

FOODLINK, INC. AND AFFILIATE

**Consolidating Financial Statements as of
June 30, 2017
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

September 29, 2017

To the Boards of Directors of
Foodlink, Inc. and Affiliate:

Report on the Financial Statements

We have audited the accompanying consolidating financial statements of Foodlink, Inc. and Affiliate (New York not-for-profit corporations) (the Organizations) which comprise the consolidating balance sheet as of June 30, 2017, and the related consolidating statements of activities and change in net assets, 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 consolidating 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 consolidating 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 consolidating financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

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INDEPENDENT AUDITOR'S REPORT

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Opinion

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of Foodlink, Inc. and Affiliate as of June 30, 2017, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Foodlink, Inc. and Affiliate's 2016 consolidating financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of the Organizations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organizations' internal control over financial reporting and compliance.

FOODLINK, INC. AND AFFILIATE
CONSOLIDATING BALANCE SHEET
JUNE 30, 2017

(With Comparative Totals for 2016)

	Foodlink, Inc.	Foodlink Foundation, Inc. and Subsidiary	Eliminations	Total	
				2017	2016
ASSETS					
CURRENT ASSETS:					
Cash and equivalents	\$ 115,024	\$ 34,802	\$ -	\$ 149,826	\$ 2,161,322
Accounts receivable, net of allowance for doubtful accounts of \$15,000 and \$10,000, respectively	158,562	14,090	-	172,652	343,613
Grants receivable	1,632,906	-	-	1,632,906	894,402
United Way receivable	16,667	-	-	16,667	16,667
Current portion of pledges receivable	-	28,002	-	28,002	31,558
Inventory	360,102	-	-	360,102	359,018
Prepaid expenses	95,102	-	-	95,102	63,094
Total current assets	2,378,363	76,894	-	2,455,257	3,869,674
DUE FROM/(TO) AFFILIATE, NET	18,012	(18,012)	-	-	-
INVESTMENTS	-	620,769	-	620,769	569,370
PLEDGES RECEIVABLE, net of current portion	-	10,382	-	10,382	18,086
INTEREST IN NET ASSETS OF FOODLINK FOUNDATION, INC. AND SUBSIDIARY	936,859	-	(936,859)	-	-
PROPERTY AND EQUIPMENT, net	6,392,693	270,585	-	6,663,278	4,058,531
	<u>\$ 9,725,927</u>	<u>\$ 960,618</u>	<u>\$ (936,859)</u>	<u>\$ 9,749,686</u>	<u>\$ 8,515,661</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Line-of-credit	\$ 792,194	\$ -	\$ -	\$ 792,194	\$ -
Accounts payable and accrued expenses	544,988	2,659	-	547,647	1,129,349
Current portion of capital lease obligations	160,080	-	-	160,080	145,478
Current portion of long-term debt	-	-	-	-	4,772
Deferred revenue	144,594	21,100	-	165,694	231,151
Total current liabilities	1,641,856	23,759	-	1,665,615	1,510,750
CAPITAL LEASE OBLIGATIONS, net of current portion	481,830	-	-	481,830	612,902
Total liabilities	2,123,686	23,759	-	2,147,445	2,123,652
NET ASSETS:					
Unrestricted	6,641,640	104,957	(104,957)	6,641,640	2,576,544
Temporarily restricted	411,559	282,860	(282,860)	411,559	3,266,423
Permanently restricted	549,042	549,042	(549,042)	549,042	549,042
Total net assets	7,602,241	936,859	(936,859)	7,602,241	6,392,009
	<u>\$ 9,725,927</u>	<u>\$ 960,618</u>	<u>\$ (936,859)</u>	<u>\$ 9,749,686</u>	<u>\$ 8,515,661</u>

The accompanying notes are an integral part of these statements.

