

**WORCESTER COUNTY FOOD BANK, INC.**

***FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
AND OTHER REPORTS***

***YEAR ENDED JUNE 30, 2017***

***AND***

***INDEPENDENT AUDITOR'S REPORT***

WORCESTER COUNTY FOOD BANK, INC.

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
AND OTHER REPORTS

YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Worcester County Food Bank, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Worcester County Food Bank, Inc. which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Worcester County Food Bank, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2017 on our consideration of the Worcester County Food Bank, Inc.'s 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 Worcester County Food Bank, Inc.'s internal control over financial reporting and compliance.

**Report on Summarized Comparative Information**

We have previously audited Worcester County Food Bank, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 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.

*Ballus Lynch, LLP*

Worcester, Massachusetts  
October 19, 2017

WORCESTER COUNTY FOOD BANK, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Summarized Financial Information for 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents		
Unrestricted	\$ 1,353,812	\$ 811,028
Temporarily restricted	<u>120,907</u>	<u>7,125</u>
Total cash and cash equivalents	1,474,719	818,153
Investments	5,043,076	4,736,844
Accounts receivable		
Commodities	30,174	29,400
Other	11,958	4,108
Pledges receivable, net		
Unrestricted	10,000	-
Temporarily restricted	74,324	75,000
Inventory - co-op	1,873	104
Prepaid expenses	48,630	42,994
Property and equipment	<u>1,288,035</u>	<u>1,155,096</u>
Total assets	<u>\$ 7,982,789</u>	<u>\$ 6,861,699</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 122,532	\$ 148,520
Accrued expenses	<u>254,583</u>	<u>175,286</u>
Total liabilities	<u>377,115</u>	<u>323,806</u>
Net assets		
Unrestricted		
Designated	150,000	391,456
Undesignated	<u>7,260,443</u>	<u>6,064,312</u>
Total unrestricted	7,410,443	6,455,768
Temporarily restricted	<u>195,231</u>	<u>82,125</u>
Total net assets	<u>7,605,674</u>	<u>6,537,893</u>
Total liabilities and net assets	<u>\$ 7,982,789</u>	<u>\$ 6,861,699</u>

See accompanying independent auditor's report and notes to financial statements.

WORCESTER COUNTY FOOD BANK, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017  
(With Summarized Financial Information for 2016)

	Unrestricted	Temporarily Restricted	Total	
			2017	2016
Support, revenue and net assets released from restriction				
Support				
Donated food distributed	\$ 10,005,377	\$ -	\$ 10,005,377	\$ 10,561,521
Donated services	81,382	-	81,382	95,127
Contributions	1,588,987	-	1,588,987	1,461,559
Grants - other	624,000	310,329	934,329	592,144
Total support	12,299,746	310,329	12,610,075	12,710,351
Revenue				
Agency service fees and USDA reimbursement	290,816	-	290,816	287,749
Co-op revenue	19,450	-	19,450	39,620
Interest and dividend income	110,695	-	110,695	131,626
Unrealized gain (loss) on investments	103,364	-	103,364	(242,368)
Realized gain (loss) on sale of investments	464,320	-	464,320	(7,782)
Miscellaneous	14,701	-	14,701	20,363
Total revenue	1,003,346	-	1,003,346	229,208
Net assets released from restrictions				
Satisfaction of program restrictions	197,223	(197,223)	-	-
Total support, revenue and net assets released from restriction	13,500,315	113,106	13,613,421	12,939,559
Expenses				
Program services	11,726,714	-	11,726,714	12,196,639
Management and general	362,812	-	362,812	231,371
Fundraising	456,114	-	456,114	420,417
Total expenses	12,545,640	-	12,545,640	12,848,427
Change in net assets	954,675	113,106	1,067,781	91,132
Net assets, beginning of year	6,455,768	82,125	6,537,893	6,446,761
Net assets, end of year	\$ 7,410,443	\$ 195,231	\$ 7,605,674	\$ 6,537,893

See accompanying independent auditor's report and notes to financial statements.

