

UNIVERSITY DISTRICT SERVICE LEAGUE

FINANCIAL REPORT

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
University District Service League
Seattle, Washington

We have audited the accompanying financial statements of the University District Service League ("the Food Bank") as of June 30, 2016, 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; 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. 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 the Food Bank as of June 30, 2016, 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.

Prior Period Financial Statements

The June 30, 2015, financial statements were reviewed by us and our report, dated December 7, 2015, stated that we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Peterson Sullivan LLP

December 19, 2016

UNIVERSITY DISTRICT SERVICE LEAGUE

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS	2016 (Audited)	2015 (Reviewed)
Current Assets		
Cash and cash equivalents	\$ 939,716	\$ 220,763
Accounts and grants receivable	17,121	23,004
Food and other inventory	32,642	44,157
Prepaid expenses	5,540	4,128
Total current assets	995,019	292,052
Funds Held in Escrow - restricted for capital campaign	850,000	850,000
Capital Campaign Receivables	648,055	1,385,513
Cash Surrender Value of Annuity Contracts	102,010	101,000
Property and Equipment, net	2,664,194	333,030
Total assets	<u>\$ 5,259,278</u>	<u>\$ 2,961,595</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 26,710	\$ 23,688
Accrued liabilities	1,807,114	265,575
Total liabilities	1,833,824	289,263
Net Assets		
Unrestricted net assets	3,172,408	940,491
Temporarily restricted net assets	253,046	1,731,841
Total net assets	3,425,454	2,672,332
Total liabilities and net assets	<u>\$ 5,259,278</u>	<u>\$ 2,961,595</u>

See Notes to Financial Statements

UNIVERSITY DISTRICT SERVICE LEAGUE

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	2016 (Audited)			2015 (Reviewed)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
In-kind contributions	\$ 3,752,099	\$ -	\$ 3,752,099	\$ 2,529,056	\$ -	\$ 2,529,056
Contributions	422,972		422,972	452,479		452,479
Capital campaign contributions		557,919	557,919		1,357,309	1,357,309
Government grant for capital campaign	270,210		270,210	247,054		247,054
Other government grants	61,428		61,428	61,919		61,919
Special events	218,919		218,919	176,251		176,251
Special event expenses	(45,531)		(45,531)	(43,086)		(43,086)
Interest and dividend income	1,453		1,453	2,559		2,559
Releases from temporarily restricted net assets	2,036,714	(2,036,714)		157,579	(157,579)	
	6,718,264	(1,478,795)	5,239,469	3,583,811	1,199,730	4,783,541
Expenses						
Program	4,153,692		4,153,692	2,928,491		2,928,491
General and administrative	77,476		77,476	71,764		71,764
Fundraising	255,179		255,179	221,697		221,697
Total expenses	4,486,347		4,486,347	3,221,952		3,221,952
Change in net assets	2,231,917	(1,478,795)	753,122	361,859	1,199,730	1,561,589
Net Assets, beginning of year	940,491	1,731,841	2,672,332	578,632	532,111	1,110,743
Net Assets, end of year	\$ 3,172,408	\$ 253,046	\$ 3,425,454	\$ 940,491	\$ 1,731,841	\$ 2,672,332

See Notes to Financial Statements

UNIVERSITY DISTRICT SERVICE LEAGUE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	2016 (Audited)				2015 (Reviewed)			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Food	\$ 3,914,961	\$ -	\$ -	\$ 3,914,961	\$ 2,676,643	\$ -	\$ -	\$ 2,676,643
Salaries and benefits	188,150	49,892	122,195	360,237	186,654	43,345	116,609	346,608
Professional fees and other fundraising expenses			111,992	111,992			86,874	86,874
Special events			45,531	45,531			43,086	43,086
Occupancy	17,825	8,912	8,912	35,649	17,384	8,691	8,691	34,766
Administration expenses	5,495	18,672	12,080	36,247	4,625	17,564	9,492	31,681
Grants	6,603			6,603	14,180			14,180
Depreciation	4,337			4,337	243	2,095		2,338
Transportation	7,720			7,720	11,043	69	31	11,143
Other distribution expenses	2,654			2,654	2,790			2,790
Other program costs	5,947			5,947	14,929			14,929
Total expenses	4,153,692	77,476	300,710	4,531,878	2,928,491	71,764	264,783	3,265,038
Less expenses included with revenue on the statements of activities			(45,531)	(45,531)			(43,086)	(43,086)
Total expenses included in expense section of the statements of activities	\$ 4,153,692	\$ 77,476	\$ 255,179	\$ 4,486,347	\$ 2,928,491	\$ 71,764	\$ 221,697	\$ 3,221,952

