

FOODLINK, INC. AND AFFILIATE

**Consolidating Financial Statements as of
June 30, 2018
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

September 28, 2018

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, 2018, 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.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

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, 2018, 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 2017 consolidating financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 28, 2018 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, 2018

(With Comparative Totals for 2017)

	Foodlink, Inc.	Foodlink Foundation, Inc. and Subsidiary	Eliminations	Total	
				2018	2017
ASSETS					
CURRENT ASSETS:					
Cash and equivalents	\$ 1,112,509	\$ 51,950	\$ -	\$ 1,164,459	\$ 149,826
Accounts receivable, net of allowance for doubtful accounts of \$15,000 for 2018 and 2017	187,627	-	-	187,627	172,652
Grants receivable	821,702	-	-	821,702	1,632,906
United Way receivable	20,833	-	-	20,833	16,667
Current portion of pledges receivable	-	23,794	-	23,794	28,002
Purchased product inventory	303,886	-	-	303,886	360,102
Prepaid expenses	84,788	-	-	84,788	95,102
Total current assets	2,531,345	75,744	-	2,607,089	2,455,257
DUE FROM/(TO) AFFILIATE, NET	59,481	(59,481)	-	-	-
INVESTMENTS	-	663,867	-	663,867	620,769
PLEDGES RECEIVABLE, net of current portion	-	2,475	-	2,475	10,382
INTEREST IN NET ASSETS OF FOODLINK FOUNDATION, INC. AND SUBSIDIARY	855,416	-	(855,416)	-	-
PROPERTY AND EQUIPMENT, net	5,901,579	190,139	-	6,091,718	6,663,278
	<u>\$ 9,347,821</u>	<u>\$ 872,744</u>	<u>\$ (855,416)</u>	<u>\$ 9,365,149</u>	<u>\$ 9,749,686</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Line-of-credit	\$ -	\$ -	\$ -	\$ -	\$ 792,194
Accounts payable and accrued expenses	673,318	2,228	-	675,546	547,647
Current portion of capital lease obligations	166,382	-	-	166,382	160,080
Deferred revenue	53,298	15,100	-	68,398	165,694
Total current liabilities	892,998	17,328	-	910,326	1,665,615
CAPITAL LEASE OBLIGATIONS, net of current portion	449,804	-	-	449,804	481,830
Total liabilities	1,342,802	17,328	-	1,360,130	2,147,445
NET ASSETS:					
Unrestricted	6,667,646	120,153	(120,153)	6,667,646	6,641,640
Temporarily restricted	788,309	186,199	(186,199)	788,309	411,559
Permanently restricted	549,064	549,064	(549,064)	549,064	549,042
Total net assets	8,005,019	855,416	(855,416)	8,005,019	7,602,241
	<u>\$ 9,347,821</u>	<u>\$ 872,744</u>	<u>\$ (855,416)</u>	<u>\$ 9,365,149</u>	<u>\$ 9,749,686</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, 2018
(With Comparative Totals for 2017)**

