The Food Group

New Hope, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
September 30, 2018 and 2017

CEA

CERTIFIED PUBLIC ACCOUNTANTS

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Carpenter, Evert & Associates

Certified Public Accountants
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Independent Auditor's Report

Board of Directors
The Food Group
New Hope, Minnesota

We have audited the accompanying financial statements of The Food Group as of September 30, 2018 and 2017, which comprise the statements of financial position and the related statements of activities and changes in net assets, functional expense, and cash flows for the years 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 audits. We conducted our audits 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 audits 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 The Food Group as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carpenter Evert and Associates, LTD.
Certified Public Accountants

Minneapolis, Minnesota
January 23, 2019

EXHIBIT A

THE FOOD GROUP
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Contributions	$ 1,708,871	$ 207,700	$ 1,916,571	$ 1,751,050	$ 205,115	$ 1,956,165
In-Kind Contributions	3,604,659	-	3,604,659	4,116,855	-	4,116,855
United Way	110,974	-	110,974	150,727	-	150,727
Government Grants	1,034,608	-	1,034,608	843,537	-	843,537
Sales Revenue	3,757,308	-	3,757,308	3,669,288	-	3,669,288
Special Event Revenue	192,514	-	192,514	177,130	-	177,130
Less: Costs of Direct Benefits to Donors	(61,738)	-	(61,738)	(60,325)	-	(60,325)
Net Revenues from Special Events	130,776	-	130,776	116,805	-	116,805
Investment Income	1,067	-	1,067	386	-	386
Miscellaneous	13,168	-	13,168	13,912	-	13,912
Net Assets Released from Restrictions:						
Satisfaction of Time Restrictions	30,000	(30,000)	-	30,000	(30,000)	-
Satisfaction of Capital Restrictions	146,070	(146,070)	-	-	-	-
Satisfaction of Program Restrictions	16,950	(16,950)	-	115,550	(115,550)	-
Total Support and Revenue	10,554,451	14,680	10,569,131	10,808,110	59,565	10,867,675
Expense:						
Program Services	9,727,656	-	9,727,656	9,580,062	-	9,580,062
Support Services:						
Management and General	420,029	-	420,029	622,049	-	622,049
Fundraising	489,318	-	489,318	386,931	-	386,931
Total Support Services	909,347	-	909,347	1,008,980	-	1,008,980
Total Expense	10,637,003	-	10,637,003	10,589,042	-	10,589,042
Change in Net Assets	(82,552)	14,680	(67,872)	219,068	59,565	278,633
Net Assets - Beginning of Year	3,496,990	192,315	3,689,305	3,277,922	132,750	3,410,672
Net Assets - End of Year	$ 3,414,438	$ 206,995	$ 3,621,433	$ 3,496,990	$ 192,315	$ 3,689,305

The accompanying Notes to Financial Statements
are an integral part of these statements.

EXHIBIT B

THE FOOD GROUP
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED SEPTEMBER 30, 2018 WITH COMPARATIVE TOTALS FOR 2017

	2018					2017
		Support Services				
	Program Services	Management & General	Fund-raising	Total Support Services	Total All Services	Total All Services
Salaries	$ 1,495,752	$ 137,111	$ 261,757	$ 398,868	$ 1,894,620	$ 1,660,711
Employee Benefits	212,469	19,477	37,183	56,660	269,129	250,521
Payroll Taxes	135,733	12,442	23,754	36,196	171,929	167,615
Total Personnel Costs	1,843,954	169,030	322,694	491,724	2,335,678	2,078,847
In-Kind Food	3,609,657	-	-	-	3,609,657	3,937,071
Food Costs	3,261,945	-	-	-	3,261,945	3,284,436
Professional Fees	202,741	199,754	11,135	210,889	413,630	301,253
Occupancy	253,765	18,428	35,181	53,609	307,374	267,563
Travel, Transportation and Shipping	217,138	3,709	1,182	4,891	222,029	204,293
Office Expenses	69,139	14,345	70,039	84,384	153,523	148,798
Program Supplies	62,245	-	-	-	62,245	54,235
Miscellaneous	41,987	5,802	14,385	20,187	62,174	70,898
Non-food In-kind Expenses	53,337	-	-	-	53,337	86,120
Staff and Volunteer	3,101	1,387	15,766	17,153	20,254	20,699
Fundraising Expense	500	-	-	-	500	-
Depreciation and Amortization	108,147	7,574	18,936	26,510	134,657	134,829
Total Expense	$ 9,727,656	$ 420,029	$ 489,318	$ 909,347	$ 10,637,003	$ 10,589,042

The accompanying Notes to Financial Statements
are an integral part of this statement.

