

FARMER FOODSHARE, INC.

AUDITED
FINANCIAL STATEMENTS

December 31, 2018

Farmer Foodshare, Inc.

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Mark S. Danes, CPA, PLLC

Certified Public Accountant and Consultant

Independent Auditor's Report

Board of Directors and Management
Farmer Foodshare, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of Farmer Foodshare, Inc. (the Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 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 of 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 Organization'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 Organization'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 above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018, 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.

Mark S. Danes, CPA, PLLC

July 17, 2019

Farmer Foodshare, Inc.
Statement of Financial Position
December 31, 2018

Assets	
Cash and cash equivalents	\$ 105,453
Investments	290,945
Promises to give	45,000
Accounts and grants receivable	114,926
Other assets	2,500
Property and equipment, net	<u>13,321</u>
Total assets	<u><u>\$ 572,145</u></u>
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ -
Accrued payroll and withholdings	<u>25,344</u>
Total liabilities	<u>25,344</u>
Net Assets	
Without donor restrictions	
Operating reserve	183,900
Opportunity reserve	36,800
Maintenance and replacement reserve	11,500
Other	172,101
With donor restrictions	<u>142,500</u>
Total net assets	<u>546,801</u>
Total liabilities and net assets	<u><u>\$ 572,145</u></u>

See accompanying notes to financial statements.

Farmer Foodshare, Inc.
Statement of Activities
For the Year Ended December 31, 2018

Without donor restrictions

Support and Revenue	
Program service fees	\$ 775,138
Grants and contributions	500,279
Special events revenue	14,665
Cost of direct benefits to donors at special events	(22,242)
Return on investments	(1,892)
Gain on disposal of assets	28,113
Other revenue	16
Net assets released from restrictions	<u>65,000</u>
Total unrestricted support, revenue and reclassifications	<u>1,359,077</u>
Expenses	
Program services	1,188,017
Management and general	142,432
Fundraising	<u>62,642</u>
Total expenses	<u>1,393,091</u>
Change in net assets without donor restrictions	<u>(34,014)</u>
With donor restrictions	
Contributions	142,500
Net assets released from restrictions	<u>(65,000)</u>
Change in net assets with donor restrictions	<u>77,500</u>
Change in net assets	43,486
Beginning net assets	<u>503,315</u>
Ending net assets	<u><u>\$ 546,801</u></u>

See accompanying notes to financial statements.

Farmer Foodshare, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Food Costs	\$ 701,918	\$ 339	\$ 18	\$ 702,275
Staffing	362,165	81,779	36,007	479,951
Travel	71,794	3,464	796	76,054
Fees for Services	960	21,717	8,544	31,221
Rent	18,613	7,912	3,000	29,525
Professional Development	257	14,295	60	14,612
Insurance	6,928	3,611	550	11,089
Marketing	2,990	1,327	5,220	9,537
Program Supplies	6,541	272	1,917	8,730
Utilities	4,770	2,252	1,030	8,052
Technology Services	3,844	585	2,868	7,297
Office Supplies	3,676	2,934	501	7,111
Depreciation Expense	2,781	1,750	800	5,331
Postage	316	94	1,102	1,512
Other Expenses	464	101	229	794
	<u>\$ 1,188,017</u>	<u>\$ 142,432</u>	<u>\$ 62,642</u>	<u>\$ 1,393,091</u>

See accompanying notes to financial statements.

Farmer Foodshare, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows From Operating Activities	
Change in net assets	\$ 43,486
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	5,331
Realized and unrealized loss on investments, net	9,431
Changes in assets and liabilities:	
Promises to give	(31,850)
Accounts and grants receivable	(80,115)
Accounts payable	(2,754)
Accrued payroll and withholdings	5,163
Net cash provided by (used in) operating activities	<u>(51,308)</u>
Cash Flows From Investing Activities	
Purchase of investments	(51,726)
Proceeds from sale of investments	40,000
Net cash provided by (used in) investing activities	<u>(11,726)</u>
Net increase (decrease) in cash and cash equivalents	(63,034)
Cash and cash equivalents at beginning of year	<u>168,487</u>
Cash and cash equivalents at end of year	<u><u>\$ 105,453</u></u>
Supplemental Disclosures	
Cash paid for interest	<u>\$ -</u>
Cash paid for taxes	<u>\$ -</u>

See accompanying notes to financial statements.

