

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

**FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014 AND 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Just Food of Douglas County, Kansas, Inc.

We were engaged to audit the accompanying financial statements of Just Food of Douglas County, Kansas, Inc. (a nonprofit organization), which comprise the statements of financial position – modified cash basis as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management did not perform a physical inventory at the end of the year and we were not engaged as auditors until after the end of the year; therefore, we were not present to observe the taking of an inventory at December 31, 2014 and 2013 (stated at \$36,251 and \$14,242, respectively), and we were unable to satisfy ourselves concerning inventory quantities on hand at those dates.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Emphasis of a Matter

As described in Note 8 to the financial statements, the Organization experienced fraudulent misappropriation of assets and noncompliance with payroll tax regulations.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Summers, Spencer & Company P.A.

Summers, Spencer & Company, P.A.
Lawrence, KS

November 23, 2015

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

STATEMENTS OF FINANCIAL POSITION – MODIFIED CASH BASIS

December 31,	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 91,193	\$ 75,869
Prepaid expenses	8,000	8,000
Inventory	36,251	14,242
<i>Total current assets</i>	<u>135,444</u>	<u>98,111</u>
Property and equipment, net	<u>37,326</u>	<u>19,743</u>
<i>Total assets</i>	<u><u>\$ 172,770</u></u>	<u><u>\$ 117,854</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued payroll tax liabilities	\$ 55,288	\$ 5,327
Deferred revenue	-	25,000
<i>Total current liabilities</i>	<u>55,288</u>	<u>30,327</u>
Net assets		
Unrestricted	107,482	77,527
Temporarily restricted	10,000	10,000
<i>Total net assets</i>	<u>117,482</u>	<u>87,527</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 172,770</u></u>	<u><u>\$ 117,854</u></u>

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

For the year ended December 31,	2014				
	Foodbank and Education	Contributed Food	Total Unrestricted	Temporarily Restricted	Total
Support and revenue					
Contributions received and other revenue	\$ 480,117	\$ -	\$ 480,117	\$ -	\$ 480,117
Contributed food received	-	592,640	592,640	-	592,640
<i>Total support and revenue</i>	<u>480,117</u>	<u>592,640</u>	<u>1,072,757</u>	<u>-</u>	<u>1,072,757</u>
Expenses and losses					
Foodbank and education	273,587	-	273,587	-	273,587
Contributed food distributed	-	570,631	570,631	-	570,631
Management and general	73,444	-	73,444	-	73,444
Fundraising	98,192	-	98,192	-	98,192
<i>Total expenses</i>	<u>445,223</u>	<u>570,631</u>	<u>1,015,854</u>	<u>-</u>	<u>1,015,854</u>
Theft loss	26,948	-	26,948	-	26,948
<i>Total expenses and losses</i>	<u>472,171</u>	<u>570,631</u>	<u>1,042,802</u>	<u>-</u>	<u>1,042,802</u>
Change in net assets	7,946	22,009	29,955	-	29,955
Net assets, beginning of year	<u>63,285</u>	<u>14,242</u>	<u>77,527</u>	<u>10,000</u>	<u>87,527</u>
Net assets, end of year	<u>\$ 71,231</u>	<u>\$ 36,251</u>	<u>\$ 107,482</u>	<u>\$ 10,000</u>	<u>\$ 117,482</u>

The accompanying notes are an integral part of the financial statements.

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

For the year ended December 31,	2013				
	Foodbank and Education	Contributed Food	Total Unrestricted	Temporarily Restricted	Total
Support and revenue					
Contributions received and other revenue	\$ 318,726	\$ -	\$ 318,726	\$ 10,000	\$ 328,726
Contributed food received	-	373,799	373,799	-	373,799
<i>Total support and revenue</i>	<u>318,726</u>	<u>373,799</u>	<u>692,525</u>	<u>10,000</u>	<u>702,525</u>
Expenses and losses					
Foodbank and education	189,083	-	189,083	-	189,083
Contributed food distributed	-	371,387	371,387	-	371,387
Management and general	52,835	-	52,835	-	52,835
Fundraising	43,214	-	43,214	-	43,214
<i>Total expenses</i>	<u>285,132</u>	<u>371,387</u>	<u>656,519</u>	<u>-</u>	<u>656,519</u>
Theft loss	6,900	-	6,900	-	6,900
<i>Total expenses and losses</i>	<u>292,032</u>	<u>371,387</u>	<u>663,419</u>	<u>-</u>	<u>663,419</u>
Change in net assets	26,694	2,412	29,106	10,000	39,106
Net assets, beginning of year	<u>36,591</u>	<u>11,830</u>	<u>48,421</u>	<u>-</u>	<u>48,421</u>
Net assets, end of year	<u>\$ 63,285</u>	<u>\$ 14,242</u>	<u>\$ 77,527</u>	<u>\$ 10,000</u>	<u>\$ 87,527</u>

The accompanying notes are an integral part of the financial statements.