	Foodlink, Inc.				Foodlink Foundation, Inc. and Subsidiary				Eliminations	Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		2018	2017
PUBLIC SUPPORT AND REVENUE:											
Public support -											
Donated food	\$ 23,115,034	\$ -	\$ -	\$ 23,115,034	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,115,034	\$ 21,253,532
Contributions	2,312,883	912,168	-	3,225,051	-	1,500	22	1,522	(129,200)	3,097,373	3,580,885
Government grants	2,135,831	-	-	2,135,831	-	-	-	-	-	2,135,831	2,237,914
Government grants received for nutritious children's meals	771,070	-	-	771,070	-	-	-	-	-	771,070	794,073
Check Out Hunger	734,772	-	-	734,772	-	-	-	-	-	734,772	783,407
Government grants received for shared maintenance	824,451	-	-	824,451	-	-	-	-	-	824,451	775,479
Government grants received for wholesale distribution	665,849	-	-	665,849	-	-	-	-	-	665,849	534,834
United Way	73,989	250,000	-	323,989	-	-	-	-	-	323,989	305,269
Total public support	<u>30,633,879</u>	<u>1,162,168</u>	<u>-</u>	<u>31,796,047</u>	<u>-</u>	<u>1,500</u>	<u>22</u>	<u>1,522</u>	<u>(129,200)</u>	<u>31,668,369</u>	<u>30,265,393</u>
Revenue -											
Wholesale food distribution	2,397,577	-	-	2,397,577	-	-	-	-	-	2,397,577	2,121,596
Vended meals	1,247,506	-	-	1,247,506	-	-	-	-	-	1,247,506	1,162,445
Shared maintenance	376,081	-	-	376,081	-	-	-	-	-	376,081	349,846
Value added processing revenue	125,593	-	-	125,593	-	-	-	-	-	125,593	46,910
Fees for services	108,703	-	-	108,703	-	-	-	-	-	108,703	46,290
Membership fees	66,950	-	-	66,950	-	-	-	-	-	66,950	70,525
Rental income	-	-	-	-	665,675	-	-	665,675	(610,784)	54,891	49,167
Other	43,756	-	-	43,756	-	-	-	-	-	43,756	38,470
Total revenue	<u>4,366,166</u>	<u>-</u>	<u>-</u>	<u>4,366,166</u>	<u>665,675</u>	<u>-</u>	<u>-</u>	<u>665,675</u>	<u>(610,784)</u>	<u>4,421,057</u>	<u>3,885,249</u>
Net assets released from restriction	688,757	(688,757)	-	-	141,315	(141,315)	-	-	-	-	-
	<u>688,757</u>	<u>(688,757)</u>	<u>-</u>	<u>-</u>	<u>141,315</u>	<u>(141,315)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>35,688,802</u>	<u>473,411</u>	<u>-</u>	<u>36,162,213</u>	<u>806,990</u>	<u>(139,815)</u>	<u>22</u>	<u>667,197</u>	<u>(739,984)</u>	<u>36,089,426</u>	<u>34,150,642</u>
EXPENSES:											
Program services	34,053,319	-	-	34,053,319	751,593	-	-	751,593	(739,984)	34,064,928	31,457,999
Management and general services	712,080	-	-	712,080	22,676	-	-	22,676	-	734,756	604,586
Fundraising	884,278	-	-	884,278	23,725	-	-	23,725	-	908,003	891,730
Total expenses	<u>35,649,677</u>	<u>-</u>	<u>-</u>	<u>35,649,677</u>	<u>797,994</u>	<u>-</u>	<u>-</u>	<u>797,994</u>	<u>(739,984)</u>	<u>35,707,687</u>	<u>32,954,315</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	39,125	473,411	-	512,536	8,996	(139,815)	22	(130,797)	-	381,739	1,196,327
OTHER ITEMS:											
Investment income	-	-	-	-	6,200	43,154	-	49,354	-	49,354	56,728
Change in interest in net assets of Foodlink Foundation, Inc.	15,196	(96,661)	22	(81,443)	-	-	-	-	81,443	-	-
Loss on disposal of property and equipment	(28,315)	-	-	(28,315)	-	-	-	-	-	(28,315)	(42,823)
Total other items	<u>(13,119)</u>	<u>(96,661)</u>	<u>22</u>	<u>(109,758)</u>	<u>6,200</u>	<u>43,154</u>	<u>-</u>	<u>49,354</u>	<u>81,443</u>	<u>21,039</u>	<u>13,905</u>
CHANGE IN NET ASSETS	26,006	376,750	22	402,778	15,196	(96,661)	22	(81,443)	81,443	402,778	1,210,232
NET ASSETS - beginning 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>
NET ASSETS - end of year	<u>\$ 6,667,646</u>	<u>\$ 788,309</u>	<u>\$ 549,064</u>	<u>\$ 8,005,019</u>	<u>\$ 120,153</u>	<u>\$ 186,199</u>	<u>\$ 549,064</u>	<u>\$ 855,416</u>	<u>\$ (855,416)</u>	<u>\$ 8,005,019</u>	<u>\$ 7,602,241</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, 2018
(With Comparative Totals for 2017)**