EXHIBIT C

THE FOOD GROUP
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

		Support Services			
	Program Services	Management & General	Fund-raising	Total Support Services	Total All Services
Salaries	$ 1,208,314	$ 256,764	$ 195,633	$ 452,397	$ 1,660,711
Employee Benefits	182,276	38,733	29,512	68,245	250,521
Payroll Taxes	121,955	25,915	19,745	45,660	167,615
Total Personnel Costs	1,512,545	321,412	244,890	566,302	2,078,847
In-Kind Food	3,937,071	-	-	-	3,937,071
Food Costs	3,284,436	-	-	-	3,284,436
Professional Fees	80,984	219,919	350	220,269	301,253
Occupancy	207,743	33,952	25,868	59,820	267,563
Travel, Transportation and Shipping	200,532	2,833	928	3,761	204,293
Office Expenses	55,400	19,359	74,039	93,398	148,798
Program Supplies	54,235	-	-	-	54,235
Miscellaneous	44,507	7,664	18,727	26,391	70,898
Non-food In-kind Expenses	86,120	-	-	-	86,120
Staff and Volunteer	11,465	8,394	840	9,234	20,699
Depreciation and Amortization	105,024	8,516	21,289	29,805	134,829
Total Expense	$ 9,580,062	$ 622,049	$ 386,931	$ 1,008,980	$ 10,589,042

The accompanying Notes to Financial Statements
are an integral part of this statement.

EXHIBIT D

THE FOOD GROUP
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

ASSETS	2018	2017
Current Assets:		
Cash	$ 541,029	$ 860,217
Investments	1,958	7,660
Accounts Receivable	219,900	144,845
Grants Receivable	385,562	346,066
Prepaid Expense	40,073	35,329
Inventory	708,149	699,507
Total Current Assets	1,896,671	2,093,624
Property and Equipment - Net	3,479,884	3,437,489
TOTAL ASSETS	$ 5,376,555	$ 5,531,113

LIABILITIES AND NET ASSETS		
Current Liabilities:		
Notes Payable - Short Term	$ 129,525	$ 125,062
Capital Lease - Short Term	100,755	90,859
Accounts Payable	109,300	67,781
Accrued Salaries and Vacation	172,101	125,682
Accrued Expenses	22,490	20,640
Deferred Revenue	12,340	8,659
Total Current Liabilities	546,511	438,683
Long-Term Liabilities:		
Capital Lease	385,147	450,604
Notes Payable	823,464	952,521
Total Liabilities	1,755,122	1,841,808
Net Assets:		
Unrestricted	3,414,438	3,496,990
Temporarily Restricted	206,995	192,315
Total Net Assets	3,621,433	3,689,305
TOTAL LIABILITIES AND NET ASSETS	$ 5,376,555	$ 5,531,113

The accompanying Notes to Financial Statements
are an integral part of these statements.

EXHIBIT E

THE FOOD GROUP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Increase (Decrease) in Cash		
Cash Flows from Operating Activities:		
Change in Net Assets	$ (67,872)	$ 278,633
Total Adjustments	190,009	(98,660)
Net Cash Provided by Operating Activities	122,137	179,973
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(237,929)	(55,570)
Purchases of Investments	(7,728)	(2,009)
Proceeds from Sale of Contributed Investments	20,857	2,009
Net Cash (Used) by Investing Activities	(224,800)	(55,570)
Cash Flows from Financing Activities:		
Repayment of Note Payable	(124,594)	(120,247)
Repayment of Capital Lease Liability	(91,931)	(130,778)
Net Cash (Used) by Financing Activities	(216,525)	(251,025)
Net (Decrease) in Cash	(319,188)	(126,622)
Cash - Beginning of Year	860,217	986,839
Cash - End of Year	$ 541,029	$ 860,217
Supplemental Disclosure of Cash Flow Information		
Cash Paid for:		
Interest	$ 52,453	$ 59,996
Non-Cash Investing Activities		
Addition of Property and Equipment	$ (36,370)	$ (672,241)
Non-Cash Financing Activities		
Addition of Capital Lease	$ 36,370	$ 629,165

The accompanying Notes to Financial Statements
are an integral part of these statements.

THE FOOD GROUP
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

1. Summary of Significant Accounting Policies

Organizational Purpose

The Food Group (the Organization) is a local nonprofit organization focused on using nutritious food to strengthen community. The mission of the Organization is: Fighting Hunger. Nourishing our Community.

