

WORCESTER COUNTY FOOD BANK, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

AND

INDEPENDENT AUDITOR'S REPORT

WORCESTER COUNTY FOOD BANK, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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, 2018, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Worcester County Food Bank, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 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.

Bollus Lynch, LLP

Worcester, Massachusetts
November 1, 2018

WORCESTER COUNTY FOOD BANK, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Summarized Financial Information for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents		
Unrestricted	\$ 1,460,880	\$ 1,353,812
Temporarily restricted	<u>13,785</u>	<u>120,907</u>
Total cash and cash equivalents	1,474,665	1,474,719
Investments	5,388,693	5,043,076
Accounts receivable		
Commodities	78,005	30,174
Other	35,337	11,958
Pledges receivable, net	25,000	84,324
Inventory - co-op	-	1,873
Prepaid expenses	52,153	48,630
Property and equipment	<u>1,258,217</u>	<u>1,288,035</u>
Total assets	<u>\$ 8,312,070</u>	<u>\$ 7,982,789</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 133,762	\$ 122,532
Accrued expenses	150,215	254,583
Deferred revenue	<u>125,948</u>	<u>-</u>
Total liabilities	<u>409,925</u>	<u>377,115</u>
Net assets		
Unrestricted		
Designated	150,000	150,000
Undesignated	<u>7,713,360</u>	<u>7,260,443</u>
Total unrestricted	7,863,360	7,410,443
Temporarily restricted	<u>38,785</u>	<u>195,231</u>
Total net assets	<u>7,902,145</u>	<u>7,605,674</u>
Total liabilities and net assets	<u>\$ 8,312,070</u>	<u>\$ 7,982,789</u>

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

WORCESTER COUNTY FOOD BANK, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018
 (With Summarized Financial Information for 2017)

	Unrestricted	Temporarily Restricted	Total	
			2018	2017
Support, revenue and net assets released from restriction				
Support				
Donated food distributed	\$ 10,838,033	\$ -	\$ 10,838,033	\$ 10,005,377
Donated services	53,048	-	53,048	81,382
Contributions	1,691,903	-	1,691,903	1,588,987
Grants - other	697,935	7,877	705,812	934,329
Total support	<u>13,280,919</u>	<u>7,877</u>	<u>13,288,796</u>	<u>12,610,075</u>
Revenue				
Agency service fees and USDA reimbursement	288,346	-	288,346	290,816
Aggregation Sales	100,165	-	100,165	-
Co-op revenue	1,873	-	1,873	19,450
Interest and dividend income	70,611	-	70,611	110,695
Unrealized gain on investments	94,456	-	94,456	103,364
Realized gain on sale of investments	217,235	-	217,235	464,320
Miscellaneous	24,156	-	24,156	14,701
Total revenue	<u>796,842</u>	<u>-</u>	<u>796,842</u>	<u>1,003,346</u>
Net assets released from restrictions				
Satisfaction of program restrictions	164,323	(164,323)	-	-
Total support, revenue and net assets released from restriction	<u>14,242,084</u>	<u>(156,446)</u>	<u>14,085,638</u>	<u>13,613,421</u>
Expenses				
Program services	12,889,443	-	12,889,443	11,726,714
Management and general	368,661	-	368,661	362,812
Fundraising	531,063	-	531,063	456,114
Total expenses	<u>13,789,167</u>	<u>-</u>	<u>13,789,167</u>	<u>12,545,640</u>
Change in net assets	452,917	(156,446)	296,471	1,067,781
Net assets, beginning of year	<u>7,410,443</u>	<u>195,231</u>	<u>7,605,674</u>	<u>6,537,893</u>
Net assets, end of year	<u>\$ 7,863,360</u>	<u>\$ 38,785</u>	<u>\$ 7,902,145</u>	<u>\$ 7,605,674</u>

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

WORCESTER COUNTY FOOD BANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018
(With Summarized Financial Information for 2017)

