

**The Food Depot**  
**FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

# The Food Depot

## BOARD OF DIRECTORS

June 30, 2018

### Officers

Jill Rhymes	President
David Barton	Vice President
Paul D'Arcy	Treasurer
Gloria Martinez-Friestad	Secretary
Len Rand	At-Large Member

### Board Directors

Noah Berke	Director
Brigid Brahe	Director
Scott Bunton	Director
Carol Johnson	Director
Matt Nerzig	Director
Rick Reider	Director
Richard Rudman	Director
Kristi Salazar	Director
Maria Sanchez	Director
Caitlin Smith	Director
Bill Sveum	Director

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Food Depot

### *Report on the Financial Statements*

We have audited the accompanying financial statements of The Food Depot (a non-profit organization), which comprise the statement of financial position as of June 30, 2018, 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.

### *Auditors' 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 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 auditors' 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 Food Depot'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 Food Depot'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 present fairly, in all material respects, the financial position of The Food Depot 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.

### ***Prior Period Financial Statements***

The financial statements of The Food Depot as of June 30, 2017 were audited by other auditors whose report dated October 13, 2017 expressed an unmodified opinion on those statements.

### **Supplemental and 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 Office of Management and Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are 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 relates 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 taken as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of The Food Depot'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 accordance with *Government Auditing Standards* in considering The Food Depot's internal control over financial reporting and compliance.

PULAKOS CPAs, PC

November 15, 2018

Pulakos CPAs, PC

# The Food Depot

## STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 665,219	\$ 999,208
Certificates of deposit	500,543	754,317
Contributions and grants receivable	73,619	60,301
Accounts and other receivables	12,528	20,882
Prepaid expenses	20,805	24,400
Inventories, food and other	814,555	704,345
Total current assets	2,087,269	2,563,453
Non-current assets		
Interest in assets held by the Santa Fe Community Foundation	718,561	694,365
Deposits	1,000	2,600
Property, equipment and furniture, net	4,872,979	3,955,354
Total non-current assets	5,592,540	4,652,319
Total assets	\$ 7,679,809	\$ 7,215,772
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 182,498	\$ 223,061
Current portion of note payable	21,428	-
Total current liabilities	203,926	223,061
Non-current liabilities		
Note payable	112,501	-
Total non-current liabilities	112,501	-
Net assets		
Unrestricted - undesignated	6,575,678	6,271,945
Unrestricted - designated	10,250	10,250
Total unrestricted net assets	6,585,928	6,282,195
Temporarily restricted	166,812	99,874
Permanently restricted	610,642	610,642
Total net assets	7,363,382	6,992,711
Total liabilities and net assets	\$ 7,679,809	\$ 7,215,772

# The Food Depot

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Donated food - non-federal	\$ 9,269,298	\$ -	\$ -	\$ 9,269,298
Contributions and grants	1,942,207	466,114	-	2,408,321
In-kind food - federal	1,461,298	-	-	1,461,298
Food acquisition and handling fees	260,832	-	-	260,832
Government awards and contracts	494,903	-	-	494,903
Special events	364,052	-	-	364,052
Net investment income	2,234	49,668	-	51,902
Gain on sale of fixed assets	12,916	-	-	12,916
Net assets released from restrictions	448,844	(448,844)	-	-
	<u>14,256,584</u>	<u>66,938</u>	<u>-</u>	<u>14,323,522</u>
Total revenues and support				
Expenses				
Program services	13,148,999	-	-	13,148,999
Supporting services				
Management and general	267,024	-	-	267,024
Fundraising	536,828	-	-	536,828
	<u>803,852</u>	<u>-</u>	<u>-</u>	<u>803,852</u>
Total supporting services				
Total expenses	<u>13,952,851</u>	<u>-</u>	<u>-</u>	<u>13,952,851</u>
Change in net assets	303,733	66,938	-	370,671
Net assets, beginning of year	<u>6,282,195</u>	<u>99,874</u>	<u>610,642</u>	<u>6,992,711</u>
Net assets, end of year	<u>\$ 6,585,928</u>	<u>\$ 166,812</u>	<u>\$ 610,642</u>	<u>\$ 7,363,382</u>