WORCESTER COUNTY FOOD BANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017  
(With Summarized Financial Information for 2016)

	Program Services	Management and General	Fundraising	Total	
				2017	2016
Payroll and related expenses					
Payroll	\$ 744,185	\$ 144,921	\$ 207,346	\$ 1,096,452	\$ 829,695
Employee benefits	111,827	21,777	31,158	164,762	138,260
Payroll taxes	55,128	10,736	15,360	81,224	64,405
Total payroll and related expenses	<u>911,140</u>	<u>177,434</u>	<u>253,864</u>	<u>1,342,438</u>	<u>1,032,360</u>
Operating expenses					
Accounting	1,947	73,910	-	75,857	56,544
Agency outreach	2,674	-	-	2,674	1,372
Amortization	157	-	-	157	157
Bank fees	7,031	-	-	7,031	4,406
Co-op food purchase	19,450	-	-	19,450	39,620
Computer	46,008	11,502	-	57,510	50,629
Consultant fees	44,495	17,748	-	62,243	85,870
Direct mail	-	-	168,213	168,213	201,073
Donated food distributed	10,005,377	-	-	10,005,377	10,561,521
Donated services	44,622	36,760	-	81,382	95,127
Equipment maintenance	9	-	-	9	3,983
Equipment rental	1,258	-	-	1,258	3,259
Food purchases	37,192	-	-	37,192	35,180
Food storage	3,162	-	-	3,162	9,108
Freight	6,372	-	-	6,372	6,989
Grants and contributions	104,775	-	-	104,775	149,607
Insurance	20,943	1,462	-	22,405	18,863
Licenses and permits	1,218	-	-	1,218	1,552
Motor vehicle	29,462	-	-	29,462	35,658
Office	15,204	5,068	5,068	25,340	30,540
Organizational dues	25,435	-	-	25,435	19,860
Postage	1,750	438	10,207	12,395	8,848
Program Expense	24,946	-	-	24,946	62,318
Professional fees	2,447	14,383	-	16,830	2,298
Promotion and printing	8,862	2,215	15,970	27,047	18,966
Reference materials	678	226	-	904	1,321
Repairs and maintenance	94,186	6,012	-	100,198	62,311
Rubbish and snow removal	42,413	-	-	42,413	28,202
Security	1,951	-	-	1,951	570
Seminars and conferences	4,589	1,530	-	6,119	3,083
Telephone	7,449	931	931	9,311	8,293
Training	4,440	555	555	5,550	6,640
Travel	10,446	1,306	1,306	13,058	11,570
Utilities	43,208	2,758	-	45,966	43,796
Warehouse supplies	17,097	-	-	17,097	24,827
Total operating expenses	<u>10,681,253</u>	<u>176,804</u>	<u>202,250</u>	<u>11,060,307</u>	<u>11,693,961</u>
Total expenses before depreciation	11,592,393	354,238	456,114	12,402,745	12,726,321
Depreciation	134,321	8,574	-	142,895	122,106
Total expenses	<u>\$ 11,726,714</u>	<u>\$ 362,812</u>	<u>\$ 456,114</u>	<u>\$ 12,545,640</u>	<u>\$ 12,848,427</u>

See accompanying independent auditor's report and notes to financial statements.

WORCESTER COUNTY FOOD BANK, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017  
(With Summarized Financial Information for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,067,781	\$ 91,132
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	142,895	122,106
Amortization	157	157
Unrealized (gain) loss on investments	(103,364)	242,368
Donated investments	-	(19,087)
Realized (gain) loss on sale of investments	(464,320)	7,782
(Increase) decrease in operating assets:		
Accounts receivable	(8,624)	26,730
Pledges receivable, net	(9,324)	(75,000)
Inventory - co-op	(1,769)	(104)
Prepaid expenses	(5,636)	7,348
Increase (decrease) in operating liabilities:		
Accounts payable	(25,988)	(393)
Accrued expenses	79,297	(21,347)
Net cash provided by operating activities	<u>671,105</u>	<u>381,692</u>
Cash flows from investing activities:		
Purchase of property and equipment	(275,991)	(56,732)
Purchase of investments	(4,257,308)	(136,000)
Proceeds from sale of investments	4,518,760	87,758
Net cash used in investing activities	<u>(14,539)</u>	<u>(104,974)</u>
Net increase in cash	656,566	276,718
Cash and cash equivalents, beginning of year	<u>818,153</u>	<u>541,435</u>
Cash and cash equivalents, end of year	<u>\$ 1,474,719</u>	<u>\$ 818,153</u>