	Foodlink, Inc.				Foodlink Foundation, Inc. and Subsidiary				Eliminations			Total			2018	2017
	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	\$ 23,115,034	\$ -	\$ -	\$ 23,115,034	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,115,034	\$ -	\$ -	\$ 23,115,034	\$ 21,253,532
Purchased food	4,008,220	-	-	4,008,220	-	-	-	-	-	-	-	4,008,220	-	-	4,008,220	3,535,254
Salaries	2,719,607	285,534	314,288	3,319,429	-	-	-	-	-	-	-	2,719,607	285,534	314,288	3,319,429	2,979,497
Employee benefits and payroll taxes	923,094	151,416	107,803	1,182,313	-	-	-	-	-	-	-	923,094	151,416	107,803	1,182,313	1,079,561
Occupancy	1,063,165	38,303	57,769	1,159,237	531,593	-	-	531,593	(610,784)	-	(610,784)	983,974	38,303	57,769	1,080,046	1,130,432
Depreciation	789,943	14,924	1,198	806,065	80,446	-	-	80,446	-	-	-	870,389	14,924	1,198	886,511	743,765
Operational support	399,473	-	2,925	402,398	-	-	-	-	-	-	-	399,473	-	2,925	402,398	311,605
Transportation and distribution	352,521	9	6	352,536	-	-	-	-	-	-	-	352,521	9	6	352,536	321,188
Program supplies	276,327	-	-	276,327	-	-	-	-	-	-	-	276,327	-	-	276,327	301,472
Office expenses	44,356	45,483	149,255	239,094	1,290	1,125	-	2,415	-	-	-	45,646	46,608	149,255	241,509	236,854
Information technology	77,641	85,881	35,506	199,028	-	-	-	-	-	-	-	77,641	85,881	35,506	199,028	82,975
Contracted services	55,123	17,122	87,340	159,585	21	11,681	17,636	29,338	-	-	-	55,144	28,803	104,976	188,923	355,771
Professional fees	63,389	19,870	21,716	104,975	4,639	9,750	-	14,389	-	-	-	68,028	29,620	21,716	119,364	117,320
Travel and meetings	42,295	23,481	18,133	83,909	-	120	46	166	-	-	-	42,295	23,601	18,179	84,075	85,131
Advertising	11,897	539	69,548	81,984	-	-	-	-	-	-	-	11,897	539	69,548	81,984	114,869
Interest	38,257	2,542	-	40,799	-	-	-	-	-	-	-	38,257	2,542	-	40,799	58,005
Dues and subscriptions	16,759	14,336	5,317	36,412	-	-	-	-	-	-	-	16,759	14,336	5,317	36,412	25,481
Shipping	24,108	-	-	24,108	-	-	-	-	-	-	-	24,108	-	-	24,108	57,511
Insurance	1,188	12,640	1,535	15,363	-	-	-	-	-	-	-	1,188	12,640	1,535	15,363	14,200
Bank fees	-	-	-	-	-	-	6,043	6,043	-	-	-	-	-	-	6,043	5,326
Provision for bad debts	5,427	-	-	5,427	-	-	-	-	-	-	-	5,427	-	-	5,427	44,807
Operational supplies and equipment	-	-	-	-	291	-	-	291	-	-	-	291	-	-	291	55,581
Donations	-	-	-	-	129,200	-	-	129,200	(129,200)	-	(129,200)	-	-	-	-	-
Other	25,495	-	11,939	37,434	4,113	-	-	4,113	-	-	-	29,608	-	11,939	41,547	44,178
Total expenses	\$ 34,053,319	\$ 712,080	\$ 884,278	\$ 35,649,677	\$ 751,593	\$ 22,676	\$ 23,725	\$ 797,994	\$ (739,984)	\$ -	\$ (739,984)	\$ 34,064,928	\$ 734,756	\$ 908,003	\$ 35,707,687	\$ 32,954,315

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, 2018

(With Comparative Totals for 2017)

