

THE FOOD PROJECT, INC.

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018**

tonneson + co

Certified Public Accountants & Consultants

THE FOOD PROJECT, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Food Project, Inc.
Lincoln, Massachusetts

We have audited the accompanying financial statements of The Food Project, Inc. ("TFP"), which comprise the statements of financial position as of September 30, 2018 and 2017, the related statements of activities and functional expenses for the year ended September 30, 2018, the statements of cash flows for the years ended September 30, 2018 and 2017, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 Project, Inc. as of September 30, 2018 and 2017, and the changes in its net assets and functional expenses for the year ended September 30, 2018 and its cash flows for the years ended September 30, 2018 and 2017 in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited The Food Project, Inc.'s September 30, 2017 financial statements, and our report dated March 2, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wakefield, Massachusetts
March 20, 2019

Tonneson & Company, PC

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THE FOOD PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2018 AND 2017

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ 486,367	\$ 85,917	\$ -	\$ 572,284	\$ 1,043,277
Investments		299,911	267,166	567,077	504,001
Current portion of accounts receivable, program grants		194,580		194,580	176,529
Accounts receivable, other	30,201			30,201	21,953
Prepaid expenses and other current assets	52,852			52,852	47,200
Total current assets	569,420	580,408	267,166	1,416,994	1,792,960
Property, plant and equipment, net	974,024			974,024	998,924
Long-term accounts receivable, program grants		80,000		80,000	25,000
TOTAL ASSETS	\$ 1,543,444	\$ 660,408	\$ 267,166	\$ 2,471,018	\$ 2,816,884

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:					
Accounts payable and accrued expenses	\$ 84,041	\$ -	\$ -	\$ 84,041	\$ 84,646
Deferred revenue	66,675			66,675	46,329
TOTAL LIABILITIES	150,716	-	-	150,716	130,975
NET ASSETS:					
Unrestricted:					
Operating	1,068,502			1,068,502	1,560,486
Board Designated	324,226			324,226	400,232
Total unrestricted	1,392,728			1,392,728	1,960,718
Temporarily restricted		660,408		660,408	458,025
Permanently restricted			267,166	267,166	267,166
TOTAL NET ASSETS	1,392,728	660,408	267,166	2,320,302	2,685,909
TOTAL LIABILITIES AND NET ASSETS	\$ 1,543,444	\$ 660,408	\$ 267,166	\$ 2,471,018	\$ 2,816,884

See Notes to Financial Statements.

THE FOOD PROJECT, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2018

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
REVENUE AND SUPPORT:					
Grants and contributions	\$ 2,011,124	\$ 315,807	\$	\$ 2,326,931	\$ 2,768,168
Sales	413,146			413,146	407,605
Rental income	33,460			33,460	28,910
Donated materials and services	58,413			58,413	43,704
Net unrealized gains on investments		54,822		54,822	47,306
Interest and dividend income	439	8,254		8,693	8,637
Gain on disposal of assets				-	171,392
Net assets released from restrictions	176,500	(176,500)		-	-
Total revenue and support	<u>2,693,082</u>	<u>202,383</u>	<u>-</u>	<u>2,895,465</u>	<u>3,475,722</u>
OPERATING EXPENSES:					
Program services	2,356,838			2,356,838	2,423,256
Management and general	289,118			289,118	231,591
Development	615,116			615,116	607,134
Total operating expenses	<u>3,261,072</u>	<u>-</u>	<u>-</u>	<u>3,261,072</u>	<u>3,261,981</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(567,990)</u>	<u>202,383</u>	<u>-</u>	<u>(365,607)</u>	<u>213,741</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,960,718</u>	<u>458,025</u>	<u>267,166</u>	<u>2,685,909</u>	<u>2,472,168</u>
NET ASSETS, END OF YEAR	<u>\$ 1,392,728</u>	<u>\$ 660,408</u>	<u>\$ 267,166</u>	<u>\$ 2,320,302</u>	<u>\$ 2,685,909</u>

See Notes to Financial Statements.

