

THE SALEM PANTRY, INC.
Independent Auditors' Report
and
Financial Statements

December 31, 2024

THE SALEM PANTRY, INC.

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THE SALEM PANTRY, INC.
Management's Discussion and Analysis
December 31, 2024

Overview

The Salem Pantry, Inc. is committed to transparency and accountability in all our operations. This Management's Discussion and Analysis (MD&A) provides an overview of our financial performance for the year ended December 31, 2024, alongside a discussion of key audit findings and our strategic outlook for 2025-2027.

Financial Highlights and Audit Findings

2024 marked a significant milestone for The Salem Pantry as we underwent our first single audit, necessitated by our increased federal funding and expanded program activities. While our previous financial statement audits consistently yielded unmodified opinions, this initial single audit, a more comprehensive review of compliance with federal award requirements and internal controls did identify certain internal control and compliance findings that warrant detailed discussion.

Specifically, the auditors issued a disclaimer of opinion primarily due to a lack of adequate inventory procedures. This finding, along with others, was not identified in prior financial statement audits. The identified findings include:

- **Inadequate Inventory Control Procedures:** The primary driver for the disclaimer of opinion was the determination that our inventory control procedures were not sufficiently robust to allow for proper valuation and tracking of our significant food inventory. This limitation prevented the auditors from forming an opinion on the fairness of our financial statements as a whole.
- **Incorrect Valuation of Donated Food Revenue:** Related to the inventory control issues, the valuation methodologies for donated food revenue were found to be inconsistent, leading to potential misstatements in our financial reporting.
- **Improper Amortization of Leasehold Improvements:** Discrepancies were noted in the amortization schedule for leasehold improvements, indicating a need for refinement in our accounting practices for fixed assets.
- **Using Pre-determined Budgeted Percentages for Cost Allocations:** The audit highlighted that we were using pre-determined budgeted percentages for allocating shared costs rather than actual, verifiable usage or benefit, which is not in compliance with federal cost principles or accounting standards.
- **Failure to Record a Multi-Year Promise to Give:** An oversight was identified where a multi-year promise to give was not properly recorded in accordance with accounting standards, impacting the accuracy of our reported receivables and net assets.

It is important to emphasize that these findings, while significant, were promptly addressed by management. We have taken immediate and comprehensive corrective actions to rectify these issues and strengthen our internal controls. These actions include, but are not limited to, implementing new inventory management procedures, establishing formalized procedures for the valuation and tracking of donated food, reviewing and adjusting our amortization schedules, ensuring all multi-year pledges are properly recognized, and developing an accounting policies and procedures manual. We are confident that these measures will prevent recurrence and enhance the reliability of our future financial reporting.

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2025-2027 Strategic Plan Highlights: Fortifying the Regional Food Safety Net

Looking forward, The Salem Pantry is excited to embark on its ambitious 2025-2027 Strategic Plan, "Fortifying the Regional Food Safety Net." This plan represents a bold vision for addressing food insecurity across the North Shore, building upon our 30-year legacy as Salem's largest emergency food provider. Key highlights of the plan include:

- **Goal 1: Build Regional Capacity for a Robust Food Safety Net:**
 - **Expanding Warehouse Capabilities:** In close collaboration with The Greater Boston Food Bank, we will initiate a significant project in the fall of 2025 to acquire and equip anew warehouse facility. This expansion will double our organizational capacity, allowing us to deliver 5 million pounds of nutritious food each year through our programs and partner organizations.
 - **Sustaining and Strengthening Direct Service Programming:** We will continue to enhance our existing direct service programs, including our no-cost grocery store, Mobile Pantry Program, and home delivery services, to ensure accessible and dignified food security for community members. This includes expanding food distribution by 25% through direct service programs by 2027 and implementing a choice-based model for our Home Delivery program.
- **Goal 2: Be Recognized as a Thought Leader:**
 - We will build coalitions, share resources, and provide technical assistance to increase food security across the North Shore. This involves establishing a coalition of regional hub partners and offering training sessions on food safety and inventory management to partner agencies. We will also develop clear branding and messaging strategies to highlight our regional impact.
- **Goal 3: Develop Practices for Organizational Sustainability, Diversity, Equity, and Inclusion (DEI):**
 - We will strengthen organizational resiliency by implementing a sustainable staffing model, expanding strategic capacity, and diversifying fundraising streams to ensure long-term financial stability. Institutionalize DEI principles across all operations so that our team, policies, and services are equitable, innovative, and centered on community needs.

