

**AUDITED FINANCIAL STATEMENTS**

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

*Hatfield, Massachusetts*

**DECEMBER 31, 2007**

*Boisselle, Morton & Associates, LLP*  
*Certified Public Accountants*

BOISSELLE, MORTON & ASSOCIATES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

To the Officers and Directors  
**The Food Bank of Western Massachusetts, Inc.**  
Hatfield, Massachusetts

**Independent Auditors' Report**

We have audited the accompanying statement of financial position of The Food Bank of Western Massachusetts, Inc. (a nonprofit organization) as of December 31, 2007, and the related statements of activities, functional expense and cash flows for the year then ended. These financial statements are the responsibility of The Food Bank of Western Massachusetts, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's December 31, 2006 financial statements and, in our report dated March 8, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Food Bank of Western Massachusetts, Inc. as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2008 on our consideration of The Food Bank of Western Massachusetts, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

To the Officers and Directors  
**The Food Bank of Western Massachusetts, Inc.**  
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Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of support, revenue and expense by program and schedule of expense by program are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Boisselle, Morton & Associates, LLP*

Hadley, Massachusetts  
February 27, 2008

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**  
Statement of Financial Position  
December 31, 2007 (with comparative totals for December 31, 2006)

	<u>Assets</u>				<u>2006</u> <u>Total</u>
	<u>2007</u>				
	<u>Unrestricted</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>	
<b>Current Assets</b>					
Cash and cash equivalents	\$ 9,593	\$ 37,355		\$ 46,948	\$ 50,748
Cash - board designated reserve	200,000			200,000	
Accounts receivable	338,354	7,500		345,854	271,661
Government grants receivable	78,800	15,000		93,800	146,654
Pledges receivable	265,318	43,993		309,311	494,849
Inventory	657,034			657,034	348,869
Prepaid expenses	24,152			24,152	43,804
<b>Total Current Assets</b>	<u>1,573,251</u>	<u>103,848</u>		<u>1,677,099</u>	<u>1,356,585</u>
Property and Equipment, net	<u>4,060,938</u>			<u>4,060,938</u>	<u>3,985,860</u>
<b>Other Assets</b>					
Cash - permanently restricted			\$ 5,100	5,100	5,100
Pledges receivable	81,880			81,880	217,163
Investments - Community Foundation	18,343			18,343	12,293
Construction in progress					225,193
U.S.D.A. mortgage reserve	10,532			10,532	9,413
<b>Total Other Assets</b>	<u>110,755</u>		<u>5,100</u>	<u>115,855</u>	<u>469,162</u>
<b>Total Assets</b>	<u>\$ 5,744,944</u>	<u>\$ 103,848</u>	<u>\$ 5,100</u>	<u>\$ 5,853,892</u>	<u>\$ 5,811,607</u>
<b><u>Liabilities and Net Assets</u></b>					
<b>Current Liabilities</b>					
Line of credit					\$ 339,000
Accounts payable	\$ 107,252			\$ 107,252	88,350
Long-term debt - due within one year	2,690			2,690	2,565
Accrued expenses	96,055			96,055	84,245
Deferred revenue	17,756			17,756	22,375
Due to member agencies	8,897			8,897	5,160
<b>Total Current Liabilities</b>	<u>232,650</u>			<u>232,650</u>	<u>541,695</u>
Long-term Debt	<u>177,394</u>			<u>177,394</u>	<u>180,083</u>
<b>Net Assets</b>					
Unrestricted - undesignated	1,225,171			1,225,171	869,954
Unrestricted - U.S.D.A. mortgage reserve	10,532			10,532	9,413
Unrestricted - property and equipment	3,880,854			3,880,854	4,028,405
Unrestricted - board designated	218,343			218,343	12,293
<b>Total unrestricted net assets</b>	<u>5,334,900</u>			<u>5,334,900</u>	<u>4,920,065</u>
Temporarily restricted		\$ 103,848		103,848	164,664
Permanently restricted			\$ 5,100	5,100	5,100
<b>Total Net Assets</b>	<u>5,334,900</u>	<u>103,848</u>	<u>5,100</u>	<u>5,443,848</u>	<u>5,089,829</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 5,744,944</u>	<u>\$ 103,848</u>	<u>\$ 5,100</u>	<u>\$ 5,853,892</u>	<u>\$ 5,811,607</u>

