

FOOD RECOVERY NETWORK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019



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Independent Auditor's Report

To the Board of Directors and Officers of Food Recovery Network, Inc.

We have audited the accompanying financial statements of Food Recovery Network, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2019 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 the 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 the fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Food Recovery Network, Inc. as of June 30, 2019, 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.

Rosen, Sapperstein & Friedlander, LLC

Rosen, Sapperstein & Friedlander, LLC
Baltimore, Maryland
May 11, 2020

FOOD RECOVERY NETWORK, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents \$ 596,321

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Payroll taxes payable \$ 26,773

NET ASSETS

Without donor restrictions 544,548

With donor restrictions 25,000

TOTAL NET ASSETS 569,548

TOTAL LIABILITIES AND NET ASSETS \$ 596,321

See Accompanying Notes to Financial Statements

FOOD RECOVERY NETWORK, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	\$ 726,601	\$ 25,000	\$ 751,601
Summits - net	(8,487)	-	(8,487)
Apparel sales - net	(1,183)	-	(1,183)
Other income	<u>5,486</u>	<u>-</u>	<u>5,486</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>722,417</u>	<u>25,000</u>	<u>747,417</u>
EXPENSES			
Program services	403,635	-	403,635
Supporting services			
Management and general	90,644	-	90,644
Fundraising	<u>107,507</u>	<u>-</u>	<u>107,507</u>
TOTAL EXPENSES	<u>601,786</u>	<u>-</u>	<u>601,786</u>
CHANGE IN NET ASSETS	120,631	25,000	145,631
NET ASSETS - BEGINNING OF YEAR	<u>423,917</u>	<u>-</u>	<u>423,917</u>
NET ASSETS - END OF YEAR	<u><u>\$ 544,548</u></u>	<u><u>\$ 25,000</u></u>	<u><u>\$ 569,548</u></u>

See Accompanying Notes to Financial Statements

FOOD RECOVERY NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	PROGRAM SERVICES	SUPPORTING SERVICES		Total
	Food Recovery Program Support	Management and General	Fundraising	
Marketing and outreach	\$ 4,411	\$ -	\$ -	\$ 4,411
Bank fees	-	441	-	441
Contractors	89,174	-	-	89,174
Employee benefits	1,644	7,100	-	8,744
Event expenses	5,032	-	-	5,032
Insurance	-	4,722	-	4,722
Miscellaneous	-	639	-	639
Occupancy	25,418	5,084	3,389	33,891
Office expenses	5,436	4,896	-	10,332
Professional fees	-	8,790	-	8,790
Salaries and payroll taxes	246,655	51,586	94,390	392,631
Technology	11,055	582	-	11,637
Travel	14,810	6,804	9,728	31,342
TOTAL FUNCTIONAL EXPENSES	\$ 403,635	\$ 90,644	\$ 107,507	\$ 601,786

See Accompanying Notes to Financial Statements

FOOD RECOVERY NETWORK, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 145,631
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Increase in operating liabilities	
Payroll tax payable	<u>26,773</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	172,404
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>423,917</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 596,321</u>

See Accompanying Notes to Financial Statements

FOOD RECOVERY NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Food Recovery Network, Inc. (the Organization) is a national non-profit organization headquartered in Maryland founded in 2011 for the purpose of fighting food waste on college campuses by recovering perishable food that would otherwise go to waste and donating it to people in need. The Organization has chapters at over 178 campuses in 44 states and the District of Columbia.

New Accounting Standard Adopted

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The Organization has adopted this ASU as of and for the year ended June 30, 2019. The major changes include (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all nonprofits present an analysis of expenses by function and nature, and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (e) presenting investment return net of external and direct internal investment expenses, and (f) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. As a result, the Organization changed its presentation of its net asset classes and expanded the disclosures as required by the ASU.

Basis of Presentation

The Foundation follows the Presentation of Financial Statements for Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. This pronouncement sets standards for the financial statement presentation for not-for-profit organizations. The Foundation is required to report information regarding its financial position and activities according to two (2) classes of net assets: without donor restrictions and with donor restrictions based on the existence or absence of donor imposed restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor imposed time and/or purpose restrictions.

Donor restricted contributions whose restrictions are met in the same reporting periods are reported as revenue within net assets without donor restrictions.

Revenue Recognition

The Organization follows the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification. In accordance with this standard, contributions received are recorded as support within net assets with donor restrictions or net assets without donor restrictions. All contributions are considered to be available without restrictions unless specifically restricted by the donor.

FOOD RECOVERY NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contributions include monies and sponsorships received from various individuals, organizations, and foundations. The grants serve to fund program costs incurred by the Organization. No sponsorship monies were received in advance of the completion of the event during the year ended June 30, 2019.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three (3) months or less to be cash equivalents.

