

NORTHERN NECK FOOD BANK, INC.

**d/b/a HEALTHY
HARVEST FOOD BANK**

FINANCIAL STATEMENTS

June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Neck Food Bank, Inc.
d/b/a Healthy Harvest Food Bank
Warsaw, Virginia

We have audited the accompanying financial statements of Northern Neck Food Bank, Inc. d/b/a Healthy Harvest Food Bank (the Food Bank) which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

- Continued -

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. d/b/a Healthy Harvest Food Bank as of June 30, 2018 and 2017, 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 13, 2019

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 123,893	\$ 231,567	\$ 355,460
Accounts receivable	2,462	-	2,462
Prepaid insurance	4,450	-	4,450
Prepaid expenses	1,950	-	1,950
Inventory	<u>178,825</u>	<u>-</u>	<u>178,825</u>
Total current assets	<u>311,580</u>	<u>231,567</u>	<u>543,147</u>
Property and Equipment			
Land	101,421	-	101,421
Equipment	124,204	-	124,204
Leasehold improvements	7,766	-	7,766
Vehicles	182,647	-	182,647
Construction in progress	<u>27,200</u>	<u>-</u>	<u>27,200</u>
	443,238	-	443,238
Accumulated depreciation	<u>(170,335)</u>	<u>-</u>	<u>(170,335)</u>
Net property and equipment	<u>272,903</u>	<u>-</u>	<u>272,903</u>
Other Assets			
Rent deposit	<u>1,200</u>	<u>-</u>	<u>1,200</u>
Total other assets	<u>1,200</u>	<u>-</u>	<u>1,200</u>
Total Assets	<u>\$ 585,683</u>	<u>\$ 231,567</u>	<u>\$ 817,250</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Total
Current Liabilities			
Notes payable - current portion	\$ 1,770	\$ -	\$ 1,770
Accounts payable and accrued expenses	21,206	-	21,206
Payroll liabilities	11,452	-	11,452
Total current liabilities	34,428	-	34,428
Notes Payable - Long-Term	13,838	-	13,838
Total liabilities	48,266	-	48,266
Net Assets	537,417	231,567	768,984
 Total Liabilities and Net Assets	 \$ 585,683	 \$ 231,567	 \$ 817,250

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

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

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

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

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

STATEMENT OF ACTIVITIES

For the year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 135,640	\$ 209,715	\$ 345,355
Contributions in-kind	3,573,436	-	3,573,436
Program revenue	<u>390,603</u>	<u>-</u>	<u>390,603</u>
	4,099,679	209,715	4,309,394
Net assets released from restrictions			
Satisfaction of program restrictions	<u>61,253</u>	<u>(61,253)</u>	<u>-</u>
Total support and revenue	<u>4,160,932</u>	<u>148,462</u>	<u>4,309,394</u>
Expenses			
Program	3,938,106	-	3,938,106
Administrative	61,288	-	61,288
Fundraising	<u>108,600</u>	<u>-</u>	<u>108,600</u>
Total expenses	<u>4,107,994</u>	<u>-</u>	<u>4,107,994</u>
Change in net assets	52,938	148,462	201,400
Net Assets, beginning of year	<u>484,479</u>	<u>83,105</u>	<u>567,584</u>
Net Assets, end of year	<u>\$ 537,417</u>	<u>\$ 231,567</u>	<u>\$ 768,984</u>

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

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

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 6,468	\$ 6,468
Depreciation	28,225	6,887	13,055	48,167
Direct program expense	25,177	-	-	25,177
Food	3,607,653	-	-	3,607,653
Insurance	1,434	1,000	662	3,096
Information technology	5,846	655	1,239	7,740
Meals and entertainment	667	162	3,725	4,554
Office	2,620	1,115	26,208	29,943
Payroll and benefits	198,155	24,736	46,894	269,785
Professional fees	-	20,500	40	20,540
Rent	13,200	1,637	3,103	17,940
Repairs and maintenance	11,416	-	-	11,416
Taxes	12,198	2,352	2,952	17,502
Travel	2,775	677	1,284	4,736
Truck	19,473	-	-	19,473
Utilities	6,612	1,567	2,970	11,149
Warehouse	<u>2,655</u>	<u>-</u>	<u>-</u>	<u>2,655</u>
	<u>\$ 3,938,106</u>	<u>\$ 61,288</u>	<u>\$ 108,600</u>	<u>\$ 4,107,994</u>

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

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.
d/b/a HEALTHY HARVEST FOOD BANK**