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

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Statement of Activities

Year Ended December 31, 2007

(with comparative totals for the year ended December 31, 2006)

	2007			2006 <u>Total</u>
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Support, revenue, and gains				
Donated food	\$ 4,989,993			\$ 4,260,569
U.S.D.A. food	515,278			676,505
Donations	755,920			764,725
Donated in-kind	60,052			149,608
U.S.D.A. grant	158,291			182,065
MEFAP grant	189,170			151,245
Emergency Food and Shelter Program	9,040			8,170
Grants - other	199,737	\$ 384,627		658,979
Shared maintenance	241,150			213,521
Food buying	362,262			195,247
Farm income - other	20,593			20,301
Membership fees	23,635			22,810
Delivery fees	27,192			27,090
Special events and promotional sales	152,807			113,004
Miscellaneous	13,615			21,936
Interest and net investment earnings	1,487			13,259
Income from beneficial interest in endowment	49,000			45,300
Gain on sale of assets				9,745
Net assets released from restrictions	<u>445,443</u>	<u>(445,443)</u>		
Total support, revenue, and gains	<u>8,214,665</u>	<u>(60,816)</u>		<u>8,153,849</u>
Expense and losses				
Program	6,957,772			6,491,049
Administration	510,812			528,575
Development	331,246			366,598
Total expense	<u>7,799,830</u>			<u>7,386,222</u>
Loss from abandoned assets				16,792
Total expense and losses	<u>7,799,830</u>			<u>7,403,014</u>
Change in net assets	414,835	(60,816)		131,065
Net assets - beginning of year	<u>4,920,065</u>	<u>164,664</u>	\$ 5,100	<u>5,089,829</u>
Net assets - end of year	<u>\$ 5,334,900</u>	<u>\$ 103,848</u>	<u>\$ 5,100</u>	<u>\$ 5,443,848</u>

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

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Statement of Functional Expense

Year Ended December 31, 2007

(with comparative totals for the year ended December 31, 2006)

	2007				2006
	<u>Program</u>	<u>Administration</u>	<u>Development</u>	<u>Total</u>	<u>Total</u>
Employee compensation and related:					
Salaries	\$ 670,680	\$ 273,927	\$ 172,415	\$ 1,117,022	\$ 1,003,678
Payroll taxes	69,718	19,774	23,215	112,707	76,219
Fringe benefits	169,601	50,660	25,175	245,436	216,033
Total employee compensation and related	<u>909,999</u>	<u>344,361</u>	<u>220,805</u>	<u>1,475,165</u>	<u>1,295,930</u>
Occupancy:					
Utilities	56,022	9,337	1,334	66,693	68,083
Insurance	27,649	5,673	330	33,652	32,398
Repairs and maintenance	27,256	25,069	4,707	57,032	45,594
Depreciation	187,926	5,197		193,123	112,158
Interest	8,620			8,620	8,739
Total occupancy	<u>307,473</u>	<u>45,276</u>	<u>6,371</u>	<u>359,120</u>	<u>266,972</u>
Other program expense:					
Fees	21,063			21,063	14,931
Consulting	2,250			2,250	19,640
Temporary agency labor	14,996			14,996	16,870
Staff training and conferences	9,778			9,778	3,431
Staff mileage and travel	13,582			13,582	10,447
Donated food	4,392,356			4,392,356	3,763,152
U.S.D.A. food	519,905			519,905	721,573
Purchased food	328,789			328,789	169,639
Food discard	305,658			305,658	706,578
Freight	33,301			33,301	25,130
Motor vehicle expense	26,466			26,466	25,569
Subgrants	4,563			4,563	628
Program supplies	15,539		3,880	19,419	16,731
Total other program expense	<u>5,688,246</u>		<u>3,880</u>	<u>5,692,126</u>	<u>5,494,319</u>
Support expense:					
Advertising and promotion		8,031		8,031	4,290
Staff training and conferences		4,468	298	4,766	4,576
Staff mileage and travel		1,672	1,511	3,183	3,570
Office supplies and expense	14,963	25,690	19,491	60,144	73,173
Depreciation		13,394	8,294	21,688	24,840
Direct mail			46,805	46,805	38,275
Miscellaneous		197	1,005	1,202	1,432
Lobbying		4,551		4,551	4,551
Donated in-kind	37,089	10,150	12,813	60,052	68,860
Accounting and consulting		17,651		17,651	14,327
Temporary agency labor		25,204		25,204	54,208
Bad debt	2		396	398	1,054
Fees		2,445	7,364	9,809	8,474
Interest expense		7,722		7,722	18,173
Special events			2,213	2,213	9,198
Total support expense	<u>52,054</u>	<u>121,175</u>	<u>100,190</u>	<u>273,419</u>	<u>329,001</u>
Total expense	<u>\$ 6,957,772</u>	<u>\$ 510,812</u>	<u>\$ 331,246</u>	<u>\$ 7,799,830</u>	<u>\$ 7,386,222</u>