See Notes to Financial Statements

UNIVERSITY DISTRICT SERVICE LEAGUE

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u> <u>(Audited)</u>	<u>2015</u> <u>(Reviewed)</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 753,122	\$ 1,561,589
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Capital campaign contributions	(828,129)	(1,604,363)
Change in value of annuity contract	(1,010)	(1,000)
Depreciation	4,337	2,338
Changes in operating assets and liabilities		
Accounts and grants receivable	5,883	(3,547)
Food and other inventory	11,515	(9,788)
Prepaid expenses	(1,412)	3,473
Accounts payable	3,022	(3,436)
Accrued liabilities	7,753	10,573
Net cash flows used for operating activities	(44,919)	(44,161)
Cash Flows from Investing Activities		
Proceeds from sale of certificate of deposit - held for capital campaign		372,760
Cash deposited into escrow account		(850,000)
Purchase of property and equipment	(801,715)	(85,261)
Net cash flows used for investing activities	(801,715)	(562,501)
Cash Flows from Financing Activity		
Proceeds from capital campaign contributions	1,565,587	548,271
Net change in cash and cash equivalents	718,953	(58,391)
Cash and Cash Equivalents, beginning of year	220,763	279,154
Cash and Cash Equivalents, end of year	<u>\$ 939,716</u>	<u>\$ 220,763</u>

The Food Bank had \$1,778,036 and \$244,250 of construction in progress related to the new facility, which was not paid as of June 30, 2016 and 2015, respectively. The balance is in accrued liabilities in the statements of financial position.

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

The University District Food Bank ("the Food Bank") is the only program of the University District Service League.

The Food Bank works to prevent hunger across Northeast Seattle and help move low income families toward self-sufficiency. The Food Bank's primary program, the walk-in food bank, supports more than 1,000 families each week during the four days of distribution. Through its innovative and award winning grocery store styled shopping system, food bank customers choose the healthy food they want to take home each visit. The Food Bank also supplements clients' three day supply of food with other essentials like toiletries, baby formula, diapers, and pet food, and helps them make connections to important community resources. It is the busiest food bank in the north end of the City of Seattle.

In addition to the walk-in food bank, the Food Bank has also developed several programs to bring food out into the community to individuals and families unable to come to the food bank itself. The home delivery program supports 100 homebound seniors and severely disabled individuals each week; teams of volunteers bring these families customized food boxes every Wednesday. Packs for Kids, which is the school backpack program, provides 500 children from eleven nearby schools with healthy and easy-to-prepare meals, snacks, and drinks for the weekend when school meals are not available. Both of these programs have more than doubled their weekly service levels in the past two years.

After over 30 years in a small basement facility at the University Christian Church, the Food Bank broke ground in June 2015 in a new location. The new facility will be co-located with 49 units of low income housing, some specifically targeted to young adults. The new facility began operations following year-end in mid-July 2016.

The fundraising goal of the capital campaign is \$3.5 million. The new facility will significantly improve the Food Bank's effectiveness by increasing the amount of space dedicated to perishable food storage, increasing the amount of space available for customer food shopping, creating a dedicated outreach office adjacent to the shopping area, and providing a rooftop urban farm. Co-located with the Food Bank is a small coffee shop operated by Street Bean for job skills development of homeless young adults. Above the Food Bank are three stories of housing owned by the Low Income Housing Institute and partially managed by YouthCare.

The Food Bank entered into a purchase and sale agreement with the Low Income Housing Institute to purchase part of the property located at 5017 Roosevelt Way NE, Seattle 98105. This will be the new location for the Food Bank. The purchase price is \$2.8 million. It is expected to close upon completion of the new Food Bank space, with any post-construction financing provided by Impact Capital, a community development financial institution.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

In accordance with accounting principles generally accepted in the United States, the Food Bank reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Food Bank has no permanently restricted net assets, so this class of net assets is not presented.

Temporarily Restricted Net Assets

Temporarily restricted amounts are those that are stipulated by donors for specific purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met. All temporarily restricted net assets are related to the capital campaign as of June 30, 2016 and 2015.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and Cash Equivalents

The Food Bank maintains its cash in bank deposit accounts that at times may exceed federally insured limits. For the purposes of the statement of cash flows, the Food Bank considers highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Receivables

Accounts and grants receivable are unsecured and do not bear interest. Receivables are reviewed periodically by management. Accounts deemed uncollectible are written off. There was no allowance for receivables necessary as of June 30, 2016 or 2015.