	Program Services	Management and General	Fundraising	Total	
				2018	2017
Payroll and related expenses					
Payroll	\$ 885,230	\$ 163,186	\$ 251,878	\$ 1,300,294	\$ 1,096,452
Employee benefits	169,652	31,274	48,271	249,197	164,762
Payroll taxes	84,473	15,572	24,035	124,080	81,224
Total payroll and related expenses	<u>1,139,355</u>	<u>210,032</u>	<u>324,184</u>	<u>1,673,571</u>	<u>1,342,438</u>
Operating expenses					
Accounting	8,310	74,792	-	83,102	75,857
Agency outreach	2,640	-	-	2,640	2,674
Amortization	157	-	-	157	157
Bank fees	10,350	-	-	10,350	7,031
Co-op food purchase	3,675	-	-	3,675	19,450
Computer	50,460	12,615	-	63,075	57,510
Consultant fees	71,996	17,389	-	89,385	62,243
Direct mail	-	-	160,548	160,548	168,213
Donated food distributed	10,838,033	-	-	10,838,033	10,005,377
Donated services	53,048	-	-	53,048	81,382
Equipment maintenance	2,590	-	-	2,590	9
Equipment rental	5,091	-	-	5,091	1,258
Food purchases	16,751	-	-	16,751	37,192
Food storage	3,861	-	-	3,861	3,162
Freight	4,458	-	-	4,458	6,372
Grants and contributions	50,447	-	-	50,447	104,775
Insurance	21,992	2,925	-	24,917	22,405
Licenses and permits	3,947	-	-	3,947	1,218
Motor vehicle	30,095	-	-	30,095	29,462
Office	22,976	7,658	7,659	38,293	25,340
Organizational dues	24,311	-	-	24,311	25,435
Postage	7,205	1,801	4,622	13,628	12,395
Produce purchases	100,417	-	-	100,417	-
Program expense	52,454	-	-	52,454	24,946
Professional fees	6,375	19,125	-	25,500	16,830
Promotion and printing	1,714	428	30,745	32,887	27,047
Reference materials	564	188	-	752	904
Repairs and maintenance	60,186	3,842	-	64,028	100,198
Rubbish and snow removal	45,170	-	-	45,170	42,413
Security	4,381	-	-	4,381	1,951
Seminars and conferences	6,032	2,011	-	8,043	6,119
Telephone	6,339	792	792	7,923	9,311
Training	4,992	624	624	6,240	5,550
Travel	15,109	1,889	1,889	18,887	13,058
Utilities	42,729	2,727	-	45,456	45,966
Warehouse supplies	17,360	-	-	17,360	17,097
Total operating expenses	<u>11,596,215</u>	<u>148,806</u>	<u>206,879</u>	<u>11,951,900</u>	<u>11,060,307</u>
Total expenses before depreciation	12,735,571	358,838	531,063	13,625,471	12,402,745
Depreciation	153,873	9,823	-	163,696	142,895
Total expenses	<u>\$ 12,889,443</u>	<u>\$ 368,661</u>	<u>\$ 531,063</u>	<u>\$ 13,789,167</u>	<u>\$ 12,545,640</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, 2018
(With Summarized Financial Information for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 296,471	\$ 1,067,781
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	163,696	142,895
Amortization	157	157
Unrealized gain on investments	(94,456)	(103,364)
Realized gain on sale of investments	(217,235)	(464,320)
(Increase) decrease in operating assets:		
Accounts receivable	(71,210)	(8,624)
Pledges receivable, net	59,324	(9,324)
Inventory - co-op	1,873	(1,769)
Prepaid expenses	(3,523)	(5,636)
Increase (decrease) in operating liabilities:		
Accounts payable	11,230	(25,988)
Accrued expenses	(104,368)	79,297
Deferred revenue	125,948	-
	<u>167,907</u>	<u>671,105</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(134,035)	(275,991)
Purchase of investments	(1,673,304)	(4,257,308)
Proceeds from sale of investments	1,639,378	4,518,760
	<u>(167,961)</u>	<u>(14,539)</u>
Net cash used in investing activities		
Net increase (decrease) in cash	(54)	656,566
Cash and cash equivalents, beginning of year	<u>1,474,719</u>	<u>818,153</u>
Cash and cash equivalents, end of year	<u>\$ 1,474,665</u>	<u>\$ 1,474,719</u>

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 6 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 120 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, 2017, 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 \$41,086 and \$8,161 in 2018 and 2017, 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, 2018 or 2017.

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 uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises. There is no allowance for uncollectible pledges receivable as of June 30, 2018 or 2017. 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, 2018 and 2017 the Organization distributed 6,451,210 and 5,783,455 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, 2017 and 2016 was \$1.68 and \$1.73 per pound, respectively.

Donated materials and services

Recognition of donated materials is based on estimated fair value. 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.