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

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Statement of Cash Flows

Year Ended December 31, 2007

(with comparative totals for the year ended December 31, 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Cash received from operating activities	\$ 2,107,281	\$ 2,151,069
Cash received from farm operating activities	20,593	20,301
Cash received from donations	755,920	751,172
Cash paid for compensation and related expenses	(1,463,741)	(1,294,705)
Cash paid to suppliers	(799,736)	(928,870)
Interest and dividends received	447	11,819
Interest paid	(16,342)	(24,034)
Net cash provided by operating activities	<u>604,422</u>	<u>686,752</u>
Cash flows from investing activities		
Capital expenditures	(64,696)	(2,073,895)
Construction in progress		(225,193)
Proceeds from sale of assets		16,450
Deposits into U.S.D.A. Mortgage Reserve	(1,119)	(1,118)
Net funds invested in Community Foundation designated endowment	(843)	(1,370)
Net cash used by investing activities	<u>(66,658)</u>	<u>(2,285,126)</u>
Cash flows from financing activities		
Advances on line of credit	155,000	835,000
Repayments on line of credit	(494,000)	(496,000)
Mortgage payments	(2,564)	(2,445)
Net cash (used) provided by financing activities	<u>(341,564)</u>	<u>336,555</u>
Net increase (decrease) in cash and cash equivalents	196,200	(1,261,819)
Cash and cash equivalents - beginning of year	<u>50,748</u>	<u>1,312,567</u>
Cash and cash equivalents - end of year	<u>\$ 246,948</u>	<u>\$ 50,748</u>
<u>Cash and cash equivalents consists of:</u>		
Cash and cash equivalents - unrestricted	\$ 9,593	\$ 21,688
Cash and cash equivalents - temporarily restricted	37,355	29,060
Cash - board designated reserve	200,000	
	<u>\$ 246,948</u>	<u>\$ 50,748</u>
<u>Supplemental disclosures of non-cash operating and investing activities:</u>		
Donated food support	\$ 4,989,993	\$ 4,260,569
Donated food expense	(4,392,356)	(3,763,152)
Donated food discard expense	(305,658)	(706,578)
Donated in-kind support and expense	60,052	68,860
Donated capitalized construction work (investing activity)		20,163
Donated equipment (investing activity)		60,585
Construction in progress completed (investing activity)	225,193	933,562

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

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Schedule of Reconciliation of Change in Net Assets

to Net Cash Provided by Operating Activities

Year Ended December 31, 2007

(with comparative totals for the year ended December 31, 2006)

	<u>2007</u>	<u>2006</u>
Change in net assets	\$ <u>354,019</u>	\$ <u>131,065</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	214,811	136,998
Gain on sale of assets		(9,745)
Loss from abandoned assets		16,792
Change in allowance for uncollectible pledges	(1,250)	(7,733)
Change in discount for present value of pledges	(6,619)	(18,822)
Accounts receivable write-offs	398	787
Donated construction work for construction in progress		(20,163)
Donated equipment		(60,585)
Donation to Community Foundation designated endowment	(5,207)	
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(74,591)	(1,587)
Government grants receivable	52,854	(278,224)
Pledges receivable	328,690	799,194
Inventory	(308,165)	256,900
Prepaid expenses	19,652	(2,090)
(Decrease) increase in:		
Accounts payable	18,902	(259,381)
Accrued expenses	11,810	2,626
Deferred revenue	(4,619)	25
Due to member agencies	<u>3,737</u>	<u>695</u>
Total adjustments	<u>250,403</u>	<u>555,687</u>
Net cash provided by operating activities	\$ <u><u>604,422</u></u>	\$ <u><u>686,752</u></u>

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

# THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.

Notes to the Financial Statements

December 31, 2007

## 1. Summary of Significant Accounting Policies:

*Mission* - The Food Bank of Western Massachusetts, Inc.'s (The Food Bank) primary mission is to work with the community to reduce hunger and increase food security in the four counties of Western Massachusetts.