Supplemental disclosure of non-cash investing activities:

The Organization received donations of investments. The fair market value at the date of donation amounted to \$0 and \$19,087 for the years ended June 30, 2017 and 2016, respectively.

See accompanying independent auditor's report and notes to financial statements.



WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Worcester County Food Bank, Inc. (the "Organization") commenced operations in November 1982 as a program of Catholic Charities Diocese of Worcester, Inc. As of July 1, 1991, Worcester County Food Bank, Inc. began operations as a separate legal entity.

The Organization is the region's leading anti-hunger agency distributing over 5 million pounds of donated food and grocery product in partnership with food donors, financial supporters, and volunteers. The Organization provides this product to a network of 131 Partner Agencies that have programs for feeding people including food pantries and community meal sites.

The Organization also advocates within the community and at the state and federal levels for systemic and sustainable solutions to the problem of hunger.

The Organization receives its funding from individual contributions, foundations, the federal government, Commonwealth of Massachusetts, Partner Agency shared maintenance fees, organizations, and corporations.

Method of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. Accordingly, assets are recorded when the Organization obtains rights of ownership or is entitled to claim for receipt and liabilities are recorded when the obligation is incurred.

Financial statement presentation

The Organization presents information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments and relevant state law.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Cash and cash equivalents

Cash and cash equivalents consist of monies held in checking and savings accounts, petty cash, and money market accounts.

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Organization carries investments with readily determinable fair values at their market value.

Gains or losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income is recorded in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations. Investment income is recorded net of fees of \$8,161 and \$0 in 2017 and 2016, respectively.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. There is no allowance for uncollectible accounts as of June 30, 2017 or 2016.

Pledges receivable

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. The allowance for uncollectable pledges receivable is determined based on management's evaluation of the collectability of individual promises. There is no allowance for uncollectable pledges receivable as of June 30, 2017 or 2016. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Inventory - co-op

Inventory is valued at the lower of cost or market determined on the first-in, first-out method.

Property and equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$2,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Contributions and grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Restricted gifts or promises to give are reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction.

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated food distributed

Donated food held for distribution by the Organization is not recorded on the books until it is actually distributed by the Organization. During the years ended June 30, 2017 and 2016 the Organization distributed 5,783,455 and 6,324,264 pounds of donated food products, respectively. Valuation of donated food items is based on the approximate average wholesale value of one pound of donated product as calculated in the Product Valuation Survey Methodology, Agreed-Upon Procedures prepared by Feeding America. The valuation at December 31, 2016 and 2015 was \$1.73 and \$1.67 per pound, respectively.

Donated services

Donated services are recognized as support if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Accounting estimates

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

Functional expenses

Expenses by function have been allocated among program, management and general, and fundraising classifications on the basis of estimates made by the Organization's management.

Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation.

Management annually reviews for uncertain tax positions along with any related interest and penalties, and believes that the Organization has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate upon the Organization's statement of financial position, or the related statements of activities, or cash flows.

The Organization files income tax returns in the U.S. federal jurisdiction. The Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2014.

Subsequent events

The Organization has evaluated the financial statement impact of subsequent events occurring through October 19, 2017, the date on which the financial statements were available to be issued.

2 - CASH AT RISK

The Organization maintains its cash deposit accounts at a bank and a brokerage firm. At times, account balances may exceed current federal deposit insurance limits of \$250,000. At June 30, 2017, the Organizations uninsured balances total \$1,143,778.