# The Food Depot

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Revenues and support				
Donated food - non-federal	\$ 8,065,403	\$ -	\$ -	\$ 8,065,403
Contributions and grants	1,729,074	349,875	-	2,078,949
In-kind food - federal	1,831,710	-	-	1,831,710
Food acquisition and handling fees	267,989	-	-	267,989
Government award and contracts	322,049	-	-	322,049
Special events	264,524	-	-	264,524
Net investment income	10,703	66,722	-	77,425
Net assets released from restrictions	361,987	(361,987)	-	-
	12,853,439	54,610	-	12,908,049
Expenses				
Program services	12,297,262	-	-	12,297,262
Supporting services				
Management and general	217,434	-	-	217,434
Fundraising	490,317	-	-	490,317
	707,751	-	-	707,751
Total supporting services	707,751	-	-	707,751
Total expenses	13,005,013	-	-	13,005,013
Change in net assets	(151,574)	54,610	-	(96,964)
Net assets, beginning of year	6,433,769	45,264	610,642	7,089,675
Net assets, end of year	\$ 6,282,195	\$ 99,874	\$ 610,642	\$ 6,992,711

# The Food Depot

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 725,179	\$ 124,247	\$ 190,788	\$ 1,040,214
Employee benefits	125,379	21,481	32,985	179,845
Payroll taxes	69,759	11,952	18,353	100,064
Total salaries and related expenses	920,317	157,680	242,126	1,320,123
Food distributions	11,567,138	-	-	11,567,138
Depreciation	206,525	518	922	207,965
Vehicles - fuels, repairs and maintenance	141,992	-	-	141,992
Fundraising	-	-	121,090	121,090
Direct mail services	40,453	1,106	76,160	117,719
Special events	40,712	6,979	43,334	91,025
Utilities and telephone	70,610	5,669	3,327	79,606
Professional services	2,351	55,164	6,941	64,456
Postage and printing	9,309	6,422	39,256	54,987
Repairs and maintenance	53,886	-	-	53,886
Materials and supplies	22,224	9,597	-	31,821
Land lease	28,885	1,864	311	31,060
Insurance	17,870	1,153	192	19,215
Bank and investment fees	-	17,425	-	17,425
Dues and subscriptions	13,101	787	987	14,875
Miscellaneous	7,893	1,677	709	10,279
Travel	5,733	983	1,473	8,189
Total expenses	<u>\$ 13,148,999</u>	<u>\$ 267,024</u>	<u>\$ 536,828</u>	<u>\$ 13,952,851</u>

# The Food Depot

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 653,414	\$ 91,157	\$ 143,115	\$ 887,686
Employee benefits	115,075	16,055	25,205	156,335
Payroll taxes	61,448	8,572	13,458	83,478
Total salaries and related expenses	829,937	115,784	181,778	1,127,499
Food distributions	10,972,775	-	-	10,972,775
Vehicles - fuels, repairs and maintenance	157,192	-	-	157,192
Depreciation	153,086	317	1,670	155,073
Direct mail services	-	-	116,314	116,314
Materials and supplies	74,640	10,045	16,153	100,838
Special events	-	-	97,614	97,614
Utilities and telephone	65,045	7,628	3,609	76,282
Postage and printing	10,352	9,058	40,926	60,336
Professional services	3,773	47,506	6,316	57,595
Miscellaneous	11,811	15,399	1,169	28,379
Repairs and maintenance	23,653	-	-	23,653
Fundraising	-	-	22,165	22,165
Dues and subscriptions	12,820	-	1,778	14,598
Insurance	12,526	1,423	285	14,234
Bank and investment fees	-	13,586	-	13,586
Travel	6,361	860	1,374	8,595
Land lease (credit)	(36,709)	(4,172)	(834)	(41,715)
Total expenses	<u>\$ 12,297,262</u>	<u>\$ 217,434</u>	<u>\$ 490,317</u>	<u>\$ 13,005,013</u>