*Organization* - The Food Bank is a not-for-profit corporation organized under Massachusetts General Laws Chapter 180. The Food Bank is exempt from federal and state corporate income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, The Food Bank qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

*Accounting Method* - The financial statements of The Food Bank are prepared on the accrual basis.

*Basis of Presentation* - The net assets of The Food Bank are reported in each of the following three classes when applicable: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets are legally unrestricted and are reported as part of the unrestricted class. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Contributions of services are recognized as revenue if they (a) create or enhance non-financial assets or (b) if they require specialized skills which are provided by individuals possessing those skills and if such services would typically need to be purchased if not provided by donations. Contributions of materials are recognized as revenue at their fair market value.

*Capitalization of Expenses* - The cost, if purchased, and fair value, if donated, of property and equipment is capitalized. The Food Bank capitalizes property and equipment with a cost of \$5,000 or more. Costs of maintenance and repairs are expensed as incurred.

*Depreciation* - Depreciation is computed by the straight-line method over the following useful lives:

Buildings and improvements	15 - 25 years
Furniture, fixtures and equipment	3 - 10 years
Motor vehicles	5 - 10 years

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Notes to the Financial Statements (continued)

December 31, 2007

1. Summary of Significant Accounting Policies (Continued):

*Expense Allocation* - Expenses are charged to programs and supporting services on the basis of job duties and space allocation analyses. Administration and other supporting services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of The Food Bank.

*Cash and cash equivalents* - The Food bank considers any balance at year end in an investment account that is used only to receive stock donations and convert the stock to cash as soon as possible as cash and cash equivalents.

*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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Inventory* - There are three categories of food inventory: food which is donated, food which is purchased, and government surplus food which is warehoused on behalf of the government by The Food Bank for redistribution. Valuation of donated food items is based on the approximate average wholesale value of one pound of donated product as calculated in the Product Valuation Survey Methodology December 31, 2006 prepared by America's Second Harvest. The valuation at December 31, 2006 was \$1.69 per pound. The valuation at December 31, 2005 was \$1.50. Purchased food is stated at the lower of first-in, first-out (FIFO) cost or market. Massachusetts Emergency Food Assistance Program (MEFAP) food is held at The Food Bank for redistribution to designated member agencies and, therefore, is not recorded as inventory in the financial statements of The Food Bank.

*Advertising* - Advertising and promotion costs are expensed as incurred. Advertising and promotion costs were \$8,031 and \$4,290 for 2007 and 2006, respectively.

*Pledges Receivable* - Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

## THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.

Notes to the Financial Statements (continued)

December 31, 2007

### 2. Pledges Receivable:

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded at face value less a discount for the present value of future cash flows. The discount rate used to calculate the present value was 2%. Unconditional promises to give are temporarily restricted for the capital campaign. Management has determined that all pledges are collectible, net of an estimated allowance for uncollectible pledges as follows at December 31:

	<u>2007</u>	<u>2006</u>
Due in one year	\$309,311	\$494,849
Due in two years	44,407	164,459
Due in three years	62,850	75,350
Due in four years	1,200	11,750
Due in five years	<u>50</u>	<u>50</u>
	417,768	746,458
Less: discount for present value	5,010	11,629
Less: allowance for uncollectible pledges	<u>21,567</u>	<u>22,817</u>
Total pledges receivable	391,191	712,012
Less amount due in one year	<u>309,311</u>	<u>494,849</u>
Total long-term pledges receivable	<u>\$ 81,880</u>	<u>\$217,163</u>

### 3. Property and Equipment:

Property and equipment consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Land	\$ 352,500	\$ 352,500
Buildings and improvements	3,820,369	3,549,172
Furniture, fixtures and equipment	631,396	612,704
Vehicles	<u>252,240</u>	<u>252,240</u>
	5,056,505	4,766,616
Less accumulated depreciation	<u>995,567</u>	<u>780,756</u>
Total property and equipment	<u>\$4,060,938</u>	<u>\$3,985,860</u>

Depreciation expense was \$214,811 and \$136,998 for 2007 and 2006, respectively.