FOODLINK, INC. AND AFFILIATE

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)**

	Foodlink, Inc.				Foodlink Foundation, Inc. and Subsidiary				Eliminations	Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		2017	2016
PUBLIC SUPPORT AND REVENUE:											
Public support -											
Donated food	\$ 21,253,532	\$ -	\$ -	\$ 21,253,532	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,253,532	\$ 23,175,955
Contributions	1,190,767	2,410,897	-	3,601,664	525	580,396	-	580,921	(601,700)	3,580,885	3,290,067
Government grants	2,237,914	-	-	2,237,914	-	-	-	-	-	2,237,914	1,971,726
Bequests	-	-	-	-	-	-	-	-	-	-	107,020
Government grants received for nutritious children's meals	794,073	-	-	794,073	-	-	-	-	-	794,073	856,041
Check Out Hunger	783,407	-	-	783,407	-	-	-	-	-	783,407	787,750
Government grants received for shared maintenance	775,479	-	-	775,479	-	-	-	-	-	775,479	844,811
Government grants received for wholesale distribution	534,834	-	-	534,834	-	-	-	-	-	534,834	527,510
United Way	55,269	250,000	-	305,269	-	-	-	-	-	305,269	320,279
Total public support	<u>27,625,275</u>	<u>2,660,897</u>	<u>-</u>	<u>30,286,172</u>	<u>525</u>	<u>580,396</u>	<u>-</u>	<u>580,921</u>	<u>(601,700)</u>	<u>30,265,393</u>	<u>31,881,159</u>
Revenue -											
Wholesale food distribution	2,102,537	-	-	2,102,537	-	-	-	-	-	2,102,537	2,209,185
Vended meals	975,808	-	-	975,808	-	-	-	-	-	975,808	692,293
Shared maintenance	349,846	-	-	349,846	-	-	-	-	-	349,846	445,239
Catering revenue	-	-	-	-	186,637	-	-	186,637	-	186,637	130,425
Membership fees	70,525	-	-	70,525	-	-	-	-	-	70,525	78,850
Value added processing revenue	46,910	-	-	46,910	-	-	-	-	-	46,910	72,941
Nutrition education fees	40,215	-	-	40,215	-	-	-	-	-	40,215	39,260
Curbside coupon sales	19,059	-	-	19,059	-	-	-	-	-	19,059	-
Interest	804	-	-	804	-	-	-	-	-	804	3,088
Rental income	-	-	-	-	663,909	-	-	663,909	(614,742)	49,167	45,762
Other	43,741	-	-	43,741	-	-	-	-	-	43,741	52,506
Total revenue	<u>3,649,445</u>	<u>-</u>	<u>-</u>	<u>3,649,445</u>	<u>850,546</u>	<u>-</u>	<u>-</u>	<u>850,546</u>	<u>(614,742)</u>	<u>3,885,249</u>	<u>3,769,549</u>
Net assets released from restriction	5,524,651	(5,524,651)	-	-	612,960	(612,960)	-	-	-	-	-
	<u>5,524,651</u>	<u>(5,524,651)</u>	<u>-</u>	<u>-</u>	<u>612,960</u>	<u>(612,960)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>36,799,371</u>	<u>(2,863,754)</u>	<u>-</u>	<u>33,935,617</u>	<u>1,464,031</u>	<u>(32,564)</u>	<u>-</u>	<u>1,431,467</u>	<u>(1,216,442)</u>	<u>34,150,642</u>	<u>35,650,708</u>
EXPENSES:											
Program services	31,230,597	-	-	31,230,597	1,443,844	-	-	1,443,844	(1,216,442)	31,457,999	32,452,691
Management and general services	577,686	-	-	577,686	26,900	-	-	26,900	-	604,586	656,538
Fundraising	880,189	-	-	880,189	11,541	-	-	11,541	-	891,730	905,470
Total expenses	<u>32,688,472</u>	<u>-</u>	<u>-</u>	<u>32,688,472</u>	<u>1,482,285</u>	<u>-</u>	<u>-</u>	<u>1,482,285</u>	<u>(1,216,442)</u>	<u>32,954,315</u>	<u>34,014,699</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	4,110,899	(2,863,754)	-	1,247,145	(18,254)	(32,564)	-	(50,818)	-	1,196,327	1,636,009
OTHER ITEMS:											
Investment income	-	-	-	-	15,274	41,454	-	56,728	-	56,728	13,477
Change in interest in net assets of Foodlink Foundation, Inc.	(2,980)	8,890	-	5,910	-	-	-	-	(5,910)	-	-
Gain (loss) on disposal of property and equipment	(42,823)	-	-	(42,823)	-	-	-	-	-	(42,823)	20,298
Total other items	<u>(45,803)</u>	<u>8,890</u>	<u>-</u>	<u>(36,913)</u>	<u>15,274</u>	<u>41,454</u>	<u>-</u>	<u>56,728</u>	<u>(5,910)</u>	<u>13,905</u>	<u>33,775</u>
CHANGE IN NET ASSETS	4,065,096	(2,854,864)	-	1,210,232	(2,980)	8,890	-	5,910	(5,910)	1,210,232	1,669,784
NET ASSETS - beginning of year	2,576,544	3,266,423	549,042	6,392,009	107,937	273,970	549,042	930,949	(930,949)	6,392,009	4,722,225
NET ASSETS - end of year	<u>\$ 6,641,640</u>	<u>\$ 411,559</u>	<u>\$ 549,042</u>	<u>\$ 7,602,241</u>	<u>\$ 104,957</u>	<u>\$ 282,860</u>	<u>\$ 549,042</u>	<u>\$ 936,859</u>	<u>\$ (936,859)</u>	<u>\$ 7,602,241</u>	<u>\$ 6,392,009</u>

The accompanying notes are an integral part of these statements.

