

December 4, 2015

To Just Food Stakeholders:

As Just Food of Douglas County navigated through some difficult events over the past several months, we pledged transparency. The board of directors engaged a respected regional accounting firm to audit our organization's financial statements for 2013 and 2014. We recently received and reviewed the independent auditor's report and are sharing it with Just Food's supporters and the public.

The audit, performed by Summers, Spencer & Company, P.A., confirmed the findings and financial restatements made by McFadden Group, the accounting firm engaged by the board to manage and review all financial transactions of the organization. The auditors noted issues with our internal controls, which have been addressed with corrective action by the board.

The following is our summary of deficiencies in the internal controls and the corrective action taken along with other measures that are being implemented:

- Segregation of cash management duties: The executive director could receive, deposit and record all cash receipts, as well as sign checks up to \$1,000.
 - Corrective action: The organization established a P.O. Box for receiving donations, which only designated board members may access and collect. All deposits and invoices are delivered immediately to an outside accounting firm engaged by the board. The board also formed a finance committee to review all transactions and bank reconciliations. Only members of the board's executive committee may sign checks. These changes were made within days of discovery of payroll tax liability.
- Payroll duties: The executive director was responsible for working with an accountant to maintain compliance with laws and regulations surrounding payroll taxes. Executive director was also responsible for new employee setup, however, procedures were inconsistent and not well-documented. Executive director did not work with an accountant and misled the board with regard to compliance with this policy.
 - Corrective action: An outside accountant is now required to process payroll and payroll taxes. All payroll tax forms are reviewed and signed by the board president. These changes were made within days of discovery of payroll tax liability.
 - Corrective action suggested and accepted: All new hires and compensation changes of all employees are approved by resolution of the board.
- Financial statement duties: The organization's inventory count procedure and financial statements were inconsistent.
 - Corrective action: An outside accounting firm is now required to prepare all financial statements on a monthly basis. These changes were made within days of discovery of payroll tax liability.
 - Corrective action suggested and accepted: Just Food will conduct an inventory count for the year ending December 31, 2015, following procedures recommended by SS&C.

- Supporting documentation: The executive director was responsible for maintaining supporting documentation for cash disbursements or debit card expenses. Checks were issued out of sequence and there were missing checks. Additionally, board meeting minutes for two months were not captured by the Executive Director.
 - Corrective action: McFadden Group requires documentation for all expenses. The organization has implemented a documentation retention system to organize information and retain copies in electronic or paper files as appropriate.
- Bank reconciliation: The executive director was responsible for having bank reconciliations made by an outside accountant. The accountant was dismissed without board knowledge and the board was misled with regard to compliance with this policy.
 - Corrective action: The board engaged McFadden Group to perform all bank reconciliation for 2013 and 2014, as well as cash management services going forward. Additionally, the finance committee reviews all bank reconciliations and statements. These changes were made within days of discovery of payroll tax liability.
- Net asset reporting: Restricted net assets were not tracked accurately.
 - Corrective action suggested and accepted: Just Food will track restricted net assets through accounting and donor software. Additionally, the organization will reconcile deposits with the donor software and the accounting system on a quarterly basis.

The audit reviews financial statements of 2013 and 2014. Subsequent events in 2015 that led to the heightened awareness of our audit warrant mention, as well. Just Food's board of directors discovered and paid off in 2015 the organization's payroll tax liability, thanks in large part to generous support from the community. Just Food raised \$79,907 through a crowdsourcing campaign in September and other fundraising efforts, which paid the tax liability and allowed the organization to return our focus to our vision of freedom from hunger in Douglas County.

The Just Food Board of Directors takes seriously its responsibility to the clients and supporters of our organization. We thank all those who have voiced their concerns, offered their support and helped us through a challenging period. Although we cleared some significant hurdles, we still have work to do. This audit helps ensure we are on the right path and provides accountability to our many valuable stakeholders, without whom this organization would not exist.

Sincerely,

The Just Food Board of Directors
Kristi Henderson, president
Will Katz, vice president
Maley Wilkins, treasurer
Emily Peterson, secretary
Jennifer Alderdice
Brandon Deines
Chris Earl
Myrone Grady
Sue Hack



1000 E. 11th Street
Lawrence, KS 66046

THE FOOD BANK OF DOUGLAS COUNTY

Mike Logan
Debbie McCord
Nancy Thellman

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

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

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	36,591	11,830	48,421	-	48,421
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>

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>	<i>266,294</i>	<i>72,564</i>	<i>98,192</i>	<i>437,050</i>	<i>186,499</i>	<i>52,762</i>	<i>43,214</i>	<i>282,475</i>
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>	<i>\$ 844,218</i>	<i>\$ 73,444</i>	<i>\$ 98,192</i>	<i>\$ 1,015,854</i>	<i>\$ 560,470</i>	<i>\$ 52,835</i>	<i>\$ 43,214</i>	<i>\$ 656,519</i>

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	(25,756)	-
<i>Net cash flows used in investing activities</i>	<u>(25,756)</u>	<u>-</u>
Net increase in cash and cash equivalents	15,324	51,105
Cash and cash equivalents, beginning of year	75,869	24,764
Cash and cash equivalents, end of year	\$ 91,193	\$ 75,869

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.