

EMERGENCY FOOD NETWORK, INC.

CHARLOTTESVILLE, VIRGINIA

REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS – MODIFIED CASH BASIS
FOR THE YEAR ENDED FEBRUARY 29, 2020

EMERGENCY FOOD NETWORK, INC.

Report on Examination of

Financial Statements – Modified Cash Basis

For the Year Ended February 29, 2020

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EXHIBIT A

Independent Auditor's Report on Financial Statements

November 23, 2020

Board of Directors
Emergency Food Network, Inc.
Charlottesville, Virginia

We have audited the accompanying financial statements of Emergency Food Network, Inc. (a nonprofit organization) which comprise the statement of assets, liabilities, and net assets – modified cash basis as of February 29, 2020, and the related statements of support, revenue, and expenses – modified cash basis, functional expenses – modified cash basis, and cash flow – modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of 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 polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets – modified cash basis of Emergency Food Network, Inc., as of

February 29, 2020, and its support, revenue, and expenses – modified cash basis, functional expenses – modified cash basis, and cash flows – modified cash basis for the year then ended on the basis of accounting described in the notes to the financial statements.

Basis of Accounting

As described in the Notes to the Financial Statements, the Organization prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A handwritten signature in black ink that reads "Hostetler Stott CPA". The signature is written in a cursive, somewhat stylized font.

Hostetler Stott CPA
Charlottesville, Virginia

EXHIBIT B**EMERGENCY FOOD NETWORK, INC.**

Statement of Assets, Liabilities and Net Assets - Modified Cash Basis
For the Year Ending February 29, 2020

ASSETS**ASSETS**

Cash and cash equivalents	\$	132,740
Investments		323,326
		<hr/>
TOTAL ASSETS		456,066
		<hr/>

LIABILITIES AND NET ASSETS**LIABILITIES**

Payroll liabilities		753
		<hr/>
TOTAL LIABILITIES		753
		<hr/>

NET ASSETS

Net assets without donor restrictions		403,845
Net assets with donor restrictions		51,468
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Total net assets		455,313
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TOTAL LIABILITIES AND NET ASSETS	\$	456,066
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EXHIBIT C**EMERGENCY FOOD NETWORK, INC.**Statement of Support, Revenues and Expenses - Modified Cash Basis
For the Year Ending February 29, 2020

	Without Donor Restrictions	Donor Restricted	Total
<u>SUPPORT AND REVENUE</u>			
Contributions			
Individuals	\$ 113,327	\$ 5,000	118,327
CVC	1,098	-	1,098
Businesses	7,601	-	7,601
Church	22,122	-	22,122
Foundations	64,503	48,350	112,853
Organizations	10,081	-	10,081
Total contributions	<u>218,732</u>	<u>53,350</u>	<u>272,082</u>
Dividend income	3,628	-	3,628
Net investment gains	11,198	-	11,198
Miscellaneous revenue	594	-	594
Gain on Sale of Stock	-	-	-
Total support and revenue	<u>234,152</u>	<u>53,350</u>	<u>287,502</u>
Reclassifications			
Net assets released from restrictions	35,244	(35,244)	-
Total reclassifications	<u>35,244</u>	<u>(35,244)</u>	<u>-</u>
Total revenue and reclassifications	269,396	18,106	287,502
<u>EXPENSES</u>			
Program services	172,487	-	172,487
Administrative	20,322	-	20,322
Fundraising	2,367	-	2,367
Total expenses	<u>195,176</u>	<u>-</u>	<u>195,176</u>
Net increase (decrease) net assets	74,220	18,106	92,326
Net assets at beginning of year	<u>329,625</u>	<u>33,362</u>	<u>362,987</u>
Net assets at end of year	<u>\$ 403,845</u>	<u>\$ 51,468</u>	<u>\$ 455,313</u>

See accompanying notes to the financial statements. 4

EXHIBIT D

EMERGENCY FOOD NETWORK, INC.
Statement of Functional Expenses - Modified Cash Basis
For the Year Ending February 29, 2020