FOODLINK, INC. AND AFFILIATE

**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)**

	Foodlink, Inc.				Foodlink Foundation, Inc. and Subsidiary				Eliminations			Total			2017	2016
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Total	Program Services	Management and General	Fundraising		
EXPENSES:																
Donated food	\$ 21,253,532	\$ -	\$ -	\$ 21,253,532	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,253,532	\$ -	\$ -	\$ 21,253,532	\$ 23,175,955
Purchased food	3,535,254	-	-	3,535,254	-	-	-	-	-	-	-	3,535,254	-	-	3,535,254	3,389,298
Salaries	2,439,356	230,753	309,388	2,979,497	-	-	-	-	-	-	2,439,356	230,753	309,388	2,979,497	2,717,884	
Occupancy	1,060,767	45,613	103,109	1,209,489	535,685	-	-	535,685	(614,742)	-	(614,742)	981,710	45,613	103,109	1,130,432	1,150,835
Employee benefits and payroll taxes	851,169	136,715	91,677	1,079,561	-	-	-	-	-	-	-	851,169	136,715	91,677	1,079,561	1,043,783
Depreciation and amortization	635,923	18,414	2,310	656,647	87,118	-	-	87,118	-	-	-	723,041	18,414	2,310	743,765	468,368
Professional fees	186,190	45,440	94,630	326,260	158,904	25,447	6,136	190,487	-	-	-	345,094	70,887	100,766	516,747	402,668
Transportation and distribution	318,425	2,715	48	321,188	-	-	-	-	-	-	-	318,425	2,715	48	321,188	275,990
Operational support	311,503	-	102	311,605	-	-	-	-	-	-	-	311,503	-	102	311,605	324,444
Program supplies	301,472	-	-	301,472	-	-	-	-	-	-	-	301,472	-	-	301,472	300,884
Office expenses	62,280	48,882	136,688	247,850	1,489	390	-	1,879	-	-	-	63,769	49,272	136,688	249,729	279,177
Advertising	7,202	1,090	106,577	114,869	-	-	-	-	-	-	-	7,202	1,090	106,577	114,869	141,891
Travel and meetings	46,193	25,003	13,747	84,943	188	-	-	188	-	-	-	46,381	25,003	13,747	85,131	94,678
Interest	54,509	3,255	-	57,764	-	241	-	241	-	-	-	54,509	3,496	-	58,005	50,075
Shipping	57,511	-	-	57,511	-	-	-	-	-	-	-	57,511	-	-	57,511	36,893
Operational supplies and equipment	-	-	-	-	55,581	-	-	55,581	-	-	-	55,581	-	-	55,581	51,448
Dues and subscriptions	29,816	11,565	10,544	51,925	-	-	-	-	-	-	-	29,816	11,565	10,544	51,925	17,077
Provision for bad debts	43,761	-	1,046	44,807	-	-	-	-	-	-	-	43,761	-	1,046	44,807	14,633
Insurance	3,824	8,241	2,135	14,200	-	-	-	-	-	-	-	3,824	8,241	2,135	14,200	14,199
Bank fees	-	-	-	-	-	-	5,326	5,326	-	-	-	-	-	-	5,326	4,213
Security	-	-	-	-	1,162	-	-	1,162	-	-	-	1,162	-	-	-	5,545
Donations	-	-	-	-	601,700	-	-	601,700	(601,700)	-	(601,700)	-	-	-	-	-
Other	31,910	-	8,188	40,098	2,017	822	79	2,918	-	-	-	33,927	822	8,267	43,016	54,761
Total expenses	\$ 31,230,597	\$ 577,686	\$ 880,189	\$ 32,688,472	\$ 1,443,844	\$ 26,900	\$ 11,541	\$ 1,482,285	\$ (1,216,442)	\$ -	\$ (1,216,442)	\$ 31,457,999	\$ 604,586	\$ 891,730	\$ 32,954,315	\$ 34,014,699

The accompanying notes are an integral part of these statements.

FOODLINK, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017

(With Comparative Totals for 2016)