# The Food Depot

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
Operating activities		
Change in net assets	\$ 370,671	\$ (96,964)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	207,965	155,073
Gain on sale of equipment	(12,916)	-
Accrued interest on certificates-of-deposits	1,193	(2,552)
Net noncash adjustment for donated inventories	(46,349)	70,070
Gain on interest in assets held at Santa Fe Community Foundation	(49,205)	(66,722)
Net changes to operating assets and liabilities		
Accounts, contributions and grants receivable	(4,964)	203,846
Inventories	(63,861)	39,136
Deposit and prepaid expenses	5,195	62,920
Accounts payable and accrued liabilities	(40,563)	104,350
	367,166	469,157
Net cash provided by operating activities		
Investing activities		
Proceeds from sales of certificates of deposits	752,581	-
Purchases of certificates of deposits	(500,000)	-
Distribution from Santa Fe Community Foundation	25,009	12,880
Proceeds from sale of property and equipment	13,900	-
Purchases of property an equipment	(1,126,574)	(877,493)
	(835,084)	(864,613)
Net cash used by investing activities		
Financing activities		
Borrowings on note payable	150,000	-
Repayments on note payable	(16,071)	-
	133,929	-
Net cash provided by financing activities		
Change in cash and equivalents	(333,989)	(395,456)
Cash and equivalents, beginning of year	999,208	1,394,664
Cash and equivalents, end of year	\$ 665,219	\$ 999,208
Supplemental disclosures - cash paid for interest	\$ 3,798	\$ -

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The Food Depot is a New Mexico non-profit corporation established in 1993. The Food Depot distributes food in Northern New Mexico through a network of partner agencies, including emergency food pantries, youth programs, senior centers, hot meal programs, homeless shelters, group homes, shelters for battered families, low-income day care centers and rehabilitation programs. Food donated to The Food Depot comes from a variety of sources including national and local manufacturers, supermarkets, large food distributors, growers, food brokers, food drives, and the State of New Mexico Human Services Department (NMHSD). Food is also purchased by The Food Depot. The food received from the NMHSD is pass-through food from the U.S. Department of Agriculture (USDA) for The Emergency Food Assistance Program (TEFAP). The Food Depot's main sources of revenue and support are donated food, food from the NMHSD, contributions, contracts, grants and food acquisition and handling fees, which are fees paid by participating agencies for the handling of food by The Food Depot.

The Food Depot operates a range of programs designed to meet critical demographic, geographic, and nutritional needs in a nine-county service area in Northern New Mexico. The programs of the Food Depot are:

*Food Rescue and Distribution* – This core program consists of rescuing surplus food that would otherwise go to waste and distributing that food to approximately 145 partner agencies that feed people in need.

*Healthy Eating* – This program develops resources to encourage healthy food choices and preparation techniques among its partner agencies and clients.

*Food 4 Kids* – Studies confirm what every teacher already knows – hungry kids are compromised in their ability to learn. That is why The Food Depot operates Food 4 Kids, a program that distributes much-needed food to students in elementary schools who might otherwise go hungry. Participating students take home this food, ensuring a supply of food for evenings and weekends.

*Diaper Depot/Infant Supply Initiative* – The Food Depot operates an Infant Supply Initiative to provide the vital supplies needed by our community's children. Families with infants often seek items other than the customary food supplies at the food bank – they need formula, hygiene products, baby food, and diapers. The Diaper Depot operates in tandem with the Infant Supply Initiative; the Diaper Depot is the education and outreach portion of the Initiative, which provides the material goods that are necessary to the program's operation. The Diaper Depot exists to raise awareness about diaper need.