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Administrative</u>	<u>Fundraising</u>	
Food purchases:				
Food purchases - general	\$ 83,682	\$ -	\$ -	\$ 83,682
Bright Stars	755	-	-	755
Bread purchases	16,755	-	-	16,755
Milk purchases	19,041	-	-	19,041
OOO dinners	432	-	-	432
Haven food purchases	8,935	-	-	8,935
Hispanic Ministry	4,525	-	-	4,525
Shelter for Help In Emergency	3,300	-	-	3,300
Hospitality House	2,400	-	-	2,400
Boys & Girls Club	9,640	-	-	9,640
Piedmont House	2,400	-	-	2,400
Extras	529	-	-	529
Total food purchases	<u>152,394</u>	<u>-</u>	<u>-</u>	<u>152,394</u>
Personal care purchases	1,421	-	-	1,421
Dues and fees	-	243	629	872
Insurance	786	637	-	1,423
Miscellaneous	805	91	-	896
Office supplies and expenses	-	1,182	-	1,182
Payroll expense	-	10,213	-	10,213
Postage and mailing	587	-	-	587
Professional services	-	7,850	1,738	9,588
Rent expense	14,484	-	-	14,484
Telephone	2,010	106	-	2,116
Total expenses	<u>\$ 172,487</u>	<u>\$ 20,322</u>	<u>\$ 2,367</u>	<u>\$ 195,176</u>

See accompanying notes to the financial statements.

EXHIBIT E

EMERGENCY FOOD NETWORK, INC.
Statement of Cash Flows - Modified Cash Basis
For the Year Ending February 29, 2020

Cash flows from operating activities:	
Change in net assets	\$ 92,326
Cash provided by (used by) operating activities:	
Net investment gains	(10,864)
Increase (decrease) in payroll liabilities	388
Net cash provided by (used by) operating activities	<u>81,850</u>
Cash flows provided by (used by) investing activities	
Purchase of investments	<u>(33,371)</u>
Cash flows provided by (used by) financing activities	<u>(33,371)</u>
Net increase (decrease) in cash and cash equivalents	48,479
Cash and cash equivalents at beginning of year	<u>84,261</u>
Cash and cash equivalents at end of year	<u><u>\$ 132,740</u></u>
<u>Supplemental data:</u>	
Interest paid or capitalized	\$ -
Income taxes paid	\$ -
Non-cash investing activities	\$ -

The organization considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

EMERGENCY FOOD NETWORK, INC.
Notes to the Financial Statements
For the Year Ending February 29, 2020

Nature of the Organization

Emergency Food Network, Inc. is an Organization primarily run by volunteers that provides a three-day supply of nutritionally balanced food to underprivileged individuals and families. The primary revenue sources are cash and noncash donations from individuals, foundations, organizations and businesses.

Basis of Accounting

The Organization reports its financial statements using the modified cash method, which is a comprehensive basis of accounting other than generally accepted accounting principles. This method differs from GAAP in that grant income and contributions are recognized when received rather than when earned or promised. Therefore, no pledges or grants receivable are reported in the financial statements. Payroll tax liabilities are recognized in the financial statements, yet noncash donations are not. Additionally, furniture and equipment are expensed in the year they are purchased.

Accounting Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Gift cards held are also considered cash equivalents. The carrying amounts reported in the statement of financial position approximate its fair values. At year end, cash and cash equivalents consists of one checking account.

Investments

The Organization reports investments in marketable equity securities and mutual or money market fund securities with readily determinable fair values, and these are recorded at fair value. Fair value is established based on quoted prices from recognized securities exchanges. Dividend income and unrealized gains and losses on investments (net of fees) are reported in the statement of support, revenues, and expenses – modified cash basis.

Inventory

The Organization holds food and other consumables in stock. The costs of these items in stock at year end would be reported under GAAP but are not reported under the modified-cash basis.

EMERGENCY FOOD NETWORK, INC.
 Notes to the Financial Statements
 For the Year Ending February 29, 2020

Basis of Accounting (continued)

Property and Equipment

Emergency Food Network, Inc. owns furniture and equipment for use in operations including a small freezer, two refrigerators, shelving, and miscellaneous furniture and office equipment. Additionally, building improvements were made to the storage facility at Meadows Presbyterian Church in 1990. The historical cost of these items is not reported in this statement as it would be under GAAP. The items were expensed when incurred, rather than being capitalized and depreciated over their useful lives as they would have been under GAAP.

Net Assets

Net assets without donor restrictions result from unexpended funds received from funding sources that impose no time or usage restrictions. At year end, the Organization had net assets without donor restrictions of \$403,845.

