

MERCED COUNTY FOOD BANK, INC.
(A NONPROFIT CORPORATION)

Financial Statements

June 30, 2017

MERCED COUNTY FOOD BANK INC.
WINTON, CALIFORNIA

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Independent Auditor's Report

To the Board of Directors
Merced County Food Bank, Inc.
(A Nonprofit Corporation)
Winton, California

We have audited the accompanying statements of financial position of the Merced County Food Bank, Inc. (a Nonprofit Corporation), which comprise the statements of financial position as of June 30, 2017, 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 audits. Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards required 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 entity'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 entity'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 in the first paragraph present fairly, in all material respects, the financial position of the Merced County Food Bank, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

David D. Bruner CPA, Inc.

Merced, California
March 20, 2018

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Statement of Financial Position
June 30, 2017

Assets	2017
Current assets:	
Cash and cash equivalents	\$ 424,827
Receivables	6,626
Inventory - donated (Note 6)	2,080,361
Total current assets	\$ 2,511,814
Property and equipment, net of accumulated depreciation (Note 4)	73,788
Total assets	\$ 2,585,602
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	38,385
Accrued payroll taxes	2,708
Total current liabilities	\$ 41,093
Net Assets:	
Unrestricted:	
Unrestricted - general	2,398,316
Unrestricted - net investment in property and equipment	73,788
Total unrestricted	\$ 2,472,104
Temporarily restricted (Note 9)	72,405
Total net assets	\$ 2,544,509
Total liabilities and net assets	\$ 2,585,602

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Statement of Activities
June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Contributions and corporate grants	\$ 228,194	\$ -	\$ 228,194
In-kind contributions - food products (Note 6)	12,788,593	-	12,788,593
Government grants (Note 7)	-	145,392	145,392
Pantry sales	95,780	-	95,780
Drought box insurance	260,491	-	260,491
Fundraising	43,881	-	43,881
Sales	112,856	-	112,856
Brown bag program	31,227	-	31,227
Miscellaneous income	3,550	-	3,550
Net assets released from restrictions	148,973	(148,973)	-
Total revenues and other support	<u>\$ 13,713,545</u>	<u>\$ (3,581)</u>	<u>\$ 13,709,964</u>
Expenses			
Program services			
Food assistance	14,452,403	-	14,452,403
Total program services	<u>\$ 14,452,403</u>	<u>\$ 0</u>	<u>\$ 14,452,403</u>
Supporting services			
Management and general	252,809	-	252,809
Fundraising	3,213	-	3,213
Total program services	<u>256,022</u>	<u>-</u>	<u>256,022</u>
Total expenses	<u>\$ 14,708,425</u>	<u>\$ 0</u>	<u>\$ 14,708,425</u>
Change in net assets	(994,880)	(3,581)	(998,461)
Net assets at beginning of year	<u>3,466,984</u>	<u>75,986</u>	<u>3,542,970</u>
Net assets at end of year	<u>\$ 2,472,104</u>	<u>\$ 72,405</u>	<u>\$ 2,544,509</u>

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Statement of Functional Expenses
June 30, 2017

	Program Services	Fundraising Expense	Management and General	Totals
Salaries and wages	\$ 255,599	\$ -	109,543	365,142
Payroll taxes	24,039	-	10,302	34,341
Total salaries and related expenses	<u>279,638</u>	<u>-</u>	<u>119,845</u>	<u>399,483</u>
Auto expense	66,838	-	15,678	82,516
Bank charges	-	-	531	531
Development	-	-	4,391	4,391
Donations	-	-	564	564
Dues and subscriptions	-	-	5,387	5,387
Food acquisition costs	48,238	-	-	48,238
Freight	3,820	-	-	3,820
Fundraising expense	-	3,213	-	3,213
In-kind food donation (Note 6)	13,816,824	-	-	13,816,824
Insurance	45,361	-	14,324	59,685
Interest	1,251	-	-	1,251
Licenses, fees and permits	2,212	-	1,809	4,021
Marketing	-	-	24,822	24,822
Meals	-	-	1,476	1,476
Miscellaneous expense	-	-	4,944	4,944
Office supplies	11,008	-	8,504	19,512
Outside cold storage	14,016	-	-	14,016
Outside services	10,844	-	-	10,844
Pest control	2,500	-	-	2,500
Professional services	-	-	20,066	20,066
Rent	49,500	-	16,500	66,000
Repairs and maintenance	9,901	-	-	9,901
Security	3,173	-	-	3,173
Supplies	29,046	-	-	29,046
Taxes	-	-	202	202
Telephone expense	1,050	-	1,576	2,626
Travel	1,595	-	683	2,278
Utilities	43,290	-	11,507	54,797
Total operating expenses	<u>14,160,467</u>	<u>3,213</u>	<u>132,964</u>	<u>14,296,644</u>
Total expenses before depreciation	14,440,105	3,213	252,809	14,696,127
Depreciation	<u>12,298</u>	<u>-</u>	<u>-</u>	<u>12,298</u>
Total expenses	<u>\$ 14,452,403</u>	<u>\$ 3,213</u>	<u>\$ 252,809</u>	<u>\$ 14,708,425</u>