THE SALEM PANTRY, INC.
Management's Discussion and Analysis
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Conclusion

The Salem Pantry remains steadfast in its mission to empower communities by ensuring the essential right to convenient and reliable access to healthy food. Over the next three years, the strategic plan and outlined goals will guide our work as we strengthen the regional food safety net. While the findings from our first single audit presented challenges, they have also provided valuable insights that have strengthened our financial oversight and operational procedures. We are confident that the corrective actions taken, coupled with the strategic initiatives outlined in our 2025-2027 plan, will position The Salem Pantry for continued growth, enhanced impact, and a more resilient future for food security across the North Shore. We appreciate the continued trust and support of our donors, partners, and the communities we serve.



Independent Auditors' Report

To the Board of Directors of
The Salem Pantry, Inc.

Disclaimer of Opinion

We were engaged to audit the financial statements of The Salem Pantry, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of The Salem Pantry, Inc. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

The Salem Pantry, Inc. does not maintain perpetual inventory records, physical inventory counts are not performed, and there are no documented procedures for tracking inventory movements or write-offs. This results in significant uncertainty regarding the existence, completeness, and valuation of inventory.

Due to these significant deficiencies in internal controls over inventory, we were unable to obtain sufficient appropriate audit evidence regarding the existence, completeness, and valuation of inventory at December 31, 2024, and for the related cost of food distributions for the year then ended. Furthermore, given the pervasive nature of these control weaknesses and the lack of reliable underlying documentation, we were unable to apply alternative audit procedures to satisfy ourselves as to the amounts of inventory and recorded cost of food purchases and food distributions. We were also unable to perform audit procedures to test compliance with The Salem Food Pantry's USDA federal award program.

No inventory has been recorded, and the recorded cost of food purchases and food distributions are material to the financial statements as a whole. The potential effects of these limitations on the financial statements are material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Salem Pantry, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Financial Statements

Our responsibility is to conduct an audit of The Salem Pantry, Inc.'s financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of The Salem Pantry, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Other Matter

The management discussion and analysis on is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the representation of The Salem Pantry, Inc.'s management and has not been subjected to any auditing procedures. Accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Jarvis Kelly". The signature is written in a cursive, flowing style.

July 17, 2025

THE SALEM PANTRY, INC.
Statement of Financial Position
December 31, 2024

ASSETS

Cash and cash equivalents	\$ 518,735
Grants and contributions receivable	82,789
Security deposit	4,809
Prepaid expenses	28,227
Right-of-use asset, operating lease, net	500,453
Property and equipment, net	<u>588,549</u>
 Total Assets	 <u><u>\$ 1,723,562</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 34,089
Accrued expenses	21,080
Payroll liability	2,091
Refundable advance	17,000
Lease liability, operating lease	<u>44,158</u>
 Total Liabilities	 <u>118,418</u>

NET ASSETS

Without donor restrictions	1,123,952
With donor restrictions	<u>481,192</u>
 Total Net Assets	 <u>1,605,144</u>
 Total Liabilities and Net Assets	 <u><u>\$ 1,723,562</u></u>

See accompanying notes to financial statements.

THE SALEM PANTRY, INC.
Statement of Activities
For the Year Ended December 31, 2024

CHANGE IN NET ASSETS	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions of nonfinancial assets			
Government food donations	\$ 975,737	\$ -	\$ 975,737
Non-government food donations	1,849,902	-	1,849,902
Software licenses	1,500	-	1,500
Supplies	22,105	-	22,105
Grants and contributions			
Government	501,692	-	501,692
Non-government	912,054	104,823	1,016,877
Fundraising events	116,983	-	116,983
Fees	5,746	-	5,746
Interest	10,661	-	10,661
Net assets released from restrictions	<u>146,568</u>	<u>(146,568)</u>	<u>-</u>
Total Support and Revenue	<u>4,542,948</u>	<u>(41,745)</u>	<u>4,501,203</u>
EXPENSES			
Program services	4,325,160	-	4,325,160
Management and general	208,307	-	208,307
Fundraising	<u>188,802</u>	<u>-</u>	<u>188,802</u>
Total Expenses	<u>4,722,269</u>	<u>-</u>	<u>4,722,269</u>
Change in Net Assets	<u>(179,321)</u>	<u>(41,745)</u>	<u>(221,066)</u>
Net Assets, Beginning of Year, previously stated	<u>1,303,273</u>	<u>7,000</u>	<u>1,310,273</u>
Prior Period Adjustment	<u>-</u>	<u>515,937</u>	<u>515,937</u>
Net Assets, Beginning of Year, as restated	<u>1,303,273</u>	<u>522,937</u>	<u>1,826,210</u>
Net Assets End of Year	<u><u>\$ 1,123,952</u></u>	<u><u>\$ 481,192</u></u>	<u><u>\$ 1,605,144</u></u>

See accompanying notes to financial statements.

