

Northern Neck Food Bank, Inc.  
d/b/a Healthy Harvest Food Bank  
Financial Statements  
June 30, 2019 and 2018



WELLSCOLEMAN

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## TABLE OF CONTENTS

<b>Independent Auditor's Report</b> .....	1-2
<b>Financial Statements</b>	
Statements of Financial Position .....	3-4
Statements of Activities .....	5-6
Statements of Functional Expenses .....	7-8
Statements of Cash Flows .....	9
<b>Notes to Financial Statements</b> .....	10-14



## 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, 2019 and 2018, 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, 2019 and 2018, 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.

## Effect of Adopting New Accounting Standard

As discussed in Note 2 to the financial statements, the Financial Accounting Standards Board has issued Accounting Standards Update No. 2016-14, "*Not-for-Profit Entities*" (Topic 958), "*Presentation of Financial Statements of Not-for-Profit Entities*." Under the new standard, not-for-profits present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) on the face of the statements of financial position and present the change in those two classes on the statements of activities. The new standard also enhances disclosures regarding board designations and net assets with donor restrictions and how the designations and restrictions affect the use of resources. The disclosures provide qualitative and quantitative information about how a not-for-profit manages liquid resources. Expenses are presented by both their natural and functional classification either on the statements of functional expenses or in the notes to the financial statements. Our opinion is not modified with respect to this matter.



April 24, 2020

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

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2019 and 2018**

**ASSETS**

	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 172,269	\$ 355,460
Accounts receivable	3,169	2,462
Pledges receivable	63,452	-
Prepaid expenses	7,220	6,400
Inventory	<u>163,600</u>	<u>178,825</u>
<b>Total current assets</b>	<u><b>409,710</b></u>	<u><b>543,147</b></u>
 <b>Property and Equipment</b>		
Land	108,621	101,421
Equipment	131,842	124,204
Leasehold improvements	7,766	7,766
Vehicles	186,647	182,647
Construction in progress	<u>1,005,051</u>	<u>27,200</u>
	<b>1,439,927</b>	443,238
Accumulated depreciation	<u>(221,394)</u>	<u>(170,335)</u>
<b>Net property and equipment</b>	<u><b>1,218,533</b></u>	<u><b>272,903</b></u>
 <b>Other Assets</b>	<u><b>1,200</b></u>	<u><b>1,200</b></u>
 <b>Total Assets</b>	<u><b>\$ 1,629,443</b></u>	<u><b>\$ 817,250</b></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, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and Revenue</b>			
Contributions	\$ 318,139	\$ 477,956	\$ 796,095
Contributions in-kind	3,845,968	-	3,845,968
Program revenue	242,909	-	242,909
Interest income	4,071	-	4,071
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>612,315</u>	<u>(612,315)</u>	<u>-</u>
<b>Total support and revenue</b>	<b><u>5,023,402</u></b>	<b><u>(134,359)</u></b>	<b><u>4,889,043</u></b>
<b>Expenses</b>			
Program	<u>4,274,047</u>	<u>-</u>	<u>4,274,047</u>
Supporting services expense			
General and administrative	64,518	-	64,518
Fundraising and development	<u>114,861</u>	<u>-</u>	<u>114,861</u>
	<b><u>179,379</u></b>	<b><u>-</u></b>	<b><u>179,379</u></b>
<b>Total expenses</b>	<b><u>4,453,426</u></b>	<b><u>-</u></b>	<b><u>4,453,426</u></b>
<b>Change in net assets</b>	<b>569,976</b>	<b>(134,359)</b>	<b>435,617</b>
<b>Net Assets, beginning of year</b>	<b><u>537,417</u></b>	<b><u>231,567</u></b>	<b><u>768,984</u></b>
<b>Net Assets, end of year</b>	<b><u>\$ 1,107,393</u></b>	<b><u>\$ 97,208</u></b>	<b><u>\$ 1,204,601</u></b>

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, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>			
Contributions	\$ 135,640	\$ 209,715	\$ 345,355
Contributions in-kind	3,573,436	-	3,573,436
Program revenue	390,603	-	390,603
Net assets released from restrictions:			
Satisfaction of purpose restrictions	61,253	(61,253)	-
<b>Total support and revenue</b>	<b>4,160,932</b>	<b>148,462</b>	<b>4,309,394</b>
<b>Expenses</b>			
Program	3,938,106	-	3,938,106
Supporting services expense			
General and administrative	61,288	-	61,288
Fundraising and development	108,600	-	108,600
	169,888	-	169,888
<b>Total expenses</b>	<b>4,107,994</b>	<b>-</b>	<b>4,107,994</b>
<b>Change in net assets</b>	52,938	148,462	201,400
<b>Net Assets, beginning of year</b>	484,479	83,105	567,584
<b>Net Assets, end of year</b>	\$ 537,417	\$ 231,567	\$ 768,984

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, 2019**

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	<u>Total</u>
Payroll and benefits	\$ 227,369	\$ 28,031	\$ 56,064	\$ 311,464
Advertising	-	-	4,399	4,399
Capital campaign expense	1,055	-	-	1,055
Depreciation	30,125	7,148	13,786	51,059
Direct program expense	32,396	-	-	32,396
Food	3,896,460	-	-	3,896,460
Insurance	1,455	1,012	695	3,162
Information technology	4,381	461	922	5,764
Meals and entertainment	724	193	3,913	4,830
Office	2,537	846	24,811	28,194
Professional fees	-	20,550	40	20,590
Rent	13,276	1,614	3,050	17,940
Repairs and maintenance	13,588	-	-	13,588
Taxes	13,405	2,586	3,244	19,235
Travel	2,825	689	1,307	4,821
Truck	26,619	-	-	26,619
Utilities	5,855	1,388	2,630	9,873
Warehouse	1,977	-	-	1,977
	<u>\$ 4,274,047</u>	<u>\$ 64,518</u>	<u>\$ 114,861</u>	<u>\$ 4,453,426</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, 2018**