The Food Bank sold three vehicles and one piece of equipment in 2006 for a gain of \$9,745. The Food Bank also abandoned \$104,468 of improvements and furniture, fixtures and equipment due to the warehouse addition in 2006 for a loss of \$16,792. This loss is from some abandoned assets that still had depreciable cost.

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Notes to the Financial Statements (continued)

December 31, 2007

4. U.S.D.A. Mortgage Reserve:

Under the terms of the U.S.D.A. Mortgage Agreement, The Food Bank is required to set aside \$93 each month until a sum of \$11,184 has accumulated, at which time deposits may be discontinued. With prior written approval, funds may be used for paying costs of repairing or making improvements to the facility. Deposits shall resume whenever the reserve is less than \$11,184. The balance of the reserve was \$10,532 and \$9,413 at December 31, 2007 and 2006, respectively.

5. Deferred Revenue:

Funds received currently which will benefit future periods are summarized as follows for at December 31:

	<u>2007</u>	<u>2006</u>
Deferred membership dues	<u>\$17,756</u>	<u>\$22,375</u>

6. Long-Term Debt:

Long-term debt consisted of a mortgage payable to a government agency, secured by property and receivables, due in monthly installments of \$932 including interest at a fixed rate of 4.75% through August 2038. The balance of the mortgage payable was \$180,084 and \$182,648 at December 31, 2007 and 2006, respectively. The maturities of the mortgage payable are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Amount</u>
2008	\$ 2,690
2009	2,825
2010	2,957
2011	3,101
2012	3,251
Thereafter (2013– 2038)	<u>165,260</u>
	<u>\$180,084</u>

Interest expense was \$8,620 and \$8,739 for 2007 and 2006 respectively.

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Notes to the Financial Statements (continued)

December 31, 2007

7. Board Designated Unrestricted Net Assets:

The Board of Directors votes annually on the amount of Board designated reserve. The Board attempts to fulfill the recommendation of the America's Second Harvest to maintain a reserve equal to three months of cash operating expenses. As of December 31, 2007 the Board of Directors designated \$200,000 to be reserved. The Board of Directors did not designate any net assets as a reserve at December 31, 2006 because The Food Bank had a balance on the line of credit at year end.

The Food Bank established a designated endowment fund at the Community Foundation of Western Massachusetts in the year ended December 31, 2000. The fund is an investment of The Food Bank and will distribute to The Food Bank only amounts that will preserve the principal in perpetuity. The balance in the endowment fund was \$18,343 and \$12,293 at December 31, 2007 and 2006, respectively. The endowment fund activity is summarized as follows:

	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 12,293	\$ 10,923
Contribution	5,207	
Investment income	353	292
Unrealized gains in market value	664	1,220
Less: fees	<u>174</u>	<u>142</u>
Ending balance	<u>\$ 18,343</u>	<u>\$ 12,293</u>

8. Temporarily Restricted Net Assets:

Temporarily restricted net assets consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Food distribution	\$ 115	\$ 6,662
Public education program		2,398
Nutrition education program	17,836	
Target Hunger program	41,904	21,199
Facility - solar project		38,618
Capital campaign	<u>43,993</u>	<u>95,787</u>
	<u>\$103,848</u>	<u>\$164,664</u>

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Notes to the Financial Statements (continued)

December 31, 2007

9. Permanently Restricted Net Assets:

The Food Bank received \$5,100 in donations during 2002 for the establishment of a permanently restricted endowment fund. Under the terms of this fund the corpus shall remain permanently restricted and the income thereon may be used for general purposes of The Food Bank.

10. Net Assets Released from Restrictions:

Net assets were released from donor restrictions by incurring expenses of \$445,443 that satisfied the purpose restrictions for the capital campaign and various other programs as specified by donors.