	Foodlink Foundation, Inc. and Subsidiary			Total	
	Foodlink, Inc.	Foodlink Foundation, Inc. and Subsidiary	Eliminations	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:					
Change in net assets	\$ 402,778	\$ (81,443)	\$ 81,443	\$ 402,778	\$ 1,210,232
Adjustments to reconcile change in net assets to net cash flow from operating activities:					
Realized and unrealized investment gain	-	(39,485)	-	(39,485)	(44,686)
Depreciation	806,065	80,446	-	886,511	743,765
Provision for bad debts	5,427	-	-	5,427	44,807
Change in interest of net assets of Foodlink Foundation, Inc.	81,443	-	(81,443)	-	-
Receipt of payment of permanently restricted contributions	-	(22)	-	(22)	-
Loss on disposal of property and equipment	28,315	-	-	28,315	42,823
Changes in:					
Accounts receivable	(34,492)	14,090	-	(20,402)	126,154
Grants receivable	811,204	-	-	811,204	(738,504)
United Way receivable	(4,166)	-	-	(4,166)	-
Pledges receivable	-	12,115	-	12,115	11,260
Inventory	56,216	-	-	56,216	(1,084)
Prepaid expenses	10,314	-	-	10,314	(32,008)
Accounts payable and accrued expenses	128,330	(431)	-	127,899	(581,702)
Due to/(from) affiliate, net	(41,469)	41,469	-	-	-
Deferred revenue	(91,296)	(6,000)	-	(97,296)	(65,457)
Net cash flow from operating activities	<u>2,158,669</u>	<u>20,739</u>	<u>-</u>	<u>2,179,408</u>	<u>715,600</u>
CASH FLOW FROM INVESTING ACTIVITIES:					
Purchases of property and equipment	(221,976)	-	-	(221,976)	(3,356,628)
Proceeds from sale of property and equipment	20,300	-	-	20,300	-
Purchases of investments	-	(26,816)	-	(26,816)	(251,235)
Proceeds from sales of investments	-	23,203	-	23,203	244,522
Net cash flow from investing activities	<u>(201,676)</u>	<u>(3,613)</u>	<u>-</u>	<u>(205,289)</u>	<u>(3,363,341)</u>
CASH FLOW FROM FINANCING ACTIVITIES:					
Receipt of payment of permanently restricted contributions	-	22	-	22	-
Borrowings (repayments) on line-of-credit, net	(792,194)	-	-	(792,194)	792,194
Principal payments on capital lease obligations	(167,314)	-	-	(167,314)	(151,177)
Principal payments on long-term debt	-	-	-	-	(4,772)
Net cash flow from financing activities	<u>(959,508)</u>	<u>22</u>	<u>-</u>	<u>(959,486)</u>	<u>636,245</u>
CHANGE IN CASH AND EQUIVALENTS	997,485	17,148	-	1,014,633	(2,011,496)
CASH AND EQUIVALENTS - beginning of year	<u>115,024</u>	<u>34,802</u>	<u>-</u>	<u>149,826</u>	<u>2,161,322</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 1,112,509</u>	<u>\$ 51,950</u>	<u>\$ -</u>	<u>\$ 1,164,459</u>	<u>\$ 149,826</u>
NON-CASH TRANSACTIONS:					
Capital lease obligations entered into	<u>\$ 141,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,590</u>	<u>\$ 34,707</u>
Property, plant and equipment acquired under lease obligations	<u>\$ 141,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,590</u>	<u>\$ 34,707</u>

The accompanying notes are an integral part of these statements.

FOODLINK, INC. AND AFFILIATE

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018 and 2017, temporarily restricted net assets had time restrictions or were restricted for program activities.
- 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, 2017, 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, 2018 and 2017.

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.

Purchased Product Inventory

Food that has been purchased by Foodlink, 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. Inventory purchased by Foodlink is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method (FIFO) method.

In years prior to 2018, Foodlink stated purchased inventory at the lower of cost or market. The change was made prospectively as of July 1, 2017 in accordance with adoption of Accounting Standards Update (ASU) 2015-11, *Simplifying the Measurement of Inventory*. The adoption of ASU 2015-11 had no impact on the balance sheet or statement of activities.

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

Donated Product

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

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 an entity 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, 2018 and 2017 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 \$837,800 available to offset future taxable income through 2035, if any. The loss carryforwards expire between 2026 and 2035.

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 2017 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>2018</u>	<u>2017</u>
Capital campaign	\$ 81,263	\$ 221,078
Unappropriated endowment earnings	<u>104,936</u>	<u>61,782</u>
	<u>\$ 186,199</u>	<u>\$ 282,860</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>2018</u>	<u>2017</u>
Capital campaign	\$ <u>141,315</u>	\$ <u>612,960</u>

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

	<u>2018</u>	<u>2017</u>
Career Empowerment Initiative	\$ 330,117	\$ -
Community Nutrition Programs		
• Food Access Programs	118,488	29,682
• Nutrition Education Programs	6,847	5,753
Foodbank Programs	116,841	51,817
Child Nutrition Meal Programs	<u>29,817</u>	<u>41,447</u>
	<u>\$ 602,110</u>	<u>\$ 128,699</u>