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

3 - PLEDGES RECEIVABLE

Payments of pledges receivable are expected to be received as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 60,000	\$ 75,000
One to five years	25,000	-
	<u>85,000</u>	<u>75,000</u>
Less: Unamortized discount	676	-
	<u>\$ 84,324</u>	<u>\$ 75,000</u>

4 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2017</u>	<u>2016</u>
Board designated unrestricted	\$ -	\$ 241,456
Unrestricted	<u>5,043,076</u>	<u>4,495,388</u>
	<u>\$ 5,043,076</u>	<u>\$ 4,736,844</u>

Cost, fair value and unrealized appreciation as of June 30, 2017 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds			
Bonds	\$ 155,625	\$ 155,906	\$ 281
International Core	499,575	498,837	( 738)
International Vector	216,152	293,892	77,740
REIT	88,396	92,458	4,062
Bonds	1,393,555	1,393,226	( 329)
Equities	<u>2,512,227</u>	<u>2,608,757</u>	<u>96,530</u>
Total investments	<u>\$ 4,865,530</u>	<u>\$ 5,043,076</u>	<u>\$ 177,546</u>

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

4 - INVESTMENTS (Continued)

Cost, fair value and unrealized appreciation as of June 30, 2016 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds			
Bonds	\$ 1,767,368	\$ 1,771,683	\$ 4,315
Emerging Markets Core	284,818	262,300	(22,518)
U.S. Core	773,399	762,628	(10,771)
U.S. Vector	836,776	1,026,760	189,984
International Core	494,896	411,471	(83,425)
International Vector	424,847	417,331	(7,516)
Bonds	61,074	60,629	( 445)
Equities	19,484	24,042	4,558
Total investments	<u>\$ 4,662,662</u>	<u>\$ 4,736,844</u>	<u>\$ 74,182</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 110,695	\$ -	\$ 110,695
Net realized and unrealized gains	567,684	-	567,684
Total return on investments	<u>\$ 678,379</u>	<u>\$ -</u>	<u>\$ 678,379</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 131,626	\$ -	\$ 131,626
Net realized and unrealized losses	(250,150)	-	(250,150)
Total return on investments	<u>\$ (118,524)</u>	<u>\$ -</u>	<u>\$ (118,524)</u>

The Organization's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments and the volatility of the financial markets, it is at least reasonably possible that significant changes in the value of investments could occur in the near term.

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

5 - PROPERTY AND EQUIPMENT

Property and equipment consists of:

	Estimated Useful Lives	2017	2016
Land	-	\$ 300,000	\$ 300,000
Building	20 - 30 years	1,500,946	1,474,956
Land improvements	30 years	121,266	121,266
Machinery and equipment	3 - 10 years	371,572	369,709
Furniture, fixtures and computers	3 - 10 years	176,273	177,509
Motor vehicles	5 years	351,491	254,905
		2,821,548	2,698,345
Less: Accumulated depreciation		1,533,513	1,543,249
		<u>\$ 1,288,035</u>	<u>\$ 1,155,096</u>

Depreciation expense for property and equipment was \$142,895 and \$122,106 for 2017 and 2016, respectively.

6 - AGENCY SERVICE FEES AND USDA REIMBURSEMENT

The Organization charges up to 16 cents (.16) per pound to recipient agencies which take the donated food and commodities and redistributes these items to the poor, needy and hungry. The fees offset a portion of the handling and redistribution costs incurred by the Organization. Accounts receivable on outstanding service fees arise from allowing member agencies the ability to charge their food pick-ups and pay on a credit basis.

The Organization distributes certain commodities provided by the Commonwealth of Massachusetts Department of Education under The Emergency Food Assistance Program (TEFAP) of the federal government, and the Massachusetts Emergency Food Assistance Program (MEFAP). The Organization is reimbursed for certain distribution and handling costs, based on a fixed allocation. The Organization was owed \$30,174 and \$29,400 as of June 30, 2017 and 2016, respectively, from these reimbursements. Income from these reimbursements amounted to \$237,411 for the year ended June 30, 2017 and \$215,529 for the year ended June 30, 2016.

7 - LINE OF CREDIT

The Organization maintains a \$100,000 line of credit which is due on demand with interest at 1% below the bank based rate. The line of credit is secured by all assets of the Organization. As of June 30, 2017 the line has \$100,000 available.