THE FOOD PROJECT, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2018

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

	Program Services				Supporting Services			2018 Total	2017 Total
	Youth Leadership and Training	Food Production and Enterprise	Public Education and Outreach	Total Program Services	Management and General	Development	Total Supporting Services		
Personnel	\$ 427,903	\$ 507,664	\$ 259,100	\$ 1,194,667	\$ 187,699	\$ 344,045	\$ 531,744	\$ 1,726,411	\$ 1,706,696
Youth stipends	407,455	-	-	407,455	-	-	-	407,455	471,599
Consultants and professional fees	32,661	44,980	71,021	148,662	57,925	41,251	99,176	247,838	155,205
Occupancy	44,923	15,216	21,472	81,611	15,068	37,572	52,640	134,251	132,886
Insurance	28,359	39,710	9,595	77,664	11,862	19,542	31,404	109,068	101,445
Depreciation	-	97,356	1,120	98,476	1,485	-	1,485	99,961	111,708
Events	-	-	-	-	-	84,224	84,224	84,224	52,576
Seeds, plants, soil amendments	-	70,846	725	71,571	-	700	700	72,271	73,100
Supplies	8,554	17,932	18,827	45,313	3,070	17,585	20,655	65,968	83,149
Printing	615	812	25,473	26,900	247	38,664	38,911	65,811	46,298
Utilities	5,007	34,839	9,175	49,021	1,267	3,370	4,637	53,658	49,729
Equipment related expense	9,110	29,911	5,131	44,152	2,979	5,901	8,880	53,032	85,355
Professional development	11,669	2,382	8,440	22,491	4,106	8,349	12,455	34,946	43,515
Vehicle and travel	9,214	18,724	4,521	32,459	991	622	1,613	34,072	25,307
Youth transportation	30,036	-	-	30,036	-	-	-	30,036	35,771
Telephone	7,688	8,974	4,077	20,739	1,976	5,080	7,056	27,795	24,019
Postage	1,724	249	3,648	5,621	443	8,211	8,654	14,275	15,940
Support and assistance	-	-	-	-	-	-	-	-	47,683
Total expenses	<u>\$ 1,024,918</u>	<u>\$ 889,595</u>	<u>\$ 442,325</u>	<u>\$ 2,356,838</u>	<u>\$ 289,118</u>	<u>\$ 615,116</u>	<u>\$ 904,234</u>	<u>\$ 3,261,072</u>	<u>\$ 3,261,981</u>

See Notes to Financial Statements.

THE FOOD PROJECT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (365,607)	\$ 213,741
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	99,961	111,708
Gain on disposal of assets	-	(171,392)
Net unrealized gains on investments	(54,822)	(47,306)
Changes in certain assets and liabilities:		
Accounts receivable, program grants	(73,051)	229,333
Accounts receivable, other	(8,248)	8,990
Prepaid expenses and other current assets	(5,652)	9,716
Accounts payable and accrued expenses	(605)	(18,197)
Deferred revenue	20,346	18,474
Net cash provided by (used in) operating activities	<u>(387,678)</u>	<u>355,067</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	158,000	77,000
Purchase of investments	(166,254)	(166,405)
Proceeds from disposal of assets	-	569,859
Purchase of property and equipment	<u>(75,061)</u>	<u>(185,645)</u>
Net cash provided by (used in) investing activities	<u>(83,315)</u>	<u>294,809</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	<u>-</u>	<u>(176,990)</u>
Net cash used in financing activities	<u>-</u>	<u>(176,990)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(470,993)	472,886
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,043,277</u>	<u>570,391</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 572,284</u>	<u>\$ 1,043,277</u>

Supplemental disclosure of cash flow information:

TFP paid no interest expense during the year ended September 30, 2018. TFP paid \$4,337 in interest expense during the year ended September 30, 2017.

See Notes to Financial Statements.

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 1 - Summary of Significant Accounting Policies

Organization - The Food Project, Inc. ("TFP") was established in 1994 and is a not-for-profit corporation operating to empower youth in the Greater Boston Metropolitan area through education and opportunities for community service through planting, harvesting and distributing farm produce to shelters, soup kitchens and farmers markets in low income neighborhoods.

Basis of Accounting - The financial statements of TFP have been prepared on the accrual basis.

Basis of Presentation - TFP's financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles establish standards for external financial reporting by not-for-profit organizations and require that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows.

Unrestricted net assets include Operating net assets and Board Designated net assets. Operating net assets represent amounts which bear no external restrictions and are currently available for operations. Board Designated net assets represent amounts which have been earmarked by the Board of Trustees for future use. Board Designated net assets consists of general assets. As of September 30, 2018 and 2017, Board Designated net assets amounted to \$324,226 and \$400,232, respectively. Spending of these funds requires approval by the Board of Trustees.

Temporarily restricted net assets include gifts, income and gains which can be expended but for which restrictions have not yet been met and realized and unrealized gains on permanently restricted net assets. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift.

