial property under an operating lease which expires August 31, 2018. Rent expense for the years ended June 30, 2017 and 2016 was \$17,360 and \$14,400, respectively. Future minimum rental commitments under the lease are as follows:

<u>June 30</u>	
2018	\$ 17,940
2019	2,990
	<u>\$ 20,930</u>

**10. 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".

**11. 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 60% of total revenue for the year ended June 30, 2017 and 65% of total revenue for 2016.

**NORTHERN NECK FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2017 and 2016**

**12. Temporarily Restricted Net Assets**

The temporarily restricted net assets as of June 30, 2017 and 2016 are as follows:

	Balance <u>6/30/2016</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance <u>6/30/2017</u>
Emergency assistance	\$ -	\$ 1,625	\$ 1,625	\$ -
Freezer expansion	-	25,000	-	25,000
Truck maintenance	-	500	500	-
Walmart grant	-	40,000	2,895	37,105
Agriculture	11,854	7,550	19,404	-
Pallet jack	-	2,895	2,895	-
Middlesex County	1,830	-	1,830	-
Back Pack Buddy	40,000	4,600	23,600	21,000
Transportation	3,500	-	3,500	-
UTV/Gator	5,000	-	5,000	-
	<u>\$ 62,184</u>	<u>\$ 82,170</u>	<u>\$ 61,249</u>	<u>\$ 83,105</u>

**13. Subsequent Events**

Subsequent to the date of the financial statements, the Food Bank purchased a 4-acre parcel of land in the Marshall Magisterial District, Richmond County, Virginia for \$100,000 in cash. The land will be used to construct new facilities.