8 - FAIR VALUE MEASUREMENTS

The Organization follows the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures (ASC Topic 820) which provides the framework for measuring fair value. 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).

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

8 - FAIR VALUE MEASUREMENTS (Continued)

The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Mutual funds, equity securities and REIT: Valued at the closing price reported on the active market on which the individual securities are traded.

Bonds: Valued based on a compilation of primarily observable market information or a broker quote in a non-active market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2017 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds	\$ 948,634	\$ -	\$ -	\$ 948,634
Bonds	-	1,393,226	-	1,393,226
Equities	2,608,758	-	-	2,608,758
REIT	92,458	-	-	92,458
	<u>\$ 3,649,850</u>	<u>\$ 1,393,226</u>	<u>\$ -</u>	<u>\$ 5,043,076</u>

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

8 - FAIR VALUE MEASUREMENTS (Continued)

The Organization's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2016 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds	\$ 4,652,173	\$ -	\$ -	\$ 4,652,173
Bonds	-	60,629	-	60,629
Equities	24,042	-	-	24,042
	<u>\$ 4,676,215</u>	<u>\$ 60,629</u>	<u>\$ -</u>	<u>\$ 4,736,844</u>

The Organization does not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of financial position.

9 - DESIGNATED UNRESTRICTED NET ASSETS

The unrestricted net assets have been designated by the board of directors to cover future reserve requirements and to provide funding for the Worcester County Food Bank Fund to End Hunger at the Greater Worcester Community Foundation. The designations are as follows:

	<u>2017</u>	<u>2016</u>
Board designated Fund to End Hunger	\$ -	\$ 241,456
Capital reserve	150,000	150,000
	<u>\$ 150,000</u>	<u>\$ 391,456</u>

10 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purpose:

	<u>2017</u>	<u>2016</u>
Summer food truck partnership	\$ 75,000	\$ 75,000
Program services	120,231	7,125
	<u>\$ 195,231</u>	<u>\$ 82,125</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Summer food truck partnership	\$ -	\$ 29,046
Program services	197,223	48,975
Break-room upgrade	-	2,688
	<u>\$ 197,223</u>	<u>\$ 80,709</u>



WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

11 - DONATED SERVICES

The fair value of donated services included as contributions in the financial statements and the corresponding program expense are as follows:

	<u>2017</u>	<u>2016</u>
Volunteers	\$ 44,622	\$ 47,588
Investment services	36,760	47,000
Office supplies	-	539
	<u>\$ 81,382</u>	<u>\$ 95,127</u>

12 - PENSION PLAN

The Organization maintains a defined contribution retirement plan, qualified under section 403(b) of the Internal Revenue Code, to all eligible employees. The Organization's contribution to the plan is based on a matching formula. The Organization's contributions for the years 2017 and 2016 amounted to \$22,205 and \$15,812, respectively.

13 - COMMITMENTS AND CONTINGENCIES

Funding under federal and state contracts are subject to audit by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Organization.

SUPPLEMENTARY INFORMATION PURSUANT  
TO UNIFORM GUIDANCE

WORCESTER COUNTY FOOD BANK, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Agriculture:				
Passed through the Massachusetts Department of Education				
Food Distribution - Cluster				
Emergency Food Assistance Program (Administrative costs)	10 568	N/A	\$ -	\$ 117,911
Emergency Food Assistance Program (Food commodities)	10 569	N/A	<u>2,401,847</u>	<u>2,401,847</u>
Total Food Distribution - Cluster			2,401,847	2,519,758
Department of Homeland Security:				
Passed through United Way of America				
Emergency Food and Shelter National Board Program	97 024	Phase 33	<u>-</u>	<u>28,393</u>
Total Expenditures of Federal Awards			<u>\$ 2,401,847</u>	<u>\$ 2,548,151</u>

See accompanying independent auditor's report and notes to schedule.