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

	<u>2018</u>	<u>2017</u>
Foodbank Programs	\$ 337,295	\$ 354,125
Career Empowerment Initiative	209,884	-
Community Nutrition Programs		
• Food Access Programs	75,668	25,660
• Nutrition Education Programs	5,903	17,612
Child Nutrition Meal Programs	60,007	87,293
Capital project for kitchen move	-	4,702,470
Capital assets, net	<u>-</u>	<u>337,491</u>
	<u>\$ 688,757</u>	<u>\$ 5,524,651</u>

4. PLEDGES RECEIVABLE

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

2019	\$ 23,794
2020	<u>2,475</u>
	26,269
Less: Current portion	<u>23,794</u>
	<u>\$ 2,475</u>

5. INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 17,247	\$ 16,531
Equity mutual funds	45,082	52,131
Corporate bonds	117,827	117,114
Government bonds	173,901	171,832
Common stock	<u>309,810</u>	<u>263,161</u>
	<u>\$ 663,867</u>	<u>\$ 620,769</u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 9,869	\$ 12,042
Net realized gains	43,550	10,795
Net unrealized gains (losses)	<u>(4,065)</u>	<u>33,891</u>
	<u>\$ 49,354</u>	<u>\$ 56,728</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>2018</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	\$ 17,247	\$ -	\$ -	\$ 17,247
Equity mutual funds	45,082	-	-	45,082
Corporate bonds	-	117,827	-	117,827
Government bonds	173,901	-	-	173,901
Common stock	<u>309,810</u>	<u>-</u>	<u>-</u>	<u>309,810</u>
	<u>\$ 546,040</u>	<u>\$ 117,827</u>	<u>\$ -</u>	<u>\$ 663,867</u>
<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
Equity 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>

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:

	2018			2017		
	Foodlink	Foundation	Total	Foodlink	Foundation	Total
Buildings	\$ -	\$ 625,575	\$ 625,575	\$ -	\$ 625,575	\$ 625,575
Building and land improvements	4,773,248	1,162,037	5,935,285	4,734,763	1,162,037	5,896,800
Furniture and equipment	2,399,878	-	2,399,878	2,369,630	-	2,369,630
Vehicles	1,573,518	10,240	1,583,758	1,455,389	10,240	1,465,629
Construction in progress	<u>107,966</u>	<u>-</u>	<u>107,966</u>	<u>-</u>	<u>-</u>	<u>-</u>
	8,854,610	1,797,852	10,652,462	8,559,782	1,797,852	10,357,634
Less:						
Accumulated depreciation and amortization	<u>(2,953,031)</u>	<u>(1,607,713)</u>	<u>(4,560,744)</u>	<u>(2,167,089)</u>	<u>(1,527,267)</u>	<u>(3,694,356)</u>
	<u>\$ 5,901,579</u>	<u>\$ 190,139</u>	<u>\$ 6,091,718</u>	<u>\$ 6,392,693</u>	<u>\$ 270,585</u>	<u>\$ 6,663,278</u>

7. INVENTORY

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

	June 30, 2018		June 30, 2017	
	Pounds	Foodlink Value	Pounds	Foodlink Value
Inventory, beginning of year	629,390	\$ 1,275,315	512,590	\$ 1,042,496
Revision of inventory value	-	-	-	30,755
Donated food received	11,813,966	19,847,463	11,238,071	19,441,863
Less:				
Food distributed to participating agencies	(11,604,177)	(19,495,017)	(9,852,951)	(17,045,605)
Food scrapped	<u>(311,036)</u>	<u>(522,540)</u>	<u>(1,268,320)</u>	<u>(2,194,194)</u>
Inventory, end of year	<u>528,143</u>	<u>\$ 1,105,221</u>	<u>629,390</u>	<u>\$ 1,275,315</u>

Donated product is included as revenue and expense in the accompanying financial statements and consists of \$19,495,017 and \$17,045,605 in distributed donated product for the years ending June 30, 2018 and 2017, respectively.

7. INVENTORY (Continued)

Inventory, End of Year

Foodlink's inventory value was determined using a rate of \$1.68 and \$1.73 per pound in 2018 and 2017, 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>2018</u> <u>Pounds</u>	<u>2017</u> <u>Pounds</u>
Inventory, beginning of year	342,232	551,982
Donated food received	2,362,941	2,592,049
Less:		
Food distributed to participating agencies	(2,305,743)	(2,768,373)
Food scrapped	<u>(163)</u>	<u>(33,426)</u>
Inventory, end of year	<u>399,267</u>	<u>342,232</u>

Donated product is included as revenue and expense in the accompanying financial statements and consists of \$3,620,017 and \$4,207,927 in distributed USDA product for the years ending June 30, 2018 and 2017, respectively.