Farmer Foodshare, Inc.
Notes to Financial Statements
December 31, 2018

Note 1 - Nature of Activities

Farmer Foodshare, Inc. (the Organization) was founded in 2009 to connect people who grow food with people who need food. Simply put, the Organization strives to make fresh, local food available to everyone in the community, and to make sure farmers growing it make a healthy living.

The Organization derives its support and revenue primarily from foundation grants and contributions from the public. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified as an organization that is not a private foundation under section 509(a)(2).

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be permanent in nature, whereby the donors have stipulated the funds be maintained in perpetuity.

General Expenditures

The Organization considers the costs related to its normal activities to be general expenditures unless such costs are limited by the donors for specified, restricted purposes. Accordingly, the related resources for the latter have been excluded in the quantitative information detailing the financial assets available to meet general expenditures within one year.

Statement of Cash Flows

For the purposes of the statement of cash flows, highly liquid investments with original maturities of three months or less are considered cash equivalents.

Farmer Foodshare, Inc.
Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Receivables, Promises to Give and Revenue Recognition

Revenue from grants that are deemed to be exchange transactions are recognized at the time the reimbursable expenses are incurred. Contributions are recognized when the donor makes a promise to give the Organization that is, in substance, unconditional.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Receivables and promises to give are stated at the amount management expects to collect from balances outstanding at year end. The Organization uses the allowance method to determine uncollectible receivables and promises to give. The allowance is based on prior years' experience and management's analysis of specific amounts outstanding at year end. For the year presented, no allowance was considered necessary.

Investments / Fair Value Measurements

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

U.S. GAAP specifies a hierarchy of valuation techniques. The following summarizes the fair value hierarchy: Level 1 Inputs—Unadjusted quoted market prices for identical assets and liabilities in an active market that the Organization has the ability to access. Level 2 Inputs—Inputs, other than the quoted prices in active markets that are observable either directly or indirectly. Level 3 Inputs—Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements. All investments of the Organization are considered to be Level 1 assets. The Organization had no Level 2 or 3 assets during the year presented.

Uncertain Tax Positions

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. It should be noted that the prior three tax returns remain subject to examination by major tax jurisdictions.

Marketing

The Organization expenses marketing costs as they are incurred.

Farmer Foodshare, Inc.
Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$1,000 or more and an estimated useful life of more than one year. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded as revenue at their estimated fair value as of the date of the contribution. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed over the straight-line method over the estimated useful lives of the assets, which range from three to ten years.

Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments are capitalized and depreciated over their useful lives. Upon disposition of property and equipment, the related asset and accumulated depreciation accounts are removed and any gain or loss is reflected in the statement of activities for the period.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management on an equitable basis.

The allocation of staffing expenses is based on time and effort studies of the Organization's employees. The remaining categories on the statement of functional expenses are allocated based on approximate direct usage.

New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

In 2014, the FASB issued *ASU 2014-09, Revenue from Contracts with Customers*. ASU 2014-09 changes how an Organization reports and measures contracts with customers for the transfer of goods or services. The ASU is effective for annual periods beginning after December 15, 2018. Management is evaluating the impact the update will have on the Organization's financial statements.

In 2018, the FASB issued *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 changes how an Organization reports and measures revenue. The ASU is effective for annual periods beginning after December 15, 2018. Management is evaluating the impact the update will have on the Organization's financial statements.

Farmer Foodshare, Inc.
Notes to Financial Statements
December 31, 2018

Note 3 - Receivables and Promises to Give

Except for the anticipated collection of \$15,000 in 2020, all receivables and promises to give will be collected within one year of the statement of financial position date. All items are unsecured.

Note 4 - Investments

Investments are carried at fair value. Fair value by type of security at December 31, 2018 is detailed below:

Mutual Fund Categories:

AB Global Fund	\$ 31,276
Calvert Short Duration Income Fund	39,735
Janus Flexible Bond Fund	30,236
Janus Multi-Sector	39,883
Lord Abbett Short Duration Income Fund	20,865
Metropolitan West Low Duration Bond Fund	31,168
Prudential Short Duration High Yield Income Fund	21,746
UBS Ultra Short Income Fund	44,157
Western Asset Total Return Unconstrained Fund	31,705
Cash held by broker	174
	<u>\$ 290,945</u>

The total return on investments is as follows:

Dividends and interest	\$ 7,539
Realized and unrealized loss, net	(9,431)
	<u>\$ (1,892)</u>

Note 5 - Property and Equipment, net

Property and equipment consist of the following as of December 31, 2018:

Furniture and equipment	\$ 32,120
Less accumulated depreciation	(18,799)
Net	<u>\$ 13,321</u>

Depreciation expense totaled \$5,331 for the year ended December 31, 2018.