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Worcester County Food Bank, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Major program determination

The Organization considers programs with expenditures that exceed \$750,000 to be Type A programs. Smaller programs are designated as Type B programs. Type A programs assessed as "low risk" that have been audited as a major program within the last two years with no audit findings are not designated as major programs, provided the Organization has Type B programs that have federal expenditures exceeding twenty-five percent of total expenditures. Accordingly, certain Type B programs may be identified as major programs.

3 - FOOD COMMODITIES

Non-monetary assistance is reported in the Schedule at the wholesale value of the commodities distributed.

OTHER REPORTS PURSUANT TO  
UNIFORM GUIDANCE

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*

Board of Directors  
Worcester County Food Bank, Inc.

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 financial statements of Worcester County Food Bank, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's 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*.

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)

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ballus Lynch, LLP*

Worcester Massachusetts  
October 19, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Worcester County Food Bank, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Worcester County Food Bank, Inc. (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2017. The major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(Continued)

**Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Ballus Lynch, LLP*

Worcester, Massachusetts  
October 19, 2017

WORCESTER COUNTY FOOD BANK, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes      X    No
- Significant deficiency(ies) identified? Yes      X    None reported

Noncompliance material to financial statements noted?

Yes      X    No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? Yes      X    No
- Significant deficiency(ies) identified? Yes      X    None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?

X    Yes                      No

Identification of major federal programs:

CFDA Numbers

Name of Federal Program or Cluster

10.568 and 10.569

Food Distribution - Cluster

Dollar threshold used to distinguish between type A and type B programs

\$750,000

Auditee qualified as low-risk auditee?

X    Yes                      No

WORCESTER COUNTY FOOD BANK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

YEAR ENDED JUNE 30, 2017

II. FINANCIAL STATEMENT FINDINGS

Internal Control Findings

As disclosed in Section I, the audit of the basic financial statements of Worcester County Food Bank, Inc. as of and for the year ended June 30, 2017 disclosed no matters involving the internal control over financial reporting and its operations that are considered to be significant deficiencies or material weaknesses.

Compliance Findings

As disclosed in Section I, the audit disclosed no instances of noncompliance which are material to the basic financial statements of Worcester County Food Bank, Inc. as of and for the year ended June 30, 2017.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Internal Control Over Compliance

No findings were noted as of and for the year ended June 30, 2017.

Compliance Findings

Finding 2017-001 - Subrecipient Risk Assessment

The Uniform Guidance requires recipients of federal awards to perform a written risk assessment of all subrecipients prior to entering into agreements for the subawards. While Worcester County Food Bank, Inc. does perform a risk assessment for each of its' subrecipients, it is not documented in writing as required. We recommend that Worcester County Food Bank, Inc. implements a written form to document the risk assessment for each subrecipient.

WORCESTER COUNTY FOOD BANK, INC.

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2017

Finding 2017-001 - Subrecipient Risk Assessment

The Uniform Guidance requires recipients of federal awards to perform a written risk assessment of all subrecipients prior to entering into agreements for the subawards. While the Worcester County Food Bank, Inc. (the "Organization") does perform a risk assessment for each of its' subrecipients, it is not documented in writing as required. We recommend that the Organization implements a written form to document the risk assessment for each subrecipient.

*Corrective Actions Taken or Planned:*

The Organization has implemented a risk policy to rank subrecipient Partner Agencies based on the following factors:

1. Whether the Partner Agency has complied with the requirements to be approved to distribute USDA/TEFAP food product.
2. Whether the Partner Agency is in good standing with the Organization Partnership Agreement.
3. Whether the Organization has received any emails and/or calls from the public regarding any concerns about a Partner Agency and upon discussion with the Partner Agency what findings and corrections were made, if any.

Based on these factors, a Partner Agency will be classified either low or high risk before being allowed to received USDA product from the Organization for distribution. This evaluation will be documented in the Partner Agency file each year.

If the partner is classified as high risk, additional monitoring and training will be performed to ensure compliance with USDA/TEFAP requirements. The additional monitoring and training will also reside in the Partner Agency file, as applicable, for each agency.

WORCESTER COUNTY FOOD BANK, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2017

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs, and no uncorrected or unresolved findings exist from the prior audit's Summary Schedule of Prior Audit Findings.