11. Contributed Food, Supplies and Services:

Donated food and donated in-kind support consists of food and donated services which meet the recognition requirements described in Note 1. The value of donated food was \$4,989,993 and \$4,260,569 for the years ended December 31, 2007 and 2006, respectively. The value of donated supplies and services was \$60,052 and \$149,608 for the years ended December 31, 2007 and 2006, respectively, as detailed below:

	<u>2007</u>	<u>2006</u>
Construction in progress - capitalized construction		\$ 20,163
Capitalized equipment		60,585
Supplies and services - expenses	<u>\$60,052</u>	<u>68,860</u>
	<u>\$60,052</u>	<u>\$149,608</u>

A number of unpaid volunteers have made significant contributions of their time to The Food Bank. In accordance with the recognition criteria described in Note 1, the value of these services is not recorded in the financial statements.

## THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.

Notes to the Financial Statements (continued)

December 31, 2007

### 12. Pension Expense:

*Simplified Employee Pension* - The Food Bank maintains a Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement (SEP) under 408(k) of the Internal Revenue Code. The Food Bank contributes 5% of employees' annual gross wages provided that a three-year service test is met. The contributions are made to qualifying employees' individual accounts. The pension expense was \$28,685 and \$29,165 for 2007 and 2006, respectively.

*Defined Contribution Tax Deferred Annuity Plan* - In 2001, The Food Bank adopted a defined contribution tax deferred annuity plan pursuant to Section 403(b) of the Internal Revenue Code that covers substantially all employees. The Food Bank matches employee contributions up to 3% of their annual compensation. Employees of The Food Bank are eligible for this matching provision once they have completed six months of service with The Food Bank and have attained the age of 18. Pension expense was \$19,687 and \$15,452 for 2007 and 2006, respectively.

### 13. Contingencies:

The Food Bank receives some of its support from government grants. The grants permit the grantor to audit both the financial operation of the grant and compliance with terms of the grant agreements. Such audits could result in the disallowance of some costs. Liabilities resulting from these audits, if any, will be recorded in the period in which the amount of the liability is ascertained.

### 14. Concentrations:

The Food Bank receives a significant portion of its revenue in the form of donated food. Donated food revenue as a percentage of total revenue was 61% and 57% for 2007 and 2006, respectively.

During the normal course of business, The Food Bank has funds on deposit with banks and investment companies in excess of the amount covered by FDIC insurance.

### 15. Reclassifications:

Certain reclassifications have been made to the 2006 comparative totals to conform to the 2007 presentation. These reclassifications have no effect on the previously reported change in net assets for the year ended December 31, 2006.

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Notes to the Financial Statements (continued)

December 31, 2007

16. Related Party:

During 2007 and 2006, the spouse of a member of the Board of Directors was the president of a local bank that The Food Bank uses for a commercial checking and investment sweep account as well as a \$1,500,000 line of credit. During 2007 and 2006, three members of the Board of Directors were also representatives of The Food Bank's member agencies.

17. Line of Credit:

The Food Bank has a \$1,500,000 line of credit with a local bank with an interest rate of 6.00%. Advances made are secured by all assets of The Food Bank. There was no balance due on the line of credit at December 31, 2007. The balance on the line of credit was \$339,000 at December 31, 2006.

18. Beneficial Interest in Endowment:

In 2005 an unrelated organization made a \$1,000,000 donation to the Community Foundation of Western Massachusetts (the Foundation) to be held as an endowment for the benefit of The Food Bank. In accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the endowment is an asset of the Foundation, because the donor granted variance power to the Foundation over the use of the endowment. As the beneficiary of the endowment, The Food Bank is entitled to an annual income distribution calculated in accordance with the Foundation's distribution policy provided that The Food Bank continues to serve the four counties of Western Massachusetts and uses the distribution for operating expenses previously disclosed to the Foundation. Also, the distribution can not be used for capital expenditures. The Food Bank has recorded a pledge receivable of \$49,000 and \$45,300 at December 31, 2007 and 2006, respectively, for the distribution from the endowment and recognized this income as income from beneficial interest in endowment on the statement of activities.

**Supplementary Information**

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2007

Federal Grantor: Pass-through Grantor: <u>Program Title</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
U.S. Department of Agriculture:		
The Emergency Food Assistance Program:		
Food Commodities	10.569	\$ 519,905
Administrative Costs	10.568	158,291
Community Facilities Loan:	10.766	180,084
U.S. Federal Emergency Management Agency:		
Emergency Food and Shelter Program	97.024	<u>9,040</u>
Total Federal Expenditures		\$ <u><u>867,320</u></u>

Note: The schedule of expenditures of federal awards includes the federal activity of The Food Bank of Western Massachusetts, Inc. and is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See auditors' report.