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES – CONTINUED

*Disaster Relief* – The Food Depot provides foods and other needed items to disaster victims and relief workers.

*Delivery Program* – By providing free deliveries to partner agencies in counties such as Colfax, Los Alamos, Mora, Rio Arriba, San Miguel, Taos, and Union, The Food Depot eliminates the need for these agencies to travel to Santa Fe for their food supply. With the cost of fuel and labor, the delivery program makes an even greater impact on resources for partner agencies in the food bank’s hunger-relief network.

*Mobile Food Pantry Program* – To reach hungry people in small and remote areas, The Food Depot launched its Mobile Food Pantry program in 2009. The Mobile Food Pantry operates like a bookmobile – food is distributed by The Food Depot directly from its truck with no need for long-term storage. This service reaches communities that do not have the resources to set up their own food pantries.

*Food 4 Pets* – Low-income Northern New Mexicans are faced with difficult decisions every day – the choice between food and rent, food and medical care. For many, there is another very real challenge – food for their pets – because pets are part of the family too. The Food Depot looks at the full picture of the economic circumstances affecting struggling families in Northern New Mexico. The Food 4 Pets program supports families and their pets in the most rural areas of The Food Depot’s nine county service area. Communities currently served include Bernal, Ojo Caliente, Vallecitos, El Rito, Santa Cruz, Truchas, and Pecos.

*Lunch Box Express* – In an effort to more fully address child hunger, The Food Depot launched the Lunch Box Express. Many families struggle to feed their children during the summer months, those months when children do not have access to school lunches and breakfasts. The food bank delivers lunches directly to children in low-income areas of Santa Fe.

*Commodity Supplemental Food Program* – With the Commodity Supplemental Food Program, The Food Depot distributes food boxes to seniors through several partner agencies in four Northern New Mexico counties, including Colfax, Los Alamos, Union, and Harding. The program offers a monthly food box to qualifying seniors. Food boxes include items such as cereal, juice, cheese, canned fruits and vegetables, beans, peanut butter, and canned meats.

*Square Meals Program* – In October of 2016, The Food Depot launched Square Meals, an afterschool meal program for at-risk youth. The Food Depot partners with the New Mexico Children Youth and Families Department for the At-Risk Afterschool Meal Program, a federally-funded (USDA) program for meal reimbursement.

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Cash and Cash Equivalents

The Food Depot considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents. The Food Depot maintains a portion of its cash, cash equivalent balances, and certificates-of-deposit in various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, these balances may exceed insured limits. The Food Depot has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk related to uninsured cash balances.

#### Receivables

Receivables are stated at the amount of the unpaid balances less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by identifying past-due account and by using historical experience applied to an aging of accounts receivable. No allowance for doubtful accounts was determined necessary by management as of June 30, 2018 and 2017. The Food Depot charges off uncollectible accounts receivable when it is determined the receivable will not be collected.

#### Inventory

Inventories consist of donated food, purchased food, food received from the USDA, and retail items. Inventories are valued at the lower of cost or market, with cost for purchased food determined using the fair value on the date of donation. For the years ended June 30, 2018 and 2017, donated inventories, including food received from the USDA, were valued at \$1.68 and \$1.73 per pound, respectively, which is the fair value provided by Feeding America. Feeding America is a large hunger relief non-profit organization who is working to end hunger through a nationwide network of member food banks. Feeding America engages an outside independent Certified Public Accounting firm to conduct an agreed-upon procedures engagement in order to determine the estimated fair value per pound referenced above. This value is the approximate average wholesale value of one pound of donated product at the national level.

#### Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Assets held by a community foundation are measured at the fair value of the underlying assets as reported by the foundation holding the funds. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Property and Equipment

Property and equipment are stated at cost. Property and equipment that are received by donation are recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, The Food Depot reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Food Depot reclassifies restricted net assets to unrestricted net assets at that time. Purchased or donated property and equipment in excess of \$500 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the costs of depreciable assets to operations over their estimated useful lives, which range from five to forty years.