	Foodlink, Inc.	Foodlink Foundation, Inc. and Subsidiary	Eliminations	Total	
				2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:					
Change in net assets	\$ 1,210,232	\$ 5,910	\$ (5,910)	\$ 1,210,232	\$ 1,669,784
Adjustments to reconcile change in net assets to net cash flow from operating activities:					
Realized and unrealized investment (gain) loss	-	(44,686)	-	(44,686)	713
Depreciation and amortization	656,647	87,118	-	743,765	468,368
Provision for bad debts	44,807	-	-	44,807	14,633
Change in interest of net assets of Foodlink Foundation, Inc.	(5,910)	-	5,910	-	-
Loss (gain) on disposal of property and equipment	42,823	-	-	42,823	(20,298)
Changes in:					
Accounts receivable	137,352	(11,198)	-	126,154	48,532
Grants receivable	(738,504)	-	-	(738,504)	(42,119)
Pledges receivable	-	11,260	-	11,260	11,642
Inventory	(1,084)	-	-	(1,084)	112,774
Prepaid expenses	(32,008)	-	-	(32,008)	(11,197)
Accounts payable and accrued expenses	(542,543)	(39,159)	-	(581,702)	490,752
Due to/(from) affiliate, net	(1,556)	1,556	-	-	-
Deferred revenue	(63,457)	(2,000)	-	(65,457)	(16,961)
Net cash flow from operating activities	<u>706,799</u>	<u>8,801</u>	<u>-</u>	<u>715,600</u>	<u>2,726,623</u>
CASH FLOW FROM INVESTING ACTIVITIES:					
Purchases of property and equipment	(3,356,628)	-	-	(3,356,628)	(1,407,463)
Proceeds from sale of property and equipment	-	-	-	-	158,655
Purchases of investments	-	(251,235)	-	(251,235)	(357,970)
Proceeds from sales of investments	-	244,522	-	244,522	200,558
Net cash flow from investing activities	<u>(3,356,628)</u>	<u>(6,713)</u>	<u>-</u>	<u>(3,363,341)</u>	<u>(1,406,220)</u>
CASH FLOW FROM FINANCING ACTIVITIES:					
Borrowings (repayments) on line-of-credit, net	792,194	-	-	792,194	(97,550)
Principal payments on capital lease obligations	(151,177)	-	-	(151,177)	(117,766)
Principal payments on long-term debt	(4,772)	-	-	(4,772)	(73,314)
Net cash flow from financing activities	<u>636,245</u>	<u>-</u>	<u>-</u>	<u>636,245</u>	<u>(288,630)</u>
CHANGE IN CASH AND EQUIVALENTS	(2,013,584)	2,088	-	(2,011,496)	1,031,773
CASH AND EQUIVALENTS - beginning of year	<u>2,128,608</u>	<u>32,714</u>	<u>-</u>	<u>2,161,322</u>	<u>1,129,549</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 115,024</u>	<u>\$ 34,802</u>	<u>\$ -</u>	<u>\$ 149,826</u>	<u>\$ 2,161,322</u>
NON-CASH TRANSACTIONS:					
Capital lease obligations entered into	<u>\$ 34,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,707</u>	<u>\$ 580,604</u>
Property, plant and equipment acquired under lease obligations	<u>\$ 34,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,707</u>	<u>\$ 580,604</u>

The accompanying notes are an integral part of these statements.

FOODLINK, INC. AND AFFILIATE

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

JUNE 30, 2017

1. THE ORGANIZATIONS

Foodlink, Inc. (Foodlink) and Foodlink Foundation, Inc. (the Foundation) are not-for-profit organizations incorporated under New York State not-for-profit corporation laws.

Foodlink was created to provide, in the most efficient and effective manner, food, skills and resources to emergency food providers, other charitable organizations and individuals in Monroe County, New York and nine surrounding counties. Foodlink purchases and solicits donations of nutritious surplus food from the food industry and distributes these products to qualified 501(c)(3) charities for feeding the ill, the needy, and children. A significant portion of the food product is obtained through local food distributors, local farms and retailers. Foodlink provides the food industry with a way to avoid the waste of edible but unsaleable products and creates an opportunity to provide food to charities in need of such assistance.

The Foundation was formed to provide funding and support for anti-hunger organizations in the greater Rochester, New York area. The Foundation also includes FreshLink, LLC (FreshLink) a wholly-owned for-profit subsidiary. FreshLink leases real estate property and subleases this property to Foodlink.

Foodlink is the sole corporate member of the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying consolidating financial statements include the accounts of Foodlink and the Foundation (collectively, the Organizations). The accounts of the Foundation include the accounts of FreshLink. All significant inter-company balances and transactions have been eliminated in consolidation.

Basis of Accounting

The financial statements of the Organizations have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

Financial Reporting

Resources for various purposes are classified for accounting and reporting purposes by net asset categories established according to their nature and purpose. The following net asset categories are maintained by the Organizations:

- Unrestricted - Includes resources expendable for the support of the Organizations operating activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting (Continued)

- Temporarily Restricted - Includes resources that have donor-imposed restrictions that permit the Organizations to use up or expend the donated asset as specified and are satisfied by the passage of time or by actions of the Organizations. When a donor restriction is met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and change in net assets as “net assets released from restrictions.” At June 30, 2017 and 2016, temporarily restricted net assets had time restrictions, were restricted for program activities, or other assets restricted for those acquisitions.
- Permanently Restricted - Amounts that have donor-imposed restrictions that stipulate that resources be maintained permanently, but which permit the Organizations to use or expend all of the income derived from the donated assets at its discretion.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional expense classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations’ financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Cash and Equivalents

Cash and equivalents include bank demand deposit, cash management, and money market accounts. At times, the balances in the demand deposit accounts may exceed federally insured limits. Balances in money market accounts are not federally insured. The Organizations have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk with respect to cash and equivalents.