For more than 40 years the Organization has worked to provide good foods to those who need it most in our community. We focus on local food access, equity, and nutrition issues related to food and hunger in more than 32 counties in Minnesota and Wisconsin.

The Organization works on both ends of the food system from production to distribution. Working towards building a better local food system for all, we focus on breaking down barriers to growing good food locally and breaking down barriers to getting good food to those who need it most. Our programs include:

Food Shelf Support

We partner with 170 food shelves and meal programs to offer distribution of donated food, fresh produce, bulk purchasing of staple items, TEFAP food distribution, nutrition education, capacity building, and culturally specific food and resources. Food shelf support strengthens our community by ensuring everyone has the nutritious food they need to thrive.

Fare For All

We operate a traveling nutritious grocery store, which makes monthly stops at 37 distribution sites across the Twin Cities and greater MN to offer fresh produce and quality meats. We break down barriers for families seeking to stretch their food purchasing power and achieve self-sufficiency by offering discounts up to 40 percent off retail prices. Fare For All strengthens our community by ensuring everyone can eat healthy and affordable food.

Big River Farms

Our newest program offers organic and sustainable agriculture training for farmers who have historically been underrepresented in farm ownership, including immigrants, people of color, and refugees. Farmers learn to provide food for themselves and their communities. We also create market opportunities for the participating farmers, provide educational programming on sustainable agriculture to youth and community members, and host the annual Emerging Farmers Conference. Big River Farms strengthens our community by building a more sustainable and just food system.

1. Summary of Significant Accounting Policies (continued):

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restrictions. A description of the groupings is as follows:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment is reported as unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of the Organization and its resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations

Investments

The Organization carries its investments at fair value.

Accounts Receivable and Doubtful Accounts

The Organization extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and the Organization does not charge interest on accounts receivable balances. The Organization reviews receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. No allowance for doubtful accounts has been provided as receivables are considered collectable.

Inventory

Inventory consists of canned, frozen and fresh foods and hygiene products used in various programs. Inventory is valued at the average cost, determined on a first-in first-out basis (FIFO).

Property and Equipment

All major expenditures for property and equipment over $2,500 are capitalized at cost. Depreciation is provided through the use of the straight-line method.

1. Summary of Significant Accounting Policies (continued):

Deferred Revenue

The Organization defers recognition of revenue when it has received a payment for services, but has not fulfilled its contract commitments.

Contributions

Contributions are recorded when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled, and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions except when the receipt and expiration occur in the same period in which case the contribution is shown as unrestricted.

Contributions other than cash are recorded at their estimated market value.

Promises-To-Give (Pledges Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Functional Allocation of Expense

Salaries and related expenses are recorded in programs based on time and activity reports. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Income Tax

The Organization has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. The Organization's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. The Organization continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, the Organization annually files an Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending September 30, 2015 and later remain subject to examination by the Internal Revenue Service.

1. Summary of Significant Accounting Policies (continued):

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in prior year comparative totals have been reclassified to conform with the presentation in the current year financial statements.

Subsequent Events

The Organization has evaluated the effect that subsequent events would have on the financial statements through January 23, 2019, which is the date financial statements were available to be issued.

2. Significant Concentrations of Credit Risk

The Organization provides services within Minnesota. Grants and contributions receivable are from local governments or institutions.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

At September 30, 2018 and 2017, the Organization held funds at a local financial institution in excess of federally insured limits.

3. Investments

The Organization held the following investments as of:

	September 30,			
	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money Market	$ 1,958	$ 1,958	$ 7,660	$ 7,660

The Organization had realized losses of $301 and $73 and interest income of $1,368 and $459 for the years ending September 30, 2018 and 2017, respectively.

4. Fair Value

The Organization adopted Financial Accounting Standards Board Accounting Standards Codification Topic 820 Fair Value Measurements and Disclosures (ASC 820). In accordance with ASC 820, "fair value" is defined as the price that an organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of investments. ASC 820 established a three-tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Quoted prices in active markets for identical investments.

Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – Significant unobservable inputs.