Deferred revenue

Deferred revenue consists of contract amounts that exceed earned revenue or costs incurred as of June 30, 2018. These amounts will be recognized as income when they are earned.

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 2015.

Subsequent events

The Organization has evaluated the financial statement impact of subsequent events occurring through November 1, 2018, the date on which the financial statements were available to be issued.

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - CASH AT RISK

The Organization maintains its cash deposit accounts at a bank and a brokerage firm. These balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit per financial institution. Management acknowledges the possibility of risk in these arrangements; however, the Organization has not experienced any losses in such accounts, and the Organization believes it is not exposed to any significant credit risk on its cash. At June 30, 2018, the Organization's uninsured balances total \$1,086,941.

3 - PLEDGES RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 25,000	\$ 60,000
One to five years	-	25,000
	<u>25,000</u>	<u>85,000</u>
Less: Unamortized discount	-	676
	<u>\$ 25,000</u>	<u>\$ 84,324</u>

4 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2018</u>	<u>2017</u>
Unrestricted	<u>\$ 5,388,693</u>	<u>\$ 5,043,076</u>

Cost, fair value and unrealized appreciation as of June 30, 2018 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds			
Equity	\$ 560,000	\$ 528,344	\$ (31,656)
REIT	47,885	42,819	(5,066)
Bonds	1,819,325	1,760,922	(58,403)
Equities	<u>2,689,482</u>	<u>3,056,608</u>	<u>367,126</u>
Total investments	<u>\$ 5,116,692</u>	<u>\$ 5,388,693</u>	<u>\$ 272,001</u>

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - INVESTMENTS (Continued)

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>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 70,611	\$ -	\$ 70,611
Net realized and unrealized gains	<u>311,691</u>	<u>-</u>	<u>311,691</u>
Total return on investments	<u>\$ 382,302</u>	<u>\$ -</u>	<u>\$ 382,302</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	<u>567,684</u>	<u>-</u>	<u>567,684</u>
Total return on investments	<u>\$ 678,379</u>	<u>\$ -</u>	<u>\$ 678,379</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	2018	2017
Land	-	\$ 300,000	\$ 300,000
Building	20 - 30 years	1,536,336	1,500,946
Land improvements	30 years	121,266	121,266
Machinery and equipment	3 - 10 years	419,328	371,572
Furniture, fixtures and computers	3 - 10 years	227,162	176,273
Motor vehicles	5 years	351,491	351,491
		2,955,583	2,821,548
Less: Accumulated depreciation		1,697,366	1,533,513
		<u>\$ 1,258,217</u>	<u>\$ 1,288,035</u>

Depreciation expense for property and equipment was \$163,696 and \$142,895 for 2018 and 2017, respectively.

6 - AGENCY SERVICE FEES AND USDA REIMBURSEMENT

The Organization charges up to 16 cents (\$0.16) 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 \$78,005 and \$30,174 as of June 30, 2018 and 2017, respectively, from these reimbursements. Income from these reimbursements amounted to \$252,623 for the year ended June 30, 2018 and \$237,411 for the year ended June 30, 2017.

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, 2018 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, 2018.

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, 2018 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds	\$ 528,344	\$ -	\$ -	\$ 528,344
Bonds	-	1,760,922	-	1,760,922
Equities	3,056,608	-	-	3,056,608
REIT	42,819	-	-	42,819
	<u>\$ 3,627,771</u>	<u>\$ 1,760,922</u>	<u>\$ -</u>	<u>\$ 5,388,693</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, 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>

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 of \$150,000 have been designated by the board of directors to cover future reserve requirements at June 30, 2018 and 2017, respectively.

10 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purpose:

	<u>2018</u>	<u>2017</u>
Summer food truck partnership	\$ -	\$ 75,000
Program services	38,785	120,231
	<u>\$ 38,785</u>	<u>\$ 195,231</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>2018</u>	<u>2017</u>
Summer food truck partnership	\$ 75,000	\$ -
Program services	89,323	197,223
	<u>\$ 164,323</u>	<u>\$ 197,223</u>

WORCESTER COUNTY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - DONATED MATERIALS AND SERVICES

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

	<u>2018</u>	<u>2017</u>
Volunteers	\$ 52,698	\$ 44,622
Investment services	-	36,760
Equipment	<u>350</u>	<u>-</u>
	<u>\$ 53,048</u>	<u>\$ 81,382</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 2018 and 2017 amounted to \$30,857 and \$22,205, 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.