Accounts Receivable

The Organizations provide services that are paid for primarily by other tax-exempt agencies. Accounts for which no payments have been received for several months are considered delinquent and are written off when customary collection efforts are exhausted. The Organizations record an allowance for doubtful accounts in anticipation of future write-offs. The allowance for doubtful accounts is based on the Organizations’ historical collection experience and a review of outstanding balances.

Pledges Receivable and Contributions

The Foundation records pledges receivable when an unconditional contribution commitment is received. Pledges receivable are recorded net of a discount relative to the present value of future cash flows unless they are expected to be received within one year. In addition, the Foundation records an allowance for doubtful pledges receivable based on past collection experience and a review of specific accounts. Pledges are written-off when reasonable collection efforts have been exhausted. No allowance for doubtful pledges were considered necessary at June 30, 2017 and 2016.

Investments

Investments are recorded at fair value, based on quoted market prices. Investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amount reported in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred.

Deferred Revenue

Deferred revenue consists of cash received in advance of program service provision.

Property and Equipment

Property and equipment are recorded at cost or at the fair value on the date of donation. The Organizations' policy is to capitalize all property and equipment purchases greater than \$2,500 having an estimated useful life in excess of one year. Amortization of the costs of property and equipment is provided using the straight-line method over the shorter of the remaining term of the lease or the estimated useful life of the asset. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Buildings	40 years
Leasehold improvements	15 years
Furniture and equipment	5 years
Vehicles	5 years

Purchased Product Inventory

Food that has been purchased by Foodlink, but which has not been distributed, is reported as inventory. This inventory will be distributed at no charge, or sold at an amount equal to cost, to qualified organizations. This inventory is valued at cost determined on a first-in, first-out (FIFO) basis.

Donated Product

The majority of product that is distributed has been donated. Donated product is not recorded by Foodlink until distributed.

Donated Services

Donated rent totaled approximately \$42,000 in 2016. These amounts have been reflected as contribution revenue and occupancy expense in the accompanying financial statements. There was no donated rent in 2017.

Shared Maintenance

Foodlink requests that participating not-for-profit agencies contribute various amounts depending on the type of product received for each pound of product they receive. This revenue is used to cover the cost of food handling as well as general operating expenses.

Income Taxes

Foodlink and the Foundation are not-for-profit corporations and are exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. Foodlink and the Foundation have also been classified by the Internal Revenue Service as entities that are not private foundations.

FreshLink is a for-profit limited liability corporation. No income tax expense has been accrued for the years ended June 30, 2017 and 2016 due to FreshLink's net operating losses. In addition, no deferred income tax assets have been recognized because the timing of realization of such assets is not estimable. FreshLink has available net operating loss carryforwards of approximately \$929,000 to offset future taxable income through 2034, if any. The loss carryforwards expire between 2025 and 2034.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement - Definition and Hierarchy

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Foundation uses various valuation techniques in determining fair value. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about the assumptions that market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The input hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order to conform with current year presentation.

3. TEMPORARILY RESTRICTED NET ASSETS

The Foundation's temporarily restricted net assets were available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 221,078	\$ 253,642
Unappropriated endowment earnings	<u>61,782</u>	<u>20,328</u>
	<u>\$ 282,860</u>	<u>\$ 273,970</u>

3. TEMPORARILY RESTRICTED NET ASSETS (Continued)

The Foundation's temporarily restricted net assets were released from restriction as follows during the years ended June 30:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 612,960	\$ 1,453,285
WellVentions	<u>-</u>	<u>13,261</u>
	<u>\$ 612,960</u>	<u>\$ 1,466,546</u>

Foodlink's temporarily restricted net assets were available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Foodbank Programs	\$ 51,817	\$ 80,727
Child Nutrition Meal Programs	41,447	18,750
Community Nutrition Programs		
• Food Access Programs	29,682	32,660
• Nutrition Education Programs	5,753	10,615
Capital project for kitchen move	<u>-</u>	<u>2,849,701</u>
	<u>\$ 128,699</u>	<u>\$ 2,992,453</u>

Foodlink's temporarily restricted net assets were released from restriction as follows during the years ended June 30:

	<u>2017</u>	<u>2016</u>
Capital project for kitchen move	\$ 4,702,470	\$ 163,738
Foodbank Programs	354,125	454,318
Capital assets, net	337,491	36,292
Child Nutrition Meal Programs	87,293	75,000
Community Nutrition Programs		
• Food Access Programs	25,660	19,628
• Nutrition Education Programs	<u>17,612</u>	<u>22,135</u>
	<u>\$ 5,524,651</u>	<u>\$ 771,111</u>

4. PLEDGES RECEIVABLE

The Foundation's outstanding pledges are due as follows for the years ending June 30:

2018	\$ 28,002
2019	<u>10,382</u>
	38,384
Less: Current portion	<u>28,002</u>
	<u>\$ 10,382</u>

5. INVESTMENTS

The Foundation's investments consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 16,531	\$ 11,347
Equity mutual funds	52,131	60,873
Corporate bonds	117,114	113,572
Government bonds	171,832	126,306
Common stock	<u>263,161</u>	<u>257,272</u>
	<u>\$ 620,769</u>	<u>\$ 569,370</u>

The Foundation's investment income for the years ended June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 9,973	\$ 14,190
Net realized gains (losses)	10,795	(9,767)
Net unrealized gains	<u>35,960</u>	<u>9,054</u>
	<u>\$ 56,728</u>	<u>\$ 13,477</u>

The Foundation's investments are measured at fair value on a recurring basis. Investments are segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value as follows as of June 30:

<u>2017</u>				
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
Cash and cash equivalents	\$ 16,531	\$ -	\$ -	\$ 16,531
Mutual funds	52,131	-	-	52,131
Corporate bonds	-	117,114	-	117,114
Government bonds	171,832	-	-	171,832
Common stock	<u>263,161</u>	<u>-</u>	<u>-</u>	<u>263,161</u>
	<u>\$ 503,655</u>	<u>\$ 117,114</u>	<u>\$ -</u>	<u>\$ 620,769</u>
<u>2016</u>				
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
Cash and cash equivalents	\$ 11,347	\$ -	\$ -	\$ 11,347
Mutual funds	60,873	-	-	60,873
Corporate bonds	-	113,572	-	113,572
Government bonds	126,306	-	-	126,306
Common stock	<u>257,272</u>	<u>-</u>	<u>-</u>	<u>257,272</u>
	<u>\$ 455,798</u>	<u>\$ 113,572</u>	<u>\$ -</u>	<u>\$ 569,370</u>

5. INVESTMENTS (Continued)

The Foundation's corporate bonds are valued using Level 2 inputs. Fair value of the Foundation's bonds is determined by entering observable inputs, including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids and offers into a pricing model.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2017			2016		
	Foodlink	Foundation	Total	Foodlink	Foundation	Total
Buildings	\$ -	\$ 625,575	\$ 625,575	\$ -	\$ 625,575	\$ 625,575
Building and land improvements	4,734,763	1,162,037	5,896,800	1,621,456	1,162,037	2,783,493
Furniture and equipment	2,369,630	-	2,369,630	1,326,415	-	1,326,415
Vehicles	1,455,389	10,240	1,465,629	1,350,089	31,240	1,381,329
Construction in progress	-	-	-	1,005,130	-	1,005,130
	8,559,782	1,797,852	10,357,634	5,303,090	1,818,852	7,121,942
Less:						
Accumulated depreciation and amortization	(2,167,089)	(1,527,267)	(3,694,356)	(1,602,262)	(1,461,149)	(3,063,411)
	<u>\$ 6,392,693</u>	<u>\$ 270,585</u>	<u>\$ 6,663,278</u>	<u>\$ 3,700,828</u>	<u>\$ 357,703</u>	<u>\$ 4,058,531</u>

7. INVENTORY

The following table presents a summary of donated and distributed food:

	June 30, 2017		June 30, 2016	
	Pounds	Foodlink Value	Pounds	Foodlink Value
Inventory, beginning of year	512,590	\$ 1,042,496	485,058	\$ 1,011,069
Revision of inventory value	-	30,755	-	(14,552)
Donated food received	11,238,071	19,441,863	12,257,838	20,470,589
Less:				
Food distributed to participating agencies	(9,852,951)	(17,045,605)	(11,127,902)	(18,583,595)
Food scrapped	<u>(1,268,320)</u>	<u>(2,194,194)</u>	<u>(1,102,404)</u>	<u>(1,841,015)</u>
Inventory, end of year	<u>629,390</u>	<u>\$ 1,275,315</u>	<u>512,590</u>	<u>\$ 1,042,496</u>

Donated product is included as revenue and expense in the accompanying financial statements and consists of \$17,045,605 and \$18,583,596 in distributed donated product for the years ending June 30, 2017 and 2016, respectively.

7. INVENTORY (Continued)

Inventory, End of Year

Foodlink's inventory value was determined using a rate of \$1.73 and \$1.67 per pound in 2017 and 2016, respectively. The rate per pound was estimated by Feeding America, a national organization, as being the average value of one pound of donated food and non-food products.