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS

For the years ended December 31,	2014				2013			
	Foodbank and Education	Management and general	Fundraising	Total	Foodbank and Education	Management and general	Fundraising	Total
Compensation and contract labor	\$ 74,813	\$ 57,902	\$ 45,121	\$ 177,836	\$ 42,429	\$ 40,973	\$ 33,438	\$ 116,840
Food purchased	72,699	-	-	72,699	55,290	-	-	55,290
Insurance	1,925	227	113	2,265	3,409	401	201	4,011
Office supplies, printing and postage	16,530	1,472	19,749	37,751	6,980	821	411	8,212
Marketing	-	1,377	1,046	2,423	-	-	2,782	2,782
Services and staff support	11,275	-	-	11,275	8,931	-	-	8,931
Rent	45,900	5,400	2,700	54,000	45,900	5,400	2,700	54,000
Utilities and telephone	16,334	1,922	961	19,217	14,882	1,751	876	17,509
Equipment	11,973	-	-	11,973	2,195	-	-	2,195
Vehicle cost and freight	14,845	-	-	14,845	6,483	-	-	6,483
Special events	-	-	23,179	23,179	-	-	1,279	1,279
Bank Fees	-	821	5,323	6,144	-	1,283	1,527	2,810
Miscellaneous	-	3,443	-	3,443	-	2,133	-	2,133
<i>Total expenses before depreciation and contributed food distributed</i>	266,294	72,564	98,192	437,050	186,499	52,762	43,214	282,475
Depreciation	7,293	880	-	8,173	2,584	73	-	2,657
Contributed food distributed	570,631	-	-	570,631	371,387	-	-	371,387
<i>Total expenses</i>	\$ 844,218	\$ 73,444	\$ 98,192	\$ 1,015,854	\$ 560,470	\$ 52,835	\$ 43,214	\$ 656,519

The accompanying notes are an integral part of the financial statements.

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

For the years ended December 31,	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 29,955	\$ 39,106
Adjustments to reconcile change in net assets to net operating cash activities:		
Net contributed food activity	(22,009)	(2,412)
Depreciation	8,173	2,657
In-kind donation of property and equipment	-	(9,400)
(Increase) decrease in operating assets:		
Prepaid expenses	-	(8,000)
Increase (decrease) in operating liabilities:		
Accrued payroll tax liabilities	49,961	4,154
Deferred revenue	<u>(25,000)</u>	<u>25,000</u>
<i>Net cash flows provided by operating activities</i>	<u>41,080</u>	<u>51,105</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(25,756)</u>	-
<i>Net cash flows used in investing activities</i>	<u>(25,756)</u>	-
Net increase in cash and cash equivalents	15,324	51,105
Cash and cash equivalents, beginning of year	<u>75,869</u>	<u>24,764</u>
Cash and cash equivalents, end of year	<u><u>\$ 91,193</u></u>	<u><u>\$ 75,869</u></u>

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

Note 1 - Description of business and ownership

Organization and nature of operations

Just Food of Douglas County, Kansas, Inc. (the Organization) is a 501(c)(3), nonprofit organization which was incorporated under the laws of the state of Kansas. The Organization is a central food distribution facility for persons and organizations in Douglas County, Kansas needing food and nutritional assistance.

Note 2 - Summary of significant accounting policies

Basis of accounting

In 2014, the Organization changed accounting policies related to the adoption of the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

This basis of accounting differs from generally accepted accounting principles because the Organization has not recognized grants or pledges receivable, accounts payable and accrued salaries or other liabilities. The effect of not recording these on the financial statements has not been determined. The Organization does recognize payroll tax liabilities as well as deferred revenue. The cash basis is additionally modified to include capitalization of purchased and donated property and equipment with a provision for depreciation, recognition of donated services and in-kind contributions (including contributed food) and to reflect inventory.

Basis of presentation

The Organization follows generally accepted accounting principles for non-profit organizations and reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Classification of restricted net assets is determined by the nature of any donor imposed restrictions.

- Unrestricted net assets represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or specific passage of time before the Organization may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund the donor intentions.

As of December 31, 2014 and 2013, there were no permanently restricted net assets.

Use of estimates

Management uses estimates and assumptions in preparing the financial statements on a modified cash basis of accounting. Those estimates and assumptions affect the reported amounts of assets and liabilities. Actual results could vary by a material amount from the estimates that were used.

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

Contributions and other support

Contributions are considered available for unrestricted use in the appropriate time period, unless specifically restricted by the donor. Contributions which have donor imposed or time restrictions are recorded as temporarily restricted net assets until the restrictions have been met or the time has lapsed. Contributions generally include cash contributions.

Certain contributions received by the Organization include donor imposed restrictions that require that unspent funding be returned if not used for their intended purpose. Income from these contributions is recognized when the expenses are incurred or restrictions met. Funds received but not yet expended are recorded as deferred revenue on the Statement of Financial Position – Modified Cash Basis.