Permanently restricted net assets include net assets subject to donor-imposed stipulations that they be maintained permanently by TFP. Generally, the donors of these assets permit TFP to use all or part of the income earned on related investments for general or specific purposes.

Comparative Financial Information - The statement of activities includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the TFP's financial statements for the year ended September 30, 2017 from which the summarized information was derived.

Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk - Financial instruments, which subject TFP to concentrations of credit risk, consist principally of temporary cash investments. TFP has concentrated its credit risk for cash by maintaining bank deposits that exceed federal insurance. The maximum loss that could have resulted from that risk totaled approximately \$180,000 as of September 30, 2018.

Cash Equivalents - Cash equivalents consist of certificates of deposit with original maturities of 90 days or less. Cash equivalents are carried at cost, which approximates market.

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments - Investments consist of certificates of deposit with original maturities in excess of 90 days of December 17, 2018. Investments also consist of mutual funds.

TFP reports its investments pursuant to U.S. generally accepted accounting principles. In accordance with these principles, investments are recorded at market value and investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at fair value in the Statements of Financial Position. Net realized and unrealized gains or losses in the fair value of the investments are reflected in the Statement of Activities.

The fair value of publicly traded mutual funds is based upon quoted market prices and net asset values. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the financial statements. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility.

Dividends, interest and net gains on investments are reported as increases in permanently restricted net assets if the terms of the underlying gift require that they be added to the principal, or as increases in temporarily restricted net assets if the terms of the underlying gift or relevant state law impose restrictions on the use of the income or net gains. Income and net gains on board designated funds are reported as an increase in unrestricted net assets.

Grants and Other Accounts Receivable - U.S. generally accepted accounting principles require that unconditional promises to give (grants) be recorded as receivables and revenue in the period received and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Grants and other accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to grants or other accounts receivable. Management has reviewed grants and other accounts receivable as of September 30, 2018 and 2017, and considers grants and other accounts receivable to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

Contributions - In accordance with U.S. generally accepted accounting principles, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Property, Plant and Equipment - Expenditures for property, plant and equipment are recorded at cost, or, if acquired by gift, at fair market value as of the date of gift. Depreciation is computed using the straight-line method calculated to amortize the cost of the assets over their estimated useful lives. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the related lease or the estimated useful lives of the assets.

Investment Return Objectives and Parameters - TFP's primary objective is preservation of capital together with current income that will provide for the support of current activities. To satisfy its long-term rate-of-return objectives, TFP primarily relies on fixed income investments typically comprised of certificates of deposit and mutual funds.

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Spending Policy - TFP has adopted a spending policy on permanently restricted net assets whereby a percentage of earned income and realized capital gains, if any, can be distributed and treated as support for operating activities. This is consistent with TFP's objective to provide for the support of current activities. TFP has elected not to distribute any of the earned income and realized capital gains during each of the years ended September 30, 2018 and 2017.

Contributed Services - Contributions of services are recognized if the services received (a) create or enhance non-financial 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 materials, food and services valued at \$58,413 in 2018 and \$43,704 in 2017 are included in the accompanying statement of activities.

TFP has a substantial number of volunteers who have donated a significant amount of their time and energy to TFP. No amounts have been recognized in the accompanying statement of activities for these donated services since an objective basis for measurement of the value of such services is not available, and these services are not specialized as defined by U.S. generally accepted accounting principles.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Deferred Revenue - TFP defers recognition of program and service revenue to the period in which the related program and services are performed and the related expenses are incurred.

Income Taxes - The Internal Revenue Service has recognized the Organization as a tax-exempt Organization under Section 501(c)(3). Section 501(c)(3) of the Code provides for the exemption of Organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes and whose net earnings do not inure to the benefit of any private shareholder or individual.

In determining the recognition of uncertain tax positions, the Organization applies a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with taxing authorities. As of September 30, 2018, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is generally subject to potential examination by taxing jurisdictions for the three prior years.

Recent Accounting Pronouncements - In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in the financial statements and notes about liquidity, financial performance and cash flows. The new guidance (i) revises the net asset classification scheme to two classes instead of the previous three, (ii) enhances disclosures for self-imposed limits on the use of resources without donor-imposed restrictions and the composition of net assets with donor restrictions, (iii) updates the accounting and disclosure requirements for underwater endowment funds, (iv) requires the net presentation of investment expenses against investment return on the statement of activities and eliminates the requirement to disclose investment expenses that have been netted (v) requires the presentation of expenses by nature as well as function, (vi) requires qualitative disclosures on how a not-for-profit manages its available liquid resources, (vii) requires quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date, and (viii) allows for a choice between the direct and indirect method of reporting operating cash flows. This standard will be effective for the fiscal year ending September 30, 2019. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

The Financial Accounting Standards Board has issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an 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 the 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 fiscal year ending September 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has 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 fiscal year ending September 30, 2021. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events - The date to which events occurring after September 30, 2018 have been evaluated for possible adjustment to the financial statements or disclosure is the date of the Independent Auditor's Report which is the date the financial statements were available to be issued.