USDA Product

Foodlink has an agreement with the New York State Bureau of Government Donated Food Distribution to deliver food received from the United States Department of Agriculture (USDA) free of charge to qualifying centers.

The following table presents a summary of USDA food donated and distributed for the years ended June 30:

	<u>2017</u> <u>Pounds</u>	<u>2016</u> <u>Pounds</u>
Inventory, beginning of year	551,982	267,144
Donated food received	2,592,049	3,034,754
Less:		
Food distributed to participating agencies	(2,768,373)	(2,747,640)
Food scrapped	<u>(33,426)</u>	<u>(2,276)</u>
Inventory, end of year	<u><u>342,232</u></u>	<u><u>551,982</u></u>

Donated product is included as revenue and expense in the accompanying financial statements and consists of \$4,207,927 and \$4,592,359 in distributed USDA product for the years ending June 30, 2017 and 2016, respectively.

Foodlink's value is determined by taking the ending inventory in pounds and multiplying that amount by a rate of \$1.52 and \$1.67 per pound in 2017 and 2016, respectively. In 2016, the rate per pound was estimated by Feeding America as being the average value of one pound of donated food and non-food products. In 2017, the rate per pound was estimated by Feeding America as being the average value of one pound of donated food products only. The value of the USDA inventory was \$520,193 and \$921,810 at June 30, 2017 and 2016, respectively.

USDA food inventory is owned by USDA until distributed by Foodlink and, therefore, is not recorded as an asset by Foodlink.

8. FINANCING ARRANGEMENTS

Lines-of-Credit

Foodlink has an annually renewable line-of-credit agreement with the bank to the amount of \$2,000,000 with interest at the prime rate (4.25% at June 30, 2017). There was \$792,194 outstanding on Foodlink's line-of-credit as of June 30, 2017. There were no outstanding borrowings on the line-of-credit as of June 30, 2016.

The Foundation had available an annually renewable \$500,000 bank line-of-credit, with interest at the prime rate (4.25% at June 30, 2017). Amounts borrowed on the line-of-credit are collateralized by a general lien on substantially all of the Foundation's assets. Foodlink has guaranteed the Foundation's line-of-credit. There were no amounts outstanding on the line-of-credit as of June 30, 2017 and 2016.

8. FINANCING ARRANGEMENTS (Continued)

Capital Leases

Foodlink has financed leasehold improvements, equipment and vehicles under the terms of capital lease agreements which expire at various dates through May 2023 and bear interest at rates ranging from 2.99% to 9.45%.

At June 30, 2017, cost and accumulated amortization of capital lease assets included in property and equipment on the accompanying balance sheet are as follows:

Leasehold improvements	\$	631,464
Furniture and equipment		433,918
Vehicles		<u>996,593</u>
		2,061,975
Less: Accumulated amortization		<u>(919,205)</u>
	\$	<u>1,142,770</u>

Future scheduled payments on capital lease obligations are as follows for the years ended June 30:

2018	\$	190,328
2019		168,119
2020		134,729
2021		101,461
2022		85,248
Thereafter		<u>40,806</u>
		720,691
Less: Amount representing interest		<u>(78,781)</u>
Present value of net minimum capital lease payments		641,910
Less: Current portion		<u>(160,080)</u>
	\$	<u>481,830</u>

Paid Interest

Interest paid on financing arrangements totaled approximately \$58,000 (paid by Foodlink) and \$50,000 (approximately \$3,000 paid by the Foundation and \$47,000 paid by Foodlink) for the years ended June 30, 2017 and 2016, respectively.

9. RETIREMENT PLANS

Foodlink maintains a 401(k) plan that provides employer contributions of 2% of eligible compensation for employees having at least one year of service, as well as employer match of employee contributions up to 5% of eligible compensation. Foodlink contributed approximately \$135,800 and \$114,700 to the plan in the years ended June 30, 2017 and 2016, respectively.

10. INTERCOMPANY TRANSACTIONS

Administrative Support

Foodlink provides administrative support to the Foundation in the form of personnel and other operating costs. These costs are charged to the Foundation based on agreed-upon methodologies. The administrative costs charged were approximately \$900 and \$14,000 in 2017 and 2016, respectively.

Facility Use

The Foundation owns a facility on Exchange Street. On December 1, 2016, the Foundation signed a lease agreement with an unrelated third-party for \$2,083 per month through November 30, 2019. Rental income will be approximately \$25,000 per year.

The Foundation also had a lease agreement with an unrelated third-party for a facility on Joseph Avenue. The Foundation subleased the property to Foodlink for \$10,563 on a month-to-month basis through October 31, 2015, at which time the rent decreased to \$3,693 per month through December 2016. Effective January 1, 2017, the Foundation is no longer leasing space at Joseph Avenue.