#### Net Assets

The Food Depot classifies net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of The Food Depot and the changes therein are classified and reported as follows:

Unrestricted net assets are not subject to donor-imposed restriction. Unrestricted net assets may be designated for a specific purpose by action of the Board of Directors.

Temporarily restricted net assets are resources received from activities and contributors which are designated to be expended in a specific manner or within a specified time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are net assets required to be maintained in perpetuity, due to the donor-imposed restrictions.

#### Advertising

The Food Depot expenses advertising costs as they are incurred. Advertising expense, including in-kind and special events expenses, was \$46,244 and \$55,004 in 2018 and 2017, respectively.

#### Donated Services, Land Use, Storage, Equipment, and Materials

The Food Depot recognizes contributed services if the services create or enhance non-financial assets or require specialized skills are provided by individuals possessing those skills and would need to be purchased if not provided by donation. Recognized contributed services, land use, storage, equipment, and materials are recorded at the fair value on the date of donation. In addition to donated food, The Food Depot recognized donated services, land use, storage, equipment, and materials totaling \$79,067 and \$40,597 in 2018 and 2017, respectively.

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

#### Income Tax Status

The Food Depot is a non-profit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. As such, its normal activities do not result in any income tax liability.

The Food Depot has adopted accounting principles generally accepted in the United States of America as they relate to uncertain tax positions for the years ended June 30, 2018 and 2017. Any interest and penalties recognized associated with a tax position would be classified as current in The Food Depot's financial statements. No interest or penalties were recorded in 2018 or 2017.

Currently, The Food Depot's 2015, 2016, and 2017 tax years are open and subject to examination by the Internal Revenue Service and New Mexico Taxation and Revenue Department. However, The Food Depot is not currently under audit, nor has The Food Depot been contacted by any of these jurisdictions. Based on the evaluation of The Food Depot's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain income taxes has been recorded for the years ended June 30, 2018 and 2017.

#### Fair Value Measurements

Accounting Standards Codification Topic 820 establishes 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 and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical investments that The Food Depot has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, inputs other than observable quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Fair Value Measurements – Continued

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.

#### Financial Instruments

The carrying amounts of cash, receivables, payables, debt, and other obligations approximate fair value due to the short-term nature of these instruments.

#### Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

#### Subsequent Events

The Food Depot has evaluated all events occurring subsequent to June 30, 2018 through November 15, 2018, which is the date that the financial statements were issued and believes that all events occurring during this period that require either recognition or disclosure in the accompanying financial statements have been properly disclosed and recognized as applicable.

### NOTE 3 – PROPERTY, EQUIPMENT AND FURNITURE

Property, equipment and furniture consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Food distribution and education center	\$ 5,350,836	\$ 3,544,387
Expansion – in progress	-	872,775
Vehicles	284,170	308,697
Warehouse equipment	180,428	125,877
Office equipment	<u>107,818</u>	<u>106,045</u>
Total property equipment and furniture	5,923,252	4,957,781
Less accumulated depreciation	<u>(1,050,273)</u>	<u>(1,002,427)</u>
Net property, equipment and furniture	<u>\$ 4,872,979</u>	<u>\$ 3,955,354</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$207,965 and \$155,073, respectively.

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

**June 30, 2018 and 2017**

### NOTE 4 – NOTE PAYABLE

Note payable to a lender, dated August 30, 2017, fixed interest rate of 3.5%, quarterly payments of \$5,357 of fixed principal plus accrued interest, maturing in September 2024.