Note 2 - Investments

Fair value is defined under U.S. generally accepted accounting principles as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Further, it requires TFP to maximize the use of observable market inputs, minimize the use of unobservable market inputs, and disclose in the form of an outlined hierarchy the details of such fair value measurements. The accounting standards specify a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect TFP's market assumptions. This hierarchy requires the use of observable market data when available.

These inputs have created the following fair value hierarchy:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3 - Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

Following is a description of TFP's valuation methodologies for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2018.

Mutual Funds

These investments are public investment vehicles valued using the Net Asset Value ("NAV") provided by the administrator of the fund and calculated at the close of business on the NYSE. The NAV is based on the value of the underlying asset owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Investments in mutual funds are classified within Level 1 of the valuation hierarchy.

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 2 - Investments (Continued)

Certificates of Deposit

These investments are valued at original cost plus accrued interest, which approximates fair value. Investments in certificates of deposit are classified within Level 1 of the valuation hierarchy.

The following table summarizes TFP's financial assets measured at fair value on a recurring basis, by caption and by the valuation hierarchy, in accordance with U.S. generally accepted accounting principles as of September 30, 2018 and 2017:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Level 1				
Certificates of deposit	\$ 41,000	\$ 41,000	\$ 158,000	\$ 158,000
Mutual funds:				
Large Cap funds	<u>226,166</u>	<u>526,077</u>	<u>109,166</u>	<u>346,001</u>
Total Level 1 Investments	<u>\$ 267,166</u>	<u>\$ 567,077</u>	<u>\$ 267,166</u>	<u>\$ 504,001</u>

Note 3 - Accounts Receivable, Program Grants

Accounts receivable, program grants at September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Accounts receivable, program grants expected to be collected in:		
Less than one year	\$ 194,580	\$ 176,529
One to five years	<u>80,000</u>	<u>25,000</u>
	<u>\$ 274,580</u>	<u>\$ 201,529</u>

Cash collections from accounts receivable, program grants during the years ended September 30, 2018 and 2017 amounted to \$176,500 and \$313,834, respectively.

Note 4 - Property, Plant and Equipment

Property, plant and equipment at September 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Building	\$ 577,891	\$ 577,891
Land	387,120	387,120
Vehicles and equipment	628,123	611,245
Building improvements	294,616	236,433
Leasehold improvements	<u>390,744</u>	<u>390,744</u>
Total property, plant and equipment, at cost	2,278,494	2,203,433
Less accumulated depreciation	<u>1,304,470</u>	<u>1,204,509</u>
Property, plant and equipment, net	<u>\$ 974,024</u>	<u>\$ 998,924</u>

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 4 - Property, Plant and Equipment (Continued)

The fair value of the property, plant and equipment at September 30, 2018 and 2017, according to a valuation obtained from an independent insurance appraisal, amounted to \$1,448,582 and \$1,501,981, respectively.

Note 5 - Line of Credit

TFP has a revolving line of credit agreement with a bank. The maximum borrowings available under the agreement are \$200,000. The agreement provides that any borrowings are due on demand, and bear interest at the greater of (1) the bank's prevailing prime lending rate plus 2.00% or (2) 5.50% (7.25% and 6.25% at September 30, 2018 and 2017, respectively). The agreement is collateralized by substantially all assets of TFP. The agreement also requires TFP to meet certain non-financial covenants, as defined in the financing agreement. At September 30, 2018, management is not aware of any violations to its covenants. As of September 30, 2018 and 2017, there were no borrowings outstanding under this agreement.

Note 6 - Endowment

TFP's endowment consists of one individual donor-restricted fund established for a specific purpose. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

TFP has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, TFP 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 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 net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by TFP.