THE SALEM PANTRY, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2024

DESCRIPTION	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND- RAISING	TOTAL
Salaries	\$ 613,778	\$ 44,868	\$ 118,876	\$ 777,523
Payroll taxes	55,898	4,285	10,198	70,382
Fringe benefits	89,044	11,691	13,187	113,922
Professional fees	1,444	110,024	1,800	113,268
Food purchases	411,848	-	-	411,848
Food distributions	2,825,638	-	-	2,825,638
Office expense	14,990	3,861	5,444	24,296
Program supplies and materials	40,413	-	-	40,413
Information technology	11,914	9,108	7,357	28,379
Occupancy	118,626	17,105	2,655	138,386
Insurance	11,263	3,364	678	15,304
Vehicles and transportation	19,100	-	61	19,161
Travel	2,046	2,547	-	4,592
Fundraising events	2,351	-	20,536	22,886
Advertising and marketing	4,399	-	142	4,540
Dues and subscriptions	4,629	733	-	5,362
Bank fees	128	0	7,867	7,995
Interest	18	722	-	740
Depreciation	97,633	-	-	97,633
Total expenses by function	<u>\$ 4,325,160</u>	<u>\$ 208,307</u>	<u>\$ 188,802</u>	<u>\$ 4,722,269</u>

See accompanying notes to financial statements.

THE SALEM PANTRY, INC.
Statement of Cash Flows
For the Year Ended December 31, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (221,066)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	97,633
Amortization of right-of-use operating lease	79,836
Capital grant	(104,823)
(Increase) decrease in operating assets:	
Grants and contributions receivable	109,129
Security deposit	(954)
Prepaid expenses	(8,145)
Increase (decrease) in operating liabilities:	
Accounts payable	8,994
Accrued expenses	8,085
Payroll liability	396
Refundable advance	17,000
Lease liability, operating lease	<u>(45,270)</u>
Net Cash Used in Operating Activities	<u>(59,185)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	<u>(114,158)</u>
Net Cash Used in Investing Activities	<u>(114,158)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital grant	104,823
Line of credit repayment	<u>(113,238)</u>
Net Cash Used in Financing Activities	<u>(8,415)</u>
Net Decrease in Cash and Cash Equivalents	(181,758)
CASH and CASH EQUIVALENTS, beginning of year	<u>700,493</u>
CASH and CASH EQUIVALENTS, end of year	<u><u>\$ 518,735</u></u>
SUPPLEMENTAL INFORMATION:	
Cash paid for interest	<u><u>\$ 740</u></u>

See accompanying notes to financial statements.

THE SALEM PANTRY, INC.

Notes to Financial Statements

December 31, 2024

1. ORGANIZATION AND PROGRAMS

ORGANIZATION

The Salem Pantry, Inc., was established in 2024 as Massachusetts nonprofit corporation. The Salem Pantry's mission is to work collaboratively to empower our diverse local and regional communities by ensuring the essential right to convenient and reliable access to healthy food.

PROGRAMS

To achieve its mission The Salem Pantry provides fresh, healthy food, at no cost to guests through a variety of programs.:

The Market - a brick-and-mortar location where guests can shop for food. The Market is completely free and open to all. There are no income or residential requirements to attend. The Market is open five days a week.

Mobile Pantry Program - Pop Up Sites throughout Salem and surrounding communities. The mobile pantry program offers a wide variety of fresh, healthy food across Salem all at no cost.

Home Delivery Program - The Home Delivery program is a service for food insecure members of the Salem community who are physically, mentally, or emotionally unable to attend any of our locations.

Food Storage and Distribution Warehouse - The Food Storage and Distribution Warehouse stores and processes all food distributed through The Salem Pantry to support Salem and the Greater North Shore. The Salem Pantry partners with Greater Boston Food Bank, Inc. to operate a distribution hub that allows food access organizations throughout the region to receive additional food for their programs.

The Salem Pantry's operations are primarily funded by food donations, along with grants and contributions from foundations, corporations, government entities, and the general public.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Salem Pantry prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

NET ASSETS CLASSIFICATION

Net assets of The Salem Pantry are classified into two categories. The classifications are related to the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization.

Net Assets With Donor Restrictions - Net assets whose use is limited by either donor-imposed time restrictions or purpose restrictions or net assets that must be maintained in perpetuity. Net assets with donor restrictions at December 31, 2024 was restricted for food pantry rent.