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Schedule of Support, Revenue and Expense by Program  
Year Ended December 31, 2007

	Food Distribution	Delivery	Brown Bag	Farm	Agency Services	Nutrition	Target Hunger	Total
Support and revenue	\$	\$	\$	\$				\$
Donated food	2,972,843	1,954,489		62,661				4,989,993
U.S.D.A. food	515,278							515,278
Donations	9,050	\$	57,045	125	100		7,976	74,296
Donated in-kind	4,620						32,469	37,089
Grants:								
U.S.D.A.	107,638		18,995		31,658			158,291
MEFAP	124,852		26,484		37,834			189,170
Emergency Food and Shelter Program			9,040					9,040
Other	15,000	55,750	25,750			27,500	154,100	278,100
Shared maintenance	241,150							241,150
Food buying	362,262							362,262
Farm income - other				20,593				20,593
Membership fees					23,635			23,635
Delivery fees		27,192						27,192
Miscellaneous	7,225	2	711	720				8,658
Total support and revenue	<u>4,359,918</u>	<u>2,037,433</u>	<u>138,025</u>	<u>84,099</u>	<u>93,227</u>	<u>27,500</u>	<u>194,545</u>	<u>6,934,747</u>
Total expense before depreciation	4,031,349	2,050,975	241,457	75,935	142,229	9,714	218,187	6,769,846
Depreciation	<u>74,483</u>	<u>98,815</u>		<u>8,268</u>	<u>1,596</u>		<u>4,764</u>	<u>187,926</u>
Total expense	<u>4,105,832</u>	<u>2,149,790</u>	<u>241,457</u>	<u>84,203</u>	<u>143,825</u>	<u>9,714</u>	<u>222,951</u>	<u>6,957,772</u>
Change in net assets	\$	<u>(112,357)</u>	<u>(103,432)</u>	<u>(104)</u>	<u>(50,598)</u>	<u>17,786</u>	<u>(28,406)</u>	<u>(23,025)</u>

See auditors' report.

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Schedule of Expense by Program  
Year Ended December 31, 2007

	Food Distribution	Delivery	Brown Bag	Farm	Agency Services	Nutrition	Target Hunger	Total
Employee compensation and related:								
Salaries	\$ 213,780	\$ 167,911	\$ 82,730		\$ 90,037	\$ 7,992	\$ 108,230	\$ 670,680
Payroll taxes	20,511	13,444	6,065		21,102	597	7,999	69,718
Fringe benefits	60,154	57,439	11,631		16,286	812	23,279	169,601
Total employee compensation and related	<u>294,445</u>	<u>238,794</u>	<u>100,426</u>		<u>127,425</u>	<u>9,401</u>	<u>139,508</u>	<u>909,999</u>
Occupancy:								
Utilities	29,345	19,341					7,336	56,022
Insurance	7,250	17,651		\$ 935			1,813	27,649
Repairs and maintenance	16,184	6,030		2,652			2,390	27,256
Interest				8,620				8,620
Total occupancy	<u>52,779</u>	<u>43,022</u>		<u>12,207</u>			<u>11,539</u>	<u>119,547</u>
Other program expense:								
Fees	15,688	4,842	55	20	162	92	204	21,063
Consulting							2,250	2,250
Temporary agency labor		3,067			6,641		5,288	14,996
Staff training and conferences	1,348	501	438		485	20	6,986	9,778
Staff mileage and travel	312	331	4,146		2,627	57	6,109	13,582
Donated food	2,600,784	1,733,856		57,716				4,392,356
U.S.D.A. food	519,905							519,905
Purchased food	318,867		9,922					328,789
Food discard	180,863	119,303		5,492				305,658
Freight	33,301							33,301
Motor vehicle expense		26,466					4,563	26,466
Subgrants							4,700	4,563
Program supplies	7,334	582	1,449	500	891	83		15,539
Brown Bag delivery allocation		(121,063)	121,063					
Total other program expense	<u>3,678,402</u>	<u>1,767,885</u>	<u>137,073</u>	<u>63,728</u>	<u>10,806</u>	<u>252</u>	<u>30,100</u>	<u>5,688,246</u>
Support expense:								
Office supplies and expense	1,101	1,274	3,958		3,998	61	4,571	14,963
Donated in-kind	4,620						32,469	37,089
Bad debt	2							2
Total support expense	<u>5,723</u>	<u>1,274</u>	<u>3,958</u>		<u>3,998</u>	<u>61</u>	<u>37,040</u>	<u>52,054</u>
Total expense by program before depreciation	4,031,349	2,050,975	241,457	75,935	142,229	9,714	218,187	6,769,846
Depreciation	74,483	98,815		8,268	1,596		4,764	187,926
Total expense by program	<u>\$ 4,105,832</u>	<u>\$ 2,149,790</u>	<u>\$ 241,457</u>	<u>\$ 84,203</u>	<u>\$ 143,825</u>	<u>\$ 9,714</u>	<u>\$ 222,951</u>	<u>\$ 6,957,772</u>