Financial Credit Risk

The Organization maintains its cash accounts at financial institutions located in Maryland and its balances may at times exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. The Organization has not experienced any losses in such accounts and monitors the creditworthiness of the financial institutions with which it conducts business. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash balances.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. There were no income taxes paid on unrelated business activities for the year ended June 30, 2019.

Accounting for Uncertainty in Income Taxes

The Organization adopted the Accounting for Uncertainty in Income Taxes standard of the FASB Accounting Standards Codification. The standard requires the recognition and measurement of uncertain tax positions taken or expected to be taken by the Organization in the preparation of its tax returns. The Organization determines whether it is more-likely-than-not that a certain tax position will be sustained upon examination by a taxing authority. If an uncertain tax position is less-likely-than-not to be sustained, an estimate of the potential effect is recognized in the financial statements and the uncertain tax position is required to be disclosed. Per the Organization's evaluation as of June 30, 2019, including all prior tax years subject to examination, it was determined that no adjustments were required in the financial statements for tax positions less-likely-than-not to be sustained upon examination by a taxing authority. The Organization believes it is no longer subject to income tax examinations for years prior to 2016.

FOOD RECOVERY NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

The Organization has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification in the recognition of donated services. Donated services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Donated services consist of volunteer services. Volunteer services are recorded on the basis of time spent at rates paid by other organizations for comparable services. The volunteer services primarily consist of services for the recovery of food. The volunteer services are recorded as both public support and program services; therefore, there is no effect on the change in net assets. No amounts have been reflected in the financial statements for the volunteer services for recovery of food since they do not meet the criteria for recognition.

Functional Expenses

The financial statements report certain costs that are attributable either to their program function or management and general function or both. Such costs are reported according to their natural expense category and then allocated to the appropriate functional category on a reasonable basis that is consistently applied. Salaries and benefits are allocated on the basis of function performed; physical resources are allocated on the basis of usage; purchased services are allocated on the basis of services received and the remaining general and administrative expenses are allocated on the basis of management identification based on observation and professional evaluation of the direct benefit of the expense to a particular functional category or categories.

Marketing and Outreach Expense

Marketing and outreach costs are expensed when incurred. Marketing and outreach expenses for the year ended June 30, 2019 amounted to \$4,411.

New Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that the Organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

FOOD RECOVERY NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements Not Yet Adopted (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the year ending June 30, 2022. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchanged transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchanged transactions. In addition, it clarified whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. This standard will be effective for the year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events

Events that occurred subsequent to June 30, 2019 have been evaluated by the Organization's management for potential recognition or disclosure in the financial statements through the date of the independent auditor's report, which is the date the financial statements were available to be issued. Management has determined no events occurred that would require recognition, however, additional disclosure is warranted relating to the outbreak of COVID-19. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact operations. While this disruption is currently expected to be temporary, there is considerable uncertainty around the duration. However, the related financial impact and duration cannot be reasonably estimated at this time.

NOTE 2 – SPECIAL EVENTS AND INITIATIVES

The Organization held several regional summits at campuses across the country aimed at raising awareness about the Organization and bringing together food recovery student leaders. Included in special events revenue on the statements of activities are registration fees received by the Organization.

FOOD RECOVERY NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 2 – SPECIAL EVENTS AND INITIATIVES (Continued)

The following are the revenue and expenses for the summits for the year ended June 30, 2019:

Revenue earned	\$ 4,403
Expenses incurred	<u>12,890</u>
Net expense from summits	<u>\$ (8,487)</u>

The Organization sold apparel as a fundraising initiative. The following are the revenue and expenses relating to apparel sales for the year ended June 30, 2019:

Revenue earned	\$ 1,937
Expenses incurred	<u>3,120</u>
Net expense from apparel sales	<u>\$ (1,183)</u>

NOTE 3 – CONCENTRATIONS

Revenue from three sources consisted of approximately 60% of total revenue for the year ended June 30, 2019.

NOTE 4 – LEASE COMMITMENTS

The Organization rents its office space under an operating lease that commenced on January 1, 2017 and expired February 2020, after which the Organization began operating in a remote environment. Base rental payments are \$2,259 per month, plus annual increases through the maturity of the lease. Rent expense incurred for the year ended June 30, 2019 amounted to \$33,891.

The minimum future lease payments on the above lease for the year ending June 30, 2020 are \$17,453.

NOTE 5 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available to meet cash needs for general expenditures within one year of June 30, 2019 are as follows:

Cash and cash equivalents	<u>\$ 596,321</u>
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FOOD RECOVERY NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 5 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. General expenditures are expenses the Organization expects to disburse for program and supporting expenses and supporting services.

NOTE 6 – EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 1, the Organization adopted ASU 2016-14 as of and for the year ended June 30, 2019. In accordance with the ASU, net assets are classified as net assets without donor restrictions and net assets with donor restrictions. Prior to the adoption of ASU 2016-14, the Organization classified all its net assets as unrestricted net assets, and with the adoption of the ASU, these are classified as net assets without donor restrictions.