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 201,400	\$ 87,868
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation	48,167	48,916
 (Increase) decrease in operating assets		
Accounts receivable	357	18,449
Inventory	(5,569)	16,150
Prepaid expenses	578	(3,571)
 Increase (decrease) in operating liabilities		
Accounts payable	19,990	(8,182)
Payroll liabilities	<u>3,250</u>	<u>5,190</u>
 Net cash and cash equivalents provided by operating activities	 <u>268,173</u>	 <u>164,820</u>
 Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(147,686)</u>	<u>(19,105)</u>
 Net cash and cash equivalents used by investing activities	 <u>(147,686)</u>	 <u>(19,105)</u>
 Cash Flows from Financing Activities		
Repayment of loan	<u>(1,720)</u>	<u>(1,672)</u>
 Net cash and cash equivalents used by financing activities	 <u>(1,720)</u>	 <u>(1,672)</u>
 Increase in cash and cash equivalents	 118,767	 144,043
Cash and Cash Equivalents, beginning of year	<u>236,693</u>	<u>92,650</u>
 Cash and Cash Equivalents, end of year	 <u>\$ 355,460</u>	 <u>\$ 236,693</u>

See accompanying notes to financial statements.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

1. Nature of Organization

Northern Neck Food Bank, Inc. d/b/a Healthy Harvest Food Bank (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 \$1.68 and \$1.73 at June 30, 2018 and 2017, 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.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

2. Summary of Significant Accounting Policies - Continued

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.

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 2014 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 13, 2019, 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. From time to time, the cash balance may exceed the FDIC insurance limit of \$250,000.

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.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

4. Fair Value Measurements - Continued

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.

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, 2018 and 2017:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
June 30, 2018			
Inventory	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,825</u>
	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
June 30, 2017			
Inventory	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,256</u>

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, 2017	\$ 173,256
Donated food	3,626,216
Food destroyed	(129,301)
Other food cost	(52,780)
Food distributed	<u>(3,438,566)</u>
Balance at June 30, 2018	<u>\$ 178,825</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, 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, 2018). There was no outstanding balance on the line as of June 30, 2018 or 2017.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

6. Notes Payable

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.

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

<u>June 30</u>		
2019	\$	1,770
2020	\$	1,823
2021	\$	1,875
2022	\$	1,930
2023	\$	1,986
Thereafter	\$	6,224
	<u>\$</u>	<u>15,608</u>

7. 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 years ended June 30, 2018 and 2017 totaled \$3,573,436 and \$3,495,637, respectively.

8. Leases

The Food Bank leases certain commercial property under an operating lease which expires August 31, 2018. The lease automatically renews for an additional period of 1 year per renewal term, unless either party gives written notice of termination. The Food Bank has renewed the lease for an additional year. Rent expense for the years ended June 30, 2018 and 2017 was \$17,940 and \$17,360, respectively. Future minimum rental commitments under the lease are as follows:

<u>June 30</u>		
2019	\$	17,940
2020		2,990
	<u>\$</u>	<u>20,930</u>

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 53% of total revenue for the year ended June 30, 2018 and 60% of total revenue for 2017.

**NORTHERN NECK FOOD BANK, INC.
d/b/a HEALTHY HARVEST FOOD BANK**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

11. Temporarily Restricted Net Assets

The temporarily restricted net assets as of June 30, 2018 and 2017 are as follows:

	Balance <u>6/30/2017</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance <u>6/30/2018</u>
Freezer expansion	\$ 25,000	\$ -	\$ -	\$ 25,000
Walmart grant	37,105	-	37,105	-
Back Pack Buddy	21,000	22,065	24,148	18,917
Capital Campaign	<u>-</u>	<u>187,650</u>	<u>-</u>	<u>187,650</u>
	<u>\$ 83,105</u>	<u>\$ 209,715</u>	<u>\$ 61,253</u>	<u>\$ 231,567</u>

12. Retirement Plan

Beginning August 1, 2017, The Food Bank offered a Simple IRA plan to all employees earning at least \$5,000 per year. For employees electing to participate the Food Bank matches their contributions in an amount up to 3% of the participant's compensation with a maximum employer contribution of \$8,000. Employer contributions amounted to \$5,155 for the year ended June 30, 2018.

13. Subsequent Events

Subsequent to year-end the Food Bank received an additional \$378,000 from contributions with donor stipulations for the capital campaign to be used for the new facility construction.

In April 2019, management negotiated a construction line of credit with a bank. Under the terms of the agreement, the Food Bank is provided a line of credit totaling \$1,104,000 available to be used for the new facility construction. The credit agreement provides for monthly interest payments on the outstanding balance equal to 4.950% beginning in May 2019. Beginning May 2020, monthly principal and interest payments of \$6,468 are to be made through the maturity of April 2027, with any unpaid balance due April 23, 2027. The agreement is secured by a construction deed of trust on the property.