See auditors' report.

BOISSELLE, MORTON & ASSOCIATES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Officers and Directors  
**The Food Bank of Western Massachusetts, Inc.**  
Hatfield, Massachusetts

We have audited the financial statements of The Food Bank of Western Massachusetts, Inc. as of and for the year ended December 31, 2007, and have issued our report thereon dated February 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The Food Bank of Western Massachusetts, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Food Bank of Western Massachusetts, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

To the Officers and Directors  
**The Food Bank of Western Massachusetts, Inc.**  
Page 2

### **Internal Control Over Financial Reporting (Continued)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Food Bank of Western Massachusetts, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the U.S. Department of Agriculture and the Federal Emergency Management Agency and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Boisselle, Morton & Associates, LLP*

Hadley, Massachusetts  
February 27, 2008

BOISSELLE, MORTON & ASSOCIATES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Compliance with Requirements Applicable to the Major Program and  
on Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Officers and Directors  
**The Food Bank of Western Massachusetts, Inc.**  
Hatfield, Massachusetts

**Compliance**

We have audited the compliance of The Food Bank of Western Massachusetts, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Food Bank of Western Massachusetts, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of The Food Bank of Western Massachusetts, Inc.'s management. Our responsibility is to express an opinion on The Food Bank of Western Massachusetts, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about The Food Bank of Western Massachusetts, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Food Bank of Western Massachusetts, Inc.'s compliance with those requirements.

In our opinion, The Food Bank of Western Massachusetts, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

### **Internal Control over Compliance**

The management of The Food Bank of Western Massachusetts, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Food Bank of Western Massachusetts, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Food Bank of Western Massachusetts, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

To the Officers and Directors  
**The Food Bank of Western Massachusetts, Inc.**  
Page 3

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the U.S. Department of Agriculture and the Federal Emergency Management Agency and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Boisselle, Morton & Associates, LLP*

Hadley, Massachusetts  
February 27, 2008

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2007

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness identified? \_\_\_\_\_ yes        X   no

Significant deficiency identified not considered  
to be material weaknesses? \_\_\_\_\_ Yes        X   none  
reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes        X   no

**Federal Awards**

Internal Control over major program:

Material weakness identified? \_\_\_\_\_ yes        X   no

Significant deficiency identified not considered  
to be material weaknesses? \_\_\_\_\_ Yes        X   none  
reported

Type of auditors' report issued on compliance for major program: unqualified

Any audit findings disclosed that are required to  
be reported in accordance with Section .510(a)(3) or  
(4) of OMB Circular A-133? \_\_\_\_\_ Yes        X   no

Identification of major programs:

CFDA Number  
10.569

Name of Federal Program or Cluster  
U.S. Department of Agriculture

**THE FOOD BANK OF WESTERN MASSACHUSETTS, INC.**  
Schedule of Findings and Questioned Costs (continued)  
Year Ended December 31, 2007

**Section I - Summary of Auditors' Results (Continued)**

Dollar threshold used to distinguish between  
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee:  X  yes   no

**Section II – Financial Statement Findings**

None noted.

Note: There were also no financial statement findings for 2006.

**Section III – Federal Awards Findings and Questioned Costs**

None noted.

Note: There were also no federal award findings or questioned costs for 2006.