Donor-restricted net assets result from unexpended revenues subject to donor-imposed restrictions as to time and/or purpose of usage. At year end, the Organization had net assets with donor restrictions of \$51,468 as follows:

Summary of net assets with donor restrictions	Balance 2/28/19	Funds received in FY2020	Expended in FY 2020	Balance 2/29/20
Grant for fundraising consultant	\$ 3,425	-	\$ 1,738	\$ 1,687
Grant for extras (non-staple foods)	1,181	5,000	529	5,652
Concessions for Extras (non-staple foods)	-	250	-	250
Grant for The Haven	2,263	7,100	3,615	5,748
Grant for fresh produce	21,000	21,000	13,738	28,262
Grant for chicken	-	5,000	1,897	3,103
Grant for milk	5,493	15,000	13,727	6,766
Total net assets with donor restrictions	\$ 33,362	\$ 53,350	\$ 35,244	\$51,468

Noncash contributions

The Organization received donations of approximately 30,600 pounds of food during the year. They also were given the use of approximately 1,080 square feet of facility space, the value of which is not recorded in this statement as it would be under GAAP. The value of donated labor is also not recognized.

EMERGENCY FOOD NETWORK, INC.
Notes to the Financial Statements
For the Year Ending February 29, 2020

Income Taxes

The Organization is a corporation that is exempt from income taxes on all exempt-purpose earnings under Section 509(a)(1) and 170(b)(A)(vi) of the Internal Revenue Code per letter of November 5, 1975. The Organization is not a private foundation.

Uncertain Tax Positions

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The federal income tax returns for fiscal year 2017 and forward are subject to examination by the Internal Revenue Service

Facility Lease

The Organization has entered into a lease for 900 square feet of commercial space requiring monthly payments of \$1,103 per month through August 31, 2019, increasing to \$1,175 per month through August 31, 2022. Rent expense, including related utilities expense, for the fiscal year was \$14,484. Future rent commitments are as follows:

Year ended 2/28/21	\$ 14,100
Year ended 2/28/22	\$ 14,100
Year ended 2/28/23	\$ 7,050

Functional Allocation of Expenses

The Organization allocates its expenses among program services and supporting services in the Statement of Functional Expenses – Modified Cash Basis. Allocations are made based on the specific purpose of each expense or by the percentage of time spent by employees on each type of service. These allocations involve estimations made by management.

Concentration of Risk

The Federal Deposit Insurance Corporation (FDIC) insures account balances up to \$250,000 at a banking institution. As of February 29, 2020 the balances held at the bank did not exceed this limit. Investment and Beneficial interest balances of the Organization are not FDIC insured.

Fair Value of Financial Instruments

The Financial Accounting Standards Board Codification of Accounting Standards Topics 820 and 825 established a framework for measuring fair value under accounting principles generally accepted in the United States of America. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

EMERGENCY FOOD NETWORK, INC.
 Notes to the Financial Statements
 For the Year Ending February 29, 2020

Fair Value of Financial Instruments (Cont'd)

Level 1 – Quoted prices in active markets for identical assets the Organization has the ability to access at the measurement date. These types of quoted prices would include publicly traded securities.

Level 2 – Pricing inputs (other than quoted prices included in Level 1) that are observable for the asset, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the Organization. These types of sources would include quoted prices for similar assets, models or other valuation methodologies.

Level 3 – Pricing inputs that are unobservable for the asset. Unobservable inputs are those that reflect management’s assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available.

The carrying amounts for cash reported in the statement of financial position approximate fair values.

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the Organization’s financial statements at fair value as of February 29, 2020:

	Fair Value	Level 1	Level 2
Checking and Savings	\$ 132,740	\$ 132,740	
Investment- Mutual Fund	169,238	169,238	
Investment-Pooled Fund	154,088		\$154,088
Payroll Liabilities	753	753	

The Level 2 assets represent a beneficial interest in amounts invested in CACF’s investment pool. The valuation of this investment is based upon the inputs used by CACF to value the underlying assets. The following table provides further details of the Level 2 fair value measurements at February 29, 2020:

Level 2 investments, beginning of year	\$ 146,261
Change in value of investment:	
Investment returns (losses)	9,330
Administrative fee	(1,503)
Level 2 investments, end of year	<u>\$ 154,088</u>

EMERGENCY FOOD NETWORK, INC.
Notes to the Financial Statements
For the Year Ending February 29, 2020

Liquidity and Availability to Meet Cash Needs

The following represents Emergency Food Network Inc.'s financial assets as February 29, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Financial assets:	
Cash	\$ 132,740
Investments	<u>323,326</u>
Net Financial Assets	456,066
Less: net assets with donor restrictions	<u>(51,468)</u>
Available to meet general expenditures	\$ 404,598

Commitments

Emergency Food Network, Inc. has entered into several contracts with other charitable organizations in which it promises to provide money on a monthly basis for the purchase of food for their respective clients. As of February 29, 2020, within the coming 2020 fiscal year Emergency Food Network, Inc. has a committed funds balance of \$3,249.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 3, 2020, which is the date that the financial statements were available to be issued. No other subsequent events have been recognized or disclosed.