The following is a summary of the inputs used to determine the fair values of the investments at:

September 30, 2018:

	Level 1	Level 2	Level 3	Total
Money Market	$ 1,958	$ -	$ -	$ 1,958

September 30, 2017:

	Level 1	Level 2	Level 3	Total
Money Market	$ 7,660	$ -	$ -	$ 7,660

5. Grants Receivable

The outstanding balance of grants receivable at September 30, 2018 is expected to be collected over the following fiscal years:

Due in the Year Ending September 30,	
2019	$ 385,562

6. Property and Equipment

The Organization owned the following as of:

	September 30, 2018	September 30, 2017	Estimated Useful Lives
Land	$ 1,115,960	$ 1,115,960	
Buildings and Building Improvements	2,648,031	2,479,951	5-39 years
Furniture and Equipment	703,327	633,477	5 years
Capital Lease – Trucks	672,241	672,241	7 years
Capital Lease – Equipment	36,370	-	5 years
Vehicles	349,404	349,404	5 years
	5,525,333	5,251,033	
Less Accumulated Depreciation	2,045,449	1,813,544	
	$ 3,479,884	$ 3,437,489	

Depreciation expense of $231,904 and $278,880 was recorded for the years ended September 30, 2018 and 2017, respectively. For the year ended September 30, 2018 $96,035 of depreciation is included in the "Travel, Transportation and Shipping" expense and $1,212 is included in the Office Expenses.

7. Capital Leases

The Organization leases trucks and equipment under a capital lease. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Organization's assets and liabilities.

The following is an analysis of the leased assets included in Property and Equipment as of:

	September 30, 2018	September 30, 2017	Estimated Useful Lives
Trucks	$ 672,241	$ 672,241	7 years
Equipment	36,370	-	5 years
Less Accumulated Depreciation	241,298	144,051	
Net Book Value	$ 467,313	$ 528,190	

Payments required under the lease together with their present value.

Due in the Year Ending September 30,	
2019	$ 118,584
2020	118,584
2021	118,584
2022	118,584
2023	62,036
Total Minimum Lease Payments	536,372
Less Amount Representing Interest	50,470
Present Value of Minimum Lease Payments	$ 485,902

8. Line of Credit

The Organization maintains a $200,000 line-of-credit with MidWestOne Bank, maturing April 25, 2019. The interest rate at September 30, 2018 was 5.25%. Line-of-credit was not used and had no balance for both years ended September 30, 2018 and 2017. Secured by land and building.

9. Notes Payable

The breakdown of notes payable is as follows:

	September 30, 2018	September 30, 2017
3.45% mortgage payable to Central Bank. Payable in monthly amounts of $10,111 including interest with the last payment due October 2025. Secured by land and building.	$ 760,787	$ 853,623
3.45% mortgage payable on demand to Central Bank. If no demand is made, mortgage is payable in monthly amounts of $1,942 including interest with the last payment due October 2025. Secured by land and building.	146,830	164,633
4% note payable to St. Paul Port Authority. Payable in monthly amounts of $1,340 including interest with the last payment due October 1, 2021. Secured by purchased equipment.	45,372	59,327
	952,989	1,077,583
Less Portion Due Within One (1) Year	129,525	125,062
Long-term Portion	$ 823,464	$ 952,521

Principal payments required are as follows:

Due in the Year Ending September 30,	
2019	$ 129,525
2020	134,148
2021	138,936
2022	127,522
2023	131,992
2024 and thereafter	290,867
Total	$ 952,990

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts from the following as of:

	September 30,	
	2018	2017
General Operations	$ 154,245	$ -
Equity Program	30,000	-
MFP Program	20,000	-
Employee Engagement	2,750	3,200
Capital Needs and Improvements	-	159,115
Fresh Produce Program	-	30,000
	$ 206,995	$ 192,315

11. In-kind Contributions

The Organization records in-kind contributions at fair market value at date of donation. In kind contributions include the following as of:

	September 30,	
	2018	2017
Foods	$ 3,551,322	$ 4,030,735
Non-Food Items	53,337	86,120
	$ 3,604,659	$ 4,116,855

12. Pension Plan

The Organization contributes up to three percent of an eligible employee's annual compensation to a 401(k) plan. Contributions of $18,398 and $34,925 were made in the years ended September 30, 2018 and 2017, respectively.

13. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities were as follows as of:

	September 30,	
	2018	2017
Depreciation and Amortization	$ 231,904	$ 278,880
Contributed Securities	(7,728)	(2,082)
Realized Loss on Investment	301	73
Increases (Decreases) in Current Liabilities:		
Accounts Payable	41,519	16,065
Deferred Revenue	3,681	8,659
Accrued Expenses	48,269	21,309
Decreases (Increases) in Current Assets:		
Accounts Receivable	(75,055)	(28,316)
Grants Receivable	(39,496)	(275,918)
Prepaid Expense	(4,744)	(6,432)
Inventory	(8,642)	(110,898)
Total Adjustments	$ 190,009	$ (98,660)