Capital campaign receivables are initially recorded at fair value including assumptions about expected year of collection, estimated allowance, and donor-specific discount rates. Management reviews the collectibility of pledges receivable on a periodic basis and specifically identifies amounts that are considered to be uncollectible. A reserve for doubtful accounts is then established, if deemed necessary by management. The Food Bank charges off receivables against the allowance when management determines that a receivable is not collectible. There was no allowance for capital campaign receivables necessary as of June 30, 2016 or 2015. At June 30, 2016, 73% of total receivables was due from three donors. At June 30, 2015, 86% of total receivables was due from four donors.

Funds Held in Escrow

Funds held in escrow will be applied toward the purchase price of the Food Bank's new space upon closing.

Food and Other Inventory

Inventory consists primarily of donated food and items to be sold at the annual auction. These contributions are valued at fair value when received. Purchased inventory is recorded at cost.

Property and Equipment

Property and equipment is stated at cost if purchased, or at estimated fair value at the date of receipt if donated. Depreciation is provided using the straight-line method over the assets' estimated useful lives. Items costing \$500 or more with a useful life in excess of one year are capitalized. Property and equipment consists of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Vehicles	\$ 79,848	\$ 79,848
Computers	8,017	8,017
Freezers and equipment	24,201	20,104
Furniture	<u>23,377</u>	<u>23,377</u>
	135,443	131,346
Less accumulated depreciation	<u>(132,164)</u>	<u>(127,827)</u>
	3,279	3,519
Construction in progress	<u>2,660,915</u>	<u>329,511</u>
	<u>\$ 2,664,194</u>	<u>\$ 333,030</u>

Construction in progress includes progress payments on the purchase of the new location.

Cash Surrender Value of Annuity Contracts

At June 30, 2016 and 2015, the Food Bank has one annuity contract issued in May 2014 for \$100,000. The contract bears interest at 1% and matures in May 2018.

Annuity contracts are recorded at cash surrender value, which represents the initial insurance premium paid for the annuity, including any portion of the interest earned, but only to the extent the Food Bank would receive that interest at the reporting date.

The annuity contract is subject to early withdrawal penalty charges in the event the Food Bank cancels the contract and withdraws the funds during the contractual accumulation period, as defined. Although no amount of the initial insurance premium paid is at risk of loss under the early withdrawal provisions, penalties may be charged against any or all of the accumulated interest at the date of termination.

The early withdrawal charges start at a rate of 7% of the contract face value and decrease to 5% over a four-year period. At the end of the contractual accumulation period, no fees will apply to any withdrawal of funds.

Revenue Recognition

Contributions - Contributions are recognized as revenue on the date the related pledge is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

In-Kind Contributions - Contributions of goods consist primarily of food donations. The Food Bank measures pounds distributed on a monthly basis and records in-kind revenue based on this as management believe this accurately reflects the true amount of food provided from donors.

During the year ended June 30, 2016, 23% of in-kind contribution and 21% of cash contribution revenue were received from two donors and one donor, respectively. During the year ended June 30, 2015, 33% of in-kind contribution and 47% of cash contribution revenue were received from two donors and three donors, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to administer the Food Bank's distribution programs. The Food Bank valued this contributed labor at \$383,316 and \$394,587 for the years ended June 30, 2016 and 2015, respectively. The value of these services is not reflected in the accompanying financial statements.

Government Grants - All government grant income is from two local governmental agencies. Revenue is recognized as it is earned.

Special Events - Revenue from special events is recognized in the period the event takes place. Funds collected in advance of the event are deferred until the event occurs. Likewise, expenses paid prior to the date of the event are recognized as prepaid expenses, and recognized as expenses on the date of the event.

Income Taxes

The Food Bank is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

The Food Bank has evaluated subsequent events through the date these financial statements were available to be issued, which was December 19, 2016.

Note 3. Capital Campaign Receivables

Capital campaign receivables consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 644,055	\$ 1,306,502
Receivable in one to five years	<u>4,000</u>	<u>79,011</u>
	<u>\$ 648,055</u>	<u>\$ 1,385,513</u>

Management determined that the discount on long-term receivables is not material to the financial statements, as such no discount has been recorded.

Note 4. Operating Leases

The Food Bank leased its former facilities under an operating lease that expired on June 30, 2016. Total rent expense for the years ended June 30, 2016 and 2015, was \$22,408 and \$21,983, respectively. The Food Bank moved into their new facility in July 2016, and as they are not leasing this facility, there are no future minimum lease payments.