Note 6 - Conditional Grants

Conditional grants to the Organization consist of up to a total of \$799,817 from two grantors that are contingent on future activities of the Organization over the next three years. No amount has been reflected in the accompanying financial statements for this future activity.

Farmer Foodshare, Inc.
Notes to Financial Statements
December 31, 2018

Note 7 - Restricted Net Assets

Net assets with donor restrictions were as follows at December 31, 2018:

Passage of time:		
	Promises to give	\$ 45,000
Specific purpose:		
	BCBSNC Foundation	50,000
	Glaxo Smith Kline	37,500
	Durham County	10,000
		<u>\$ 142,500</u>

Net assets released from net assets with donor restrictions are as follows for the year ended December 31, 2018:

Satisfaction of purpose restrictions:		
	BCBSNC Foundation	\$ 50,000
	Glaxo Smith Kline	15,000
		<u>\$ 65,000</u>

Note 8 - Retirement Plan

The Organization maintains a tax-deferred SIMPLE IRA retirement plan on behalf of eligible employees. The Organization will match participant deferrals up to 3% of compensation. The Organization contributed \$6,161 to the retirement plan for the year ended December 31, 2018.

Note 9 - Related Party Transactions

One of the members of the Organization's Board of Directors is a farmer who occasionally sells crops at the Organization's Wholesale Market. The Organization does not consider the amounts in question to be material to the financial statements.

The investment portfolio and retirement plan mentioned above are managed by a financial institution that employs a former member of the Organization's Board of Directors. This former Board member recused himself from any voting related to these matters and was not be involved with these assets in any way at his place of employment. Once again, the Organization does not consider the amounts in question to be material to the financial statements.

Note 10 - Donated Services

Management estimates that it received 6,120 hours of volunteer time for the year ended December 31, 2018. No amounts have been reflected in these financial statements for such services because they do not meet the criteria established by U.S. GAAP for recognition.

Farmer Foodshare, Inc.
Notes to Financial Statements
December 31, 2018

Note 11 - Lease Commitments to Others

The Organization leases two vehicles under non-cancelable agreements expiring in December 2021 and June 2023, with monthly payments of \$1,996 and \$2,075. Rental expense for 2018 was \$38,480.

In November 2018, the Organization agreed to a five-year lease of its offices and warehouse beginning in February 2019, with monthly payments of \$3,000.

Future minimum lease payments under all of these arrangements appears below:

2019	\$	81,857
2020		84,857
2021		82,861
2022		60,905
2023		46,377
Thereafter		<u>3,000</u>
	<u>\$</u>	<u>359,857</u>

Note 12 - Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year end:

Cash and cash equivalents	\$	105,453
Investments		290,945
Promises to give		45,000
Accounts and grants receivable		<u>114,926</u>
Total financial assets		556,324

Less amounts not available to be used within one year:

Net assets with donor restrictions	142,500
Less net assets with time restrictions to be met in less than a year	(30,000)
Net assets reserves	
Operating	183,900
Opportunity	36,800
Maintenance and replacement	<u>11,500</u>
	<u>344,700</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 211,624</u>

Farmer Foodshare, Inc.
Notes to Financial Statements
December 31, 2018

Note 12 - Availability and Liquidity (Continued)

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$184,000). As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in money market funds.

The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Opportunity Reserve is intended to provide funds to meet special targets of opportunity or need that further the mission of the Organization, which may or may not have specific expectation of incremental or long-term increased income. The Maintenance and Replacement Reserve is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the Organization and programs.

Note 13 - Contingencies

Financial assistance from various awarding agencies is subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. Management is not aware of any disallowable costs or instances of noncompliance with grantor restrictions. Consequently, no provision has been made for liabilities, if any, that may arise from such audits.

Note 14 - Subsequent Events

In accordance with U.S. GAAP, the Organization has evaluated all events subsequent to the statement of financial position date of December 31, 2018 through July 17, 2019, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.