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	<u>Total</u>
Payroll and benefits	\$ 198,155	\$ 24,736	\$ 46,894	\$ 269,785
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
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	2,655	-	-	2,655
	<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**

**STATEMENTS OF CASH FLOWS**

**For the years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 435,617	\$ 201,400
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation	51,059	48,167
(Increase) decrease in operating assets		
Accounts receivable	(707)	357
Pledges receivable	(63,452)	-
Inventory	15,225	(5,569)
Prepaid expenses	(820)	578
Increase in operating liabilities		
Accounts payable	89,803	19,990
Payroll liabilities	<u>4,068</u>	<u>3,250</u>
<b>Net cash and cash equivalents provided by operating activities</b>	<u>530,793</u>	<u>268,173</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	<u>(996,689)</u>	<u>(147,686)</u>
<b>Net cash and cash equivalents used by investing activities</b>	<u>(996,689)</u>	<u>(147,686)</u>
<b>Cash Flows from Financing Activities</b>		
Repayment of loan	(15,608)	(1,720)
Draws on construction line of credit	<u>298,313</u>	<u>-</u>
<b>Net cash and cash equivalents provided (used) by financing activities</b>	<u>282,705</u>	<u>(1,720)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(183,191)</b>	<b>118,767</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<u>355,460</u>	<u>236,693</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 172,269</u>	<u>\$ 355,460</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 272	\$ 476

See accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**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.

*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 \$1.62 and \$1.68 at June 30, 2019 and 2018, 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.

*Net Assets:* Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor-imposed restrictions.
- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions that can be filled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. Some donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. When restrictions are met in the same period the contribution is received, the contribution is recorded as unrestricted for financial statement purposes.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

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

*Contributions:* The Food Bank adheres to FASB Accounting Standards Codification 958-605, “Revenue Recognition”, whereby contributions received are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions.

*Advertising:* Advertising costs are expensed as incurred.

*Functional Allocation of Expenses:* The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses are reviewed by management and allocated appropriately based on the type and purpose of the expense. Salaries and other overhead expenses are based on estimated allocation percentages determined by staff time spent between program, administrative, and fundraising tasks.

*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 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.

*Change in Accounting Policy:* FASB issued Accounting Standards Update 2016-14, “Not-for-Profit Entities” (Topic 958), “Presentation of Financial Statements of Not-for-Profit Entities.” The ASU is effective for annual reporting periods beginning after December 15, 2017.

*Evaluation of Subsequent Events:* Management has evaluated subsequent events through April 24, 2020, which is the date the financial statements were available to be issued.

**3. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 172,269	\$ 355,460
Accounts receivable	3,169	2,462
Less cash unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions	<u>(97,208)</u>	<u>(231,567)</u>
	<u>\$ 78,230</u>	<u>\$ 126,355</u>

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**3. Liquidity and Availability - Continued**

As part of the Food Bank's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**4. 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.

**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. The line was replaced by the new line of credit. Interest is based on the Wall Street Journal U.S. Prime Rate, with a floor of 5.00% (5.00% at June 30, 2019). There was no outstanding balance on the line as of June 30, 2019 or 2018.

In April 2019, the Food Bank obtained a line of credit with a financial institution that allows it to borrow up to \$1,104,000 to build a new food bank facility. The line is secured by a construction deed of trust on the property, and expires on April 23, 2027. The credit agreement provides for monthly interest payments on the outstanding balance at a fixed rate of 4.950% beginning in May 2019. The outstanding balance on the line as of June 30, 2019 was \$298,313.

**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 Food Bank satisfied the loan in full during the year ended June 30, 2019.

**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, 2019 and 2018 totaled \$3,845,968 and \$3,573,436, respectively.

**8. Leases**

The Food Bank leases certain commercial property under an operating lease which expires October 2019. The lease is on a month-to-month basis until the construction on their new facility is completed and put into service. Rent expense was \$17,940 for both years ended June 30, 2019 and 2018. Future minimum rental commitments under the lease are as follows:

<u>June 30</u>	
2020	\$ 5,980

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**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 51% and 55%, respectively, of total revenue for the years ended June 30, 2019 and 2018.

**11. Net Assets with Donor Restrictions**

Net assets with donor restrictions as of June 30, 2019 and 2018 are as follows:

	Balance <u>6/30/2018</u>	<u>Receipts</u>	Released from <u>Restrictions</u>	<b>Balance 6/30/2019</b>
Freezer expansion	\$ 25,000	\$ -	\$ 25,000	\$ -
Back Pack Buddy	18,917	35,265	25,426	<b>28,756</b>
Technology	-	5,000	-	<b>5,000</b>
Capital Campaign	<u>187,650</u>	<u>437,691</u>	<u>561,889</u>	<u><b>63,452</b></u>
	<u><b>\$ 231,567</b></u>	<u><b>\$ 477,956</b></u>	<u><b>\$ 612,315</b></u>	<u><b>\$ 97,208</b></u>

For the year ended June 30, 2018 \$61,253 was released from restriction by meeting the purpose of the restriction.

**12. Retirement Plan**

The Food Bank offers 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 \$6,973 and \$5,155 for the years ended June 30, 2019 and 2018, respectively.

**13. Subsequent Events**

In October 2019, the Food Bank's new facility was placed into service. The final cost of the facility was approximately \$2,500,000 and the related balance of the construction loan was approximately \$900,000 as of the in-service date.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**13. Subsequent Events - Continued**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of Coronavirus (“the COVID-19 outbreak”). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the operations of the organization.