In accordance with UPMIFA, TFP considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of TFP and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of TFP
7. The investment policies of TFP

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 6 - Endowment (Continued)

The endowment net asset composition by type of fund as of September 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 299,911	\$ 267,166	\$ 567,077

The endowment net asset composition by type of fund as of September 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 236,835	\$ 267,166	\$ 504,001

The changes in endowment net assets for the years ended September 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, October 1, 2016	\$ -	\$ 181,174	\$ 267,166	\$ 448,340
Investment gain, net		55,661		55,661
Endowment Net Assets, September 30, 2017	\$ -	\$ 236,835	\$ 267,166	\$ 504,001
Investment gain, net		63,076		63,076
Endowment Net Assets, September 30, 2018	\$ -	\$ 299,911	\$ 267,166	\$ 567,077

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions presently available for use, but expendable only for the purposes specified by the donor. At September 30, 2018 and 2017, temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Cumulative gains on permanently restricted funds	\$ 299,911	\$ 236,835
Management and general	173,580	141,080
Youth leadership and training	175,917	70,110
Farm and enterprise	1,000	7,143
Public education and outreach	-	2,857
Fundraising	10,000	-
	<u>\$ 660,408</u>	<u>\$ 458,025</u>

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 8 - Permanently Restricted Net Assets

Permanently restricted net assets include net assets subject to donor-imposed stipulations that they be maintained permanently by TFP. Generally, the donors of these assets permit TFP to use all or part of the income earned on related investments for general or specific purposes. At September 30, 2018 and 2017, permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Pat Gray Legacy (youth leadership and training)	\$ <u>267,166</u>	\$ <u>267,166</u>

Note 9 - Leasing Arrangements

TFP has two non-cancelable operating lease agreements for office space. TFP leases office space in Boston, MA under a non-cancelable real estate lease agreement expiring in August 2020. The arrangement provides for fixed monthly rental payments and requires TFP to pay its proportionate share of utilities, real estate taxes, insurance and repairs.

TFP leases office space in Lynn, MA under a non-cancelable real estate lease agreement expiring in October 2019. The arrangement provides for fixed monthly rental payments and requires TFP to pay its proportionate share of utilities, real estate taxes, insurance and repairs.

TFP leases numerous parcels of vacant land and green house space in Boston, Lynn, Lincoln, Wenham and Beverly, Massachusetts from various government and conservation agencies. The leases generally provide for nominal rent ranging from \$1 per year to \$1,380 per year and expire at various times through December 2113. The land is used for community gardens, general planting and educational purposes.

Total rental expense, excluding certain operating expenses payable by TFP, amounted to approximately \$93,000 and \$90,000 for the years ended September 30, 2018 and 2017, respectively.

The minimum future rental payments, by year, under non-cancelable operating leases having initial lease terms in excess of one year as of September 30, 2018 are as follows:

<u>Years ending September 30,</u>	<u>Amount</u>
2019	\$ 71,093
2020	56,516
2021	2,448
2022	2,448
2023	2,448

TFP leases office space to three tenants under non-cancelable lease agreements. The agreements provide for fixed minimum monthly rental payments and expire July, 2019, September, 2020 and March, 2021, respectively. Rental income for the years ended September 30, 2018 and 2017 amounted to approximately \$33,000 and \$29,000, respectively.

THE FOOD PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Note 9 - Leasing Arrangements (Continued)

The future minimum rental income receivable, by year, under the lease agreements as of September 30, 2018 is as follows:

<u>Years ending September 30,</u>	<u>Amount</u>
2019	\$ 39,928
2020	28,410
2021	15,766

Note 10 - Conditional Promises To Give

Conditional promises to give are not recorded as assets or recognized until the conditions on which they depend are substantially met and the promises become unconditional. Conditional promises to give that are not recorded as assets at September 30, 2018 and 2017 consist of promises that will be used for the following purposes:

	<u>2018</u>	<u>2017</u>
<u>Farm and Enterprise:</u>		
Massachusetts Department of Agricultural Resources	\$ 53,620	\$ -

Note 11 - Functional Allocation of Youth Leadership and Training

Youth Leadership and Training refers to core youth development programs. Youth are also actively involved in all initiatives within food production and enterprise and public education and outreach.

Note 12 - Retirement Plan

TFP maintains a defined contribution pension plan covering eligible participating employees. The Plan allows employees to make voluntary contributions up to the Internal Revenue Code limitations. Employer contributions to the Plan amounted to approximately \$8,000 for each of the years ended September 30, 2018 and 2017.

While TFP expects to continue the Plan indefinitely, TFP has reserved the right to modify, amend or terminate the Plan. In the event of termination, the entire amount contributed under the Plan must be applied to the payment of benefits to the participants or their beneficiaries.