FreshLink leases space in a building on Mt. Read Boulevard for \$19,473 per month plus Common Area Maintenance (CAM) costs, through December 31, 2019, with increases every 5 years through the expiration of the lease on December 31, 2031. This space is subleased to Foodlink for \$26,473 per month plus CAM costs, with increases every 5 years through the expiration of the lease on September 30, 2031.

Expected payments under the terms of this lease is as follows for the years ending June 30:

2018	\$ 317,676
2019	317,676
2020	324,834
2021	331,992
2022	331,992
Thereafter	<u>3,223,032</u>
	<u>\$ 4,847,202</u>

Inter-Company Loan

FreshLink has a balance due to the Foundation of \$685,060 and \$750,317 at June 30, 2017 and 2016, respectively. This balance represents payroll, benefits and other operating expenses paid by the Foundation on behalf of FreshLink. There are no formal repayment terms for this balance, and FreshLink made payments of \$65,502 and \$90,406 in 2017 and 2016, respectively.

11. ENDOWMENT

The Foundation's endowment net asset balance consisted of temporarily and permanently restricted net assets. Changes in the endowment net assets were as follows for the years ended June 30:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
Endowment net assets, July 1, 2015	\$ 12,670	\$ 500,000
Contributions	-	49,042
Unappropriated earnings	<u>7,658</u>	<u>-</u>
Endowment net assets, June 30, 2016	20,328	549,042
Unappropriated earnings	<u>41,454</u>	<u>-</u>
Endowment net assets, June 30, 2017	<u>\$ 61,782</u>	<u>\$ 549,042</u>

Interpretation of Relevant Laws

The Foundation's Board of Directors has interpreted the applicable provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as endowment net assets (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations of investment income of the endowment are added to the fund in accordance with the direction of the donor gift instrument. Any unappropriated earnings or appreciation are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by New York State law.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that provides for long-term growth for possible support of the Foundation's budget when other funding sources may not be adequate. A secondary objective is to minimize volatility so that assets are available when they are needed.

Strategies Employed for Achieving Objectives

The Foundation has adopted target asset allocations of no more than 70% in equity securities and no less than 30% in fixed income securities at the time of purchase.

Spending Policy and Related Investment Objectives

The Foundation has adopted a target spending policy whereby 3%-5% of the average value over the trailing 20 quarters will be available for annual withdrawal from the fund. The Foundation will rely on a total return strategy in which assets available for withdrawal will come from either capital appreciation and/or income. The amount to be withdrawn will be calculated as of the last day of the fiscal year. This amount will be available, if needed, to support the operating budget and capital expenses.

12. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Environmental regulations exist that require the Organizations to handle and dispose of contaminated soil in a special manner if a property undergoes major renovations or excavation. Otherwise, the Organizations are not required to evaluate the level of potential contamination at their properties.

The Organizations have not recorded any liability in connection with these obligations because they cannot estimate the fair value of their potential obligation due to a lack of sufficient information about the timetable over which these obligations may be settled through excavation or sale/transfer of any affected properties.

13. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Foundation owns a facility on Exchange Street. On December 1, 2016, the Foundation signed a lease agreement with an unrelated third-party for \$2,083 per month through November 30, 2019. Rental income will be approximately \$25,000 per year.

The Foundation also had a lease agreement with an unrelated third-party for a facility on Joseph Avenue. The Foundation subleased the property to Foodlink for \$10,563 on a month-to-month basis through October 31, 2015, at which time the rent decreased to \$3,693 per month through December 2016. Effective January 1, 2017, the Foundation is no longer leasing space at Joseph Avenue.

FreshLink leases space in a building on Mt. Read Boulevard for \$19,473 per month plus Common Area Maintenance (CAM) costs, through December 31, 2019, with increases every 5 years through the expiration of the lease on December 31, 2031. This space is subleased to Foodlink for \$26,473 per month plus CAM costs, with increases every 5 years through the expiration of the lease on September 30, 2031.

Under the terms of this agreement, the future minimum cash rental payments are as follows for the years ending June 30:

2018	\$ 317,676
2019	317,676
2020	324,834
2021	331,992
2022	331,992
Thereafter	<u>3,223,032</u>
	<u>\$ 4,847,202</u>

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 29, 2017, which is the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 29, 2017

To the Board of Directors of
Foodlink, Inc. and Affiliate:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidating financial statements of Foodlink, Inc. and Affiliate (New York not-for-profit corporations) (the Organizations), which comprise the consolidating balance sheet as of June 30, 2017, and the related consolidating statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidating financial statements, we considered the Organizations' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidating financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidating financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organizations' consolidating financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.