	<u>\$ 133,929</u>	<u>\$ -</u>
	133,929	-
Less: current portion	<u>(21,428)</u>	<u>-</u>
Long-term portion	<u>\$ 112,501</u>	<u>\$ -</u>

Minimum future principal payments are due as follows:

2019	\$ 21,428	
2020	21,428	
2021	21,428	
2022	21,428	
2023	21,428	
Thereafter	26,789	

### NOTE 5 – LINE-OF-CREDIT

The Food Depot has a bank line-of-credit with a limit of \$100,000; borrowings are subject to a borrowing base formula. Interest accrues based on an interest rate of 6.00% as of June 30, 2018 and 2017, respectively. The line matures in February 2019 and had an outstanding balance of zero at June 30, 2018 and 2017.

### NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of assets restricted for the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Endowment unappropriated earnings	\$ 97,669	\$ 73,473
Agency Relations Council	15,943	15,446
Food 4 Pets	29,648	-
Emergency radio tower	13,052	10,000
Kids Kitchen (The Food Depot)	10,000	-
Solar	500	500
Diaper Depot promotion	-	355
Disaster relief	<u>-</u>	<u>100</u>
Total temporarily restricted net assets	<u>\$ 166,812</u>	<u>\$ 99,874</u>

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS – CONTINUED

Net assets released from restrictions consists of restricted assets used during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Food 4 Kids	\$ 143,515	\$ 150,951
Building construction	100,000	-
Lunch Box Express	52,025	53,500
Mobile Food Pantry	36,250	35,353
Food 4 Pets	34,853	68,961
Infant Supply Initiative Program	31,861	32,344
Endowment	25,009	12,880
Disaster relief	18,115	500
Agency relations	4,503	4,554
Staff professional development	1,500	-
Radios for trucks	448	-
La Cares (Los Alamos)	250	400
Diaper Depot marketing	355	277
Volunteer shirts	200	-
Mora County pantries	-	1,500
Turkey purchase for holidays	-	695
Gardening (Grow Hope)	-	72
	<u>          </u>	<u>          </u>
Total net assets released from restrictions	<u>\$ 448,884</u>	<u>\$ 361,987</u>

### NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are contributions which were permanently restricted by the donors to establish an endowment fund, the income from which is to be used for the support of The Food Depot's programs and operations. The balance of these assets was \$610,642 as of June 30, 2018 and 2017.

### NOTE 8 – BOARD DESIGNATED NET ASSETS

Board-designated assets consist of an endowment fund held with the Santa Fe Community Foundation. The balance of these assets was \$10,250 as of June 30, 2018 and 2017.

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 9 – ENDOWMENT

The assets of the endowment consist of funds held at the Santa Fe Community Foundation (SFCF) and consist of both donor-restricted contributions and board-designated assets. These assets are to be used for the benefit of the Food Depot and SFCF was not granted variance power to redirect the use of the assets to another beneficiary. Net assets associated with the endowment are classified and reported based on the existence or absence of donor-imposed restrictions. Income earned on the endowment assets is available for use in The Food Depot's programs and operations.

The Food Depot has an endowment spending policy in which The Food Depot has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, The Food Depot classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by management of The Food Depot in a manner consistent with the standards of prudence prescribed by the UPMIFA.

The primary objective of the endowment fund is to produce a rate of return which will permit maximum support for operations of The Food Depot to the extent it is consistent with prudent management of investments, preservation of principal, and potential for long-term growth of the assets. The spending policy of The Food Depot's endowment provided that up to 5% of the endowment income, subject to a twelve-quarter rolling average and federal and state laws, can be withdrawn from the endowment for operations.

The changes in endowment net assets and the endowment's net asset composition are as follows for the years ended June 30, 2018 and 2017:

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
June 30, 2016	\$ 10,250	\$ 19,631	\$ 610,642	\$ 640,523
Net appreciation	-	66,722	-	66,722
Distribution	-	(12,880)	-	(12,880)
June 30, 2017	10,250	73,473	610,642	694,365
Net appreciation	-	49,205	-	49,205
Distribution	-	(25,009)	-	(25,009)
June 30, 2018	<u>\$ 10,250</u>	<u>\$ 97,669</u>	<u>\$ 610,642</u>	<u>\$ 718,561</u>