Foodlink's value is determined by taking the ending inventory in pounds and multiplying that amount by a rate of \$1.57 and \$1.52 per pound in 2018 and 2017, respectively. 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 \$626,849 and \$520,193 at June 30, 2018 and 2017, 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 available an annually renewable line-of-credit agreement with the bank in the amount of \$2,000,000, with interest at the prime rate (5.00% at June 30, 2018). Amounts borrowed on the line-of-credit are collateralized by a general lien on substantially all of Foodlink's assets. There were no outstanding borrowings on the line-of-credit as of June 30, 2018. There was \$792,194 outstanding on the line-of-credit as of June 30, 2017. The Foundation has guaranteed this line-of-credit.

8. FINANCING ARRANGEMENTS (Continued)

Lines-of-Credit (Continued)

The Foundation has available an annually renewable \$500,000 bank line-of-credit, with interest at the prime rate (5.00% at June 30, 2018). 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 outstanding borrowings on the line-of-credit as of June 30, 2018 and 2017.

Capital Leases

Foodlink has financed leasehold improvements, equipment and vehicles under the terms of capital lease agreements which expire at various dates through February 2025 and bear interest at rates ranging from 2.99% to 9.45%.

At June 30, 2018, cost and accumulated amortization of capital lease assets included in property and equipment on the accompanying balance sheet are as follows:

Leasehold improvements	\$ 596,757
Furniture and equipment	469,084
Vehicles	<u>1,098,708</u>
	2,164,549
Less: Accumulated amortization	<u>(1,081,171)</u>
	<u>\$ 1,083,378</u>

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

2019	\$ 193,949
2020	160,661
2021	127,393
2022	111,181
2023	65,495
Thereafter	<u>29,621</u>
	688,300
Less: Amount representing interest	<u>(72,114)</u>
Present value of net minimum capital lease payments	616,186
Less: Current portion	<u>(166,382)</u>
	<u>\$ 449,804</u>

Paid Interest

Interest paid on financing arrangements by Foodlink totaled approximately \$41,000 and \$58,000 for the years ended June 30, 2018 and 2017, 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 \$148,600 and \$135,800 to the plan in the years ended June 30, 2018 and 2017, respectively.

10. INTERCOMPANY TRANSACTIONS

Administrative Support

The Foundation receives administrative support from Foodlink in the form of personnel and other operating costs. These costs are charged by Foodlink based on agreed-upon methodologies. Administrative support expense was approximately \$460 and \$900 for the years ended June 30, 2018 and 2017, respectively, and is included in contracted services in the accompanying statement of activities and change in net assets/accumulated deficit.

Lease Commitments

As described in Note 13, FreshLink leases office and warehouse space from an unrelated party on Mt. Read Boulevard and subleases this space to Foodlink.

Inter-Company Loan

FreshLink has a balance due to the Foundation of \$598,099 and \$685,060 at June 30, 2018 and 2017, 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 \$87,258 and \$65,502 in 2018 and 2017, 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, 2017	\$ 20,328	\$ 549,042
Unappropriated earnings	<u>41,454</u>	<u>-</u>
Endowment net assets, June 30, 2017	61,782	549,042
Contributions	-	22
Unappropriated earnings	<u>43,154</u>	<u>-</u>
Endowment net assets, June 30, 2018	<u>\$ 104,936</u>	<u>\$ 549,064</u>

11. ENDOWMENT (Continued)

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 and 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.

13. COMMITMENTS AND CONTINGENCIES (Continued)

Lease Commitments (Continued)

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 are as follows for the years ending June 30:

2019	\$ 317,676
2020	324,834
2021	331,992
2022	331,992
2023	331,992
Thereafter	<u>2,891,040</u>
	<u>\$ 4,529,526</u>

Construction in Progress

Foodlink's main facility is undergoing renovations and is currently under contract with a construction company for a total of \$214,203 of work to be completed. As of June 30, 2018, Foodlink has incurred expenses of approximately \$97,000. The project was subsequently completed in August 2018.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 28, 2018, 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 28, 2018

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, 2018, 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 28, 2018.

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.