Contributed food received, as well as the related food distributed expense and the contributed food inventory accounts, are computed by valuing the Organization’s respective pounds of food at a weighted average wholesale price per pound as determined by the Feeding America national food bank network. The Organization treats contributed food as an unrestricted contribution.

Cash and cash equivalents

The Organization considers all investments with original maturities of three months or less to be cash equivalents.

Inventory

Contributed food is valued on a first-in, first-out basis using a weighted average wholesale price per pound as determined by the Feeding America national food bank network. For the years ended December 31, 2014 and 2013, contributed food was valued at \$1.72 and \$1.69 per pound, respectively.

Property and equipment

Fixed assets are recorded at cost, if purchased. Donated fixed assets are reported at estimated fair value at the date of contribution. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computers and hardware	5 years
Equipment	5 - 7 years
Vehicles	5 years

Donated services and in-kind contributions

Accounting principles for non-profit organizations require donated services which require specific expertise or enhance a non-financial asset be recorded in the financial statements at their fair value. For the years ended December 31, 2014 and 2013, the Organization has recorded in-kind contributions as revenue and expense totaling \$27,450 and \$18,400, respectively, for donated services and goods other than contributed food. In addition, many individuals have volunteered over 10,000 and 11,000 hours, respectively of their time in organizational governance, program services and fundraising efforts for the years ended December 31, 2014 and 2013. No amounts have been reflected in the statements for these donated hours as they did not meet the accounting principles criteria for recognition.

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and change in net assets. Certain costs have been allocated among the program and supporting services benefited as depicted in the Statement of Functional Expenses – Modified Cash Basis. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification.

Other expenses that are common to several functions are allocated by management’s estimate of resources devoted to the programs or support source. Direct benefit to donor costs have been included in fundraising costs on the statement of functional expenses as the associated costs are not material in relation to the financial statements taken as a whole.

Income taxes

The Organization is exempt from income tax under Internal Revenue Code Section 501(c)(3) as provided by a determination letter from the Internal Revenue Service.

The Organization has adopted the provisions of FASB ASC 740-10, Accounting for Income Taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization’s financial statements. The standard prescribes recognition and the measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Organization has not identified any uncertain tax positions for the years ended December 31, 2014 and 2013, respectively.

The Organization’s income tax returns are subject to review and examination by federal authorities. The Organization is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The tax returns for the years 2012 to 2014 are open to examination by federal authorities. Management intends to amend the tax returns during 2015.

Note 3 – Property and equipment, net

The cost and related accumulated depreciation of property and equipment at December 31, are as follows:

	2014	2013
Computers and software	\$ 4,400	\$ 4,400
Equipment	17,000	17,000
Vehicles	27,756	2,000
Total cost	49,156	23,400
Less accumulated depreciation	(11,830)	(3,657)
Net property and equipment	<u>\$ 37,326</u>	<u>\$ 19,743</u>

Depreciation expense charged to operations is \$8,173 and \$2,657 for the years ended December 31, 2014 and 2013, respectively.

Note 4 – Temporarily restricted nets assets

Temporarily restricted net assets at December 31, 2014 and 2013 in the amount of \$10,000 were restricted for a greenhouse project.

Note 5 – Operating leases

The Organization currently leases its facility under an operating lease which expires December 31, 2015. Rent expense totaled \$54,000 for each of the years ended December 31, 2014 and 2013.

JUST FOOD OF DOUGLAS COUNTY, KANSAS, INC.

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

Note 6 – Related party transactions

An officer of the Organization's Board of Directors is employed as a Director of a local bank where the Organization maintains all of their bank accounts. As of December 31, 2014 and 2013, total balances held at the bank were \$91,193 and \$50,874, respectively.

Note 7 – Concentrations of credit and market risks

Primarily all of the Organization's revenues and receivables are from businesses and individuals located in the Douglas County area in the state of Kansas.

The Organization maintains cash and investments in bank and brokerage accounts which at times may exceed their federally insured limits of \$250,000 set by the Federal Deposit Insurance Corporation (FDIC). The accounts are held by banks and brokerage firms that are well established and highly regarded. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on these balances. As of December 31, 2014 and 2013 the Organization did not maintain balances in excess of federally insured limits.

Note 8 – Subsequent events

Subsequent to December 31, 2014, the Board of Directors of the Organization discovered fraudulent misappropriation of assets by the former executive director of the Organization and noncompliance with payroll tax regulations. These issues gave question to the Organization's ability to continue as a going concern. In late 2015, the Board of Directors completed a fund drive to address the payroll tax liabilities. Litigation against the former executive director is anticipated. No estimate of possible funds recovery has been included in these statements. Misappropriated funds are classified as theft loss in the statements of activities – modified cash basis.

The Organization has evaluated subsequent events through November 23, 2015, the date that the financial statements were available to be issued and has noted additional fraudulent misappropriation of assets and noncompliance with payroll tax regulations in 2015. The Organization has satisfied its payroll tax liabilities and penalty abatement is in process.