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 10 – LEASES

#### Land lease

Effective August 1, 2016, The Food Depot entered into a lease for a parcel of land with the City of Santa Fe. The lease term consists of an initial twenty-year term with two optional ten-year terms. The annual rent, determined by appraisal, is \$31,060, to be adjusted every five years, and is considered paid by providing services to the City of Santa Fe by collecting food and related products and distributing collections to feed those experiencing hunger. The Food Depot is required to submit an Annual Service Value Statement to the City of Santa Fe to document monetary value of services provided during prior lease year in relation to annual rent obligation. The Food Depot expects to annually provide services in an amount in excess of the annual rent due, and therefore does not expect to pay any cash consideration for this lease of land.

#### Operating leases

The Food Depot leases office equipment and vehicles under long-term operating agreements. The leases expire in various years through fiscal year 2025. Monthly lease payments range from \$170 to \$1,800.

Future minimum lease payments related to the operating leases are as follows:

2019	\$	48,351
2020		48,351
2021		46,959
2022		37,313
Thereafter		<u>63,597</u>
	\$	<u>244,571</u>

### NOTE 11 – FAIR VALUE MEASUREMENTS

#### Fair Value Measurement

The following table sets forth by level, within the fair value hierarchy, The Food Depot's assets at fair value as of June 30, 2018 and 2017:

#### **Assets at Fair Value as of June 30, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates-of-deposits	\$ -	\$ 500,543	\$ -	\$ 500,543
Interest in assets held by SFCF	-	-	718,561	718,561
	<u>\$ -</u>	<u>\$ 500,543</u>	<u>\$ 718,561</u>	<u>\$ 1,219,104</u>

# The Food Depot

## NOTES TO FINANCIAL STATEMENTS

**June 30, 2018 and 2017**

### NOTE 11 – FAIR VALUE MEASUREMENTS – CONTINUED

#### Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Certificates-of-deposits	\$ -	\$ 754,317	\$ -	\$ 754,317
Interest in assets held by SFCF	-	-	694,365	694,365
	\$ -	\$ 754,317	\$ 694,365	\$ 1,448,682

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring measurements. At least, annually, management determines if the current valuation techniques used in fair value measurements are still appropriate and evaluates and adjusts unobservable inputs used in the fair value measurements based on current market conditions and third-party information. If applicable, The Food Depot recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

#### Level 3 – Investments

The following tables present The Food Depot’s activities for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2018 and 2017:

	2018	2017
Beginning balances	\$ 694,365	\$ 640,523
Investment gains	49,205	66,722
Distributions	(25,009)	(12,880)
Ending balances	\$ 718,561	\$ 694,365

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

*Certificates-of-deposit:* Fair value determined using amortized face value of the financial instrument.

*Interest in assets held by the Santa Fe Community Foundation:* Fair value determined using net realizable value as determined in good faith by the investment fund manager at the end of the year.

# **The Food Depot**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

### **NOTE 12 – RETIREMENT PLAN**

The Food Depot maintains a Simple IRA for eligible employees. The Food Depot matches employee contributions to the retirement account up of 3% of eligible compensation. Retirement plan expense for amounts contributed by The Food Depot was \$22,163 and \$18,026, for the years ended June 30, 2018 and 2017, respectively.

### **NOTE 13 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - NOT-FOR-PROFIT REPORTING FRAMEWORK**

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) - Presentation of Financial Statements for Not-for-Profit Entities. The main provisions of the ASU require a not-for-profit entity to present two asset classes (with and without donor restrictions), requires a classified statement of financial position, requires additional qualitative and quantitative information regarding how the entity manages its liquid resources including the restrictions that affect the use of those resources, requires disclosure of expenses by both their natural classification and their functional classification, methods used to allocate costs among program and supporting functions, as well as other various additional disclosure requirements. The ASU is effective for The Food Depot's year-end June 30, 2019. Management has evaluated the impact of the ASU and has determined that the accounting information systems are sufficient to implement the effects of this ASU.