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Statement of Cash Flows
June 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ (998,461)
Adjustments:	
Depreciation	12,298
Decrease in accounts receivable	2,328
Decrease in inventory	1,061,076
Increase in accounts payable	19,223
Increase in payroll tax liabilities	<u>1,125</u>
Net cash provided by operating activities	<u>97,589</u>
 Cash flows from investing activities:	
	<u>(86,086)</u>
Fixed assets purchases used by investing activities	<u>(86,086)</u>
 Cash flows from financing activities:	
	<u>-</u>
Net cash provided by financing activities	<u>-</u>
Net increase in cash and cash equivalents	11,503
Cash and cash equivalents as of beginning of year	<u>413,324</u>
Cash and cash equivalents as of end of year	<u><u>\$ 424,827</u></u>
 Supplemental data:	
Interest paid during the year	\$ 1,251
Taxes paid during the year	202

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2017

Note 1 Summary of Significant Accounting Principles

General

This summary of significant accounting policies of the Merced County Food Bank (the Organization), Inc. is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization

The Merced County Food Bank, Inc. is a non-profit public benefit corporation incorporated in the State of California for the purpose of providing food for needy individuals and families in the Merced County area of California.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, 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 net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Income Tax Status

The Merced County Food Bank, Inc. is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Merced County Food Bank has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

The Organization's tax filings are subject to audit by various taxing authorities. The Organization's federal tax returns for 2015, 2016 and 2017 remain open to examination by the Internal Revenue Service; state income tax returns for 2014, 2015, 2016 and 2017 are open to examination. In evaluating the Organization's tax provisions and accruals, the Organization believes that its estimates are appropriate based on current facts and circumstances.

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2017

Note 1 Summary of Significant Accounting Principles (continued)

Property and Equipment

Purchased property and equipment is recorded at cost and donated equipment at its fair market value at the date of donation. Donations of property and equipment are reported as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Depreciation

Depreciation of property and equipment is provided on the straight-line method over the following useful lives:

Building	39 years
Improvements	7-15 years
Office equipment	3-7 years
Warehouse equipment	3-7 years
Vehicles	5-7 years

Donated Services

A substantial number of volunteers donated significant amounts of their time in the organization's behalf; however, amounts have not been reflected in the statements for donated services since an objective basis is not available to measure the value of such services.

Contributions

All contributions are considered available for unrestricted use, unless specifically restricted by donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Inventory

Donated food is capitalized as inventory and recorded at the average handling fee times the number of pounds. In addition to donated food, the Merced County Food Bank also maintains an inventory of purchased food which is recorded at cost. Upon distribution, the food is recorded as a decrease in unrestricted net assets and as food expense.

Allocated Expenses

Expenses have been allocated by function among program, fundraising, and supporting services classifications on the basis of budget allocations and on estimates made by the organization's management.

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2017

Note 1 Summary of Significant Accounting Principles (continued)

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents. Restricted cash is limited in use to payment for grant approved food expenses.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Date of Management's Review

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 20, 2018, the date the financial statements were available to be issued.

Note 3. Program Services

Merced County Food Bank major programs are as follows:

Senior Brown Bag - Provides nutritious supplemental groceries to about 3,400 senior citizens in the Merced County area.

Food Assistance - The Food Bank is in partnership with 80 area pantries and manages 22 USDA food distribution sites. In October of 2004, the Merced County Food Bank opened its doors to a new site, 2000 W. Olive Avenue, Merced, providing 32,000 square feet of storage space with a small freezer and huge walk-in refrigeration capacity. With a major contribution from the Merced County Board of Supervisors, they installed a large walk-in freezer in 2010.

Drought Boxes – The Food Bank provides drought boxes of food to needy families in Merced County. The State of California provides the drought boxes and provides money to run the program.

MERCED COUNTY FOOD BANK, INC.
(A Nonprofit Corporation)
Notes to Financial Statements
June 30, 2017

Note 4. Property and Equipment

A summary of property and equipment at June 30, 2017 follows:

	2017
Autos and trucks	\$ 61,675
Leasehold improvements	88,754
Machinery and equipment	46,391
Office equipment	4,007
Property, plant and equipment	16,508
	217,335
Less: Accumulated depreciation	143,547
	\$ 73,788

Note 5. Fair Value Measurements

ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 inputs - consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.

Level 2 inputs - inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 inputs - unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The asset's 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. At June 30, 2017, Merced County Food Bank does not have any investments.

Note 6. In-Kind Contributions

A substantial amount of food is donated to the Organization. Valuation of food is at its estimated fair market value using studies conducted by Feeding America and regional food banks, who estimate that their contributed foods mix is valued at \$1.72 per pound for the year ended June 30, 2017. A total of 2,264,121 pounds of food were donated to the Organization for the year ended June 30, 2017. Distributions to recipient organizations and programs totaled 8,107,259 pounds for the year ended June 30, 2017.

MERCED COUNTY FOOD BANK, INC.
 (A Nonprofit Corporation)
 Notes to Financial Statements
 June 30, 2017

Note 7. Government Grants

The Organization received government grants as follows:

Year ending June 30, 2017	Program
	Food Assistance
<u>Granting Agency</u>	
FEMA	\$ 71,946
USDA	73,446
	\$ 145,392

Note 8. Concentration of Credit Risk

The Organization maintains its cash balances in various financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017, the balance on deposit did not exceed FDIC limits on any account at any bank, except for the Compass account for the general fund. Additional insurance is provided by the bank to cover this amount.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets were \$72,405 at June 30, 2017. These funds are restricted for food purchases.