### **NOTE 14 – SUBSEQUENT EVENT**

During July 2018, The Food Depot entered into a partnership with United Way of Santa Fe County Inc., to create Kids Kitchen LLC. The purpose of this entity is to provide meals to youth under various government sponsored and reimbursed food and food insecurity programs and to provide meals on a paid basis to other interested youth and senior oriented programs and institutions. The program will also provide job training and assist and support endeavors in keeping the mission of both The Food Depot and United Way of Santa Fe County, Inc.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

# The Food Depot

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

	<b>Federal CFDA Number</b>	<b>Agency or Pass- Through Number</b>	<b>Total Federal Expenditures</b>
U.S. Department of Agriculture			
Food Distribution Cluster			
Pass-through from New Mexico Human Services Department – The Emergency Food Assistant Program (TEFAP)	10.569	17-630-9000-0014	\$ 1,456,868
Pass-through from New Mexico Human Services Department – The Emergency Food Assistance Program	10.568	17-630-9000-0014	80,902
Total Food Distribution Cluster			1,537,770
Child Nutrition Cluster			
Pass-through from New Mexico Children, Youth and Families Department – Summer Food Service Program for Children FY 2018	10.559		35,595
Pass-through from New Mexico Children, Youth and Families Department – Summer Food Service Program for Children FY 2017	10.559		46,300
Total Child Nutrition Center Cluster			81,895
Pass-through from New Mexico Children, Youth and Families Department – Child and Adult Care Food Program	10.558		102,675
Total expenditures of federal awards			\$ 1,722,340

# **The Food Depot**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended June 30, 2018**

### **NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The Food Depot under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the *Uniform Guidance, Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

### **NOTE 2 – FOOD**

Nonmonetary assistance is reported in the Schedule at the estimated fair value of \$1.68 per pound. At June 30, 2018, The Food Depot has \$154,360 of inventory on-hand from the State of New Mexico Human Services Department.

### **NOTE 3 – INDIRECT COST RATE**

The Food Depot has elected not to use the 10% de minimus indirect cost rate for its federal programs.

**INDEPENDENT AUDITORS' 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  
The Food Depot

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 of America, the financial statements of The Food Depot, a nonprofit organization, which comprise the statement of financial position as of June 30, 2018, 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 November 15, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Food Depot'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 Food Depot's internal control. Accordingly, we do not express an opinion on the effectiveness of The Food Depot'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 Food Depot'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 Food Depot'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*.

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

PULAKOS CPAs, PC

November 15, 2018

Pulakos CPAs, PC

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

Board of Directors  
The Food Depot

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

We have audited The Food Depot's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Food Depot's major federal programs for the year ended June 30, 2018. The Food Depot's major federal programs are identified in the summary of auditors' 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of The Food Depot'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* 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 Food Depot'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 each major federal program. However, our audit does not provide a legal determination of The Food Depot's compliance.

***Opinion on Each Major Federal Program***

In our opinion, The Food Depot 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, 2018.

## Report on Internal Control over Compliance

Management of The Food Depot 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 Food Depot'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 the 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 Food Depot'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.

PULAKOS CPAs, PC

November 15, 2018

Pulakos CPAs, PC

**The Food Depot**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2018**

**SECTION 1 – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:

**Unmodified**

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes     X  No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes     X  No

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes     X  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ Yes     X  No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes     X  No

Type of auditors' report issued on compliance  
for major programs:

**Unmodified**

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

\_\_\_\_\_ Yes     X  No

Identification of major programs:

**CFDA Numbers(s)**

**Name of Federal Program or Cluster**

10.569/10.568

U.S. Department of Agriculture -  
The Emergency Food Assistance Program (TEFAP)

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X  Yes    \_\_\_\_\_ No

**The Food Depot**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2018**

**SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS**

NONE

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

NONE

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

NONE