GRANTS AND CONTRIBUTIONS

Grants and contributions are recognized when a donor makes a promise to give to The Salem Pantry that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Grants and contributions received in connection with a conditional promise to give are recorded as a refundable advance (a liability) until the donor conditions have been met or explicitly waived. Grants and contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

CASH EQUIVALENTS

The Salem Pantry considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

REVENUE RECOGNITION

Fees are recognized as performance obligations are met. Advance payments of fees are recorded as deferred revenue until performance obligations are met.

Fundraising event revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received is recorded when the event takes place.

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECEIVABLES

Accounts and grants and contributions receivable are presented net of an allowance for credit losses. The Salem Pantry's periodic evaluation of the adequacy of the allowance is based on its past loss experience, current conditions, and future forecasts about collectability. At December 31, 2024, the outstanding receivables were deemed fully collectible.

PROPERTY AND EQUIPMENT

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire fixed assets are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, The Salem Pantry reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Salem Pantry reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Purchased property and equipment are carried at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives. Repairs and maintenance are charged to operations. Betterments, renewals, and purchases of more than \$1,000 are capitalized.

The Salem Pantry reviews its property and equipment for impairment whenever events or circumstances indicate the carrying value of the asset may not be recoverable. There were no impairment losses during 2024.

Property and equipment at December 31, 2024 was as follows:

Computers	\$ 5,631
Machinery and other equipment	165,493
Furniture	9,819
Vehicles	438,239
Leasehold improvements	194,662
Less: accumulated depreciation	<u>(225,295)</u>
Property and equipment, net	<u>\$ 588,549</u>

Depreciation expense for the year ended December 31, 2024 was \$97,633.

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES

The Salem Pantry determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use assets and lease liabilities in the statement of financial position. Right-of-use assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and right-of-use asset also include prepaid or accrued rent. To determine the present value of lease payments, The Salem Pantry uses a risk-free rate based on the information available at lease commencement. Operating lease expense is recognized on a straight-line basis over the lease term. The Salem Pantry does not report right-of-use assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

IN-KIND DONATIONS

The Salem Pantry receives in-kind donations in support of its operations. Donated materials and services are recorded at fair value. Donated services that (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated are recorded as contributions in the financial statements. Donated services such as fundraising, clerical assistance or other volunteer efforts not requiring specialized skills are not recorded in the financial statements.

Donated food is valued by the pound using rates obtained from the Greater Boston Food Bank, Inc., Feeding America, or the U.S. Department of Agriculture. Other in-kind donations are valued using current market rates.

Donated services provided by volunteers not requiring specialized skills are not recorded in the financial statements. During 2024, approximately 706 volunteers donated an estimated 10,532 hours to The Salem Pantry.

ADVERTISING AND MARKETING

Advertising and marketing costs are expensed when incurred. Total advertising and marketing costs for the year ended December 31, 2024 was \$4,540.

INCOME TAXES

The Salem Pantry is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from state income taxes under Chapter 180 of the Massachusetts General Laws. Unrelated business income, of which there was none for the years ended December 31, 2024 would be subject to Federal and state income taxes.

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reported in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation of salaries and wages, employee benefits, and payroll taxes are allocated based on estimates of time, effort and usage. The allocation of occupancy is allocated based on actual asset usage and square footage.:

ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP 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.

3. GRANTS AND CONTRIBUTIONS RECEIVABLE

UNCONDITIONAL

At December 31, 2024 unconditional grants and contributions receivable were due within one year.

CONDITIONAL

Conditional grants not recorded in the financial statements totaled \$239,597 at December 31, 2024. The conditional grants will be recorded as support when the conditions on which they depend are substantially met. Conditional grants proceeds received in advance of conditions being met totaled \$17,000 at December 31, 2024 and are recorded in refundable advance on the statement of financial position.

4. LINE OF CREDIT

At December 31, 2024, The Salem Pantry had an unused \$350,000 revolving line-of-credit agreement with a North Shore Bank. The line of credit is subject to annual reviews and will be in force until terminated by either party. Any outstanding balance on the line will incur interest at the Wall Street Journal Prime Rate, which was 7.50% as of December 31, 2024.

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

5. LEASE COMMITMENTS

The Salem Pantry leases office and storage space under noncancelable lease agreements that expire in November 2025. The right-of-use asset represents Salem Pantry’s right to use the underlying asset for the lease term and the lease liability represents Salem Pantry’s obligation to make lease payments arising from these leases. The right-of-use asset and lease liability was calculated based on the present value of future lease payments over the lease term utilizing a risk-free discount rate of 3.97%. The weighted average remaining lease term as of December 31, 2024 is 0.91 years. Payments due under the lease agreements include fixed payments. The leases also include proportional operating costs based on actual expenses such as taxes, and utilities. These variable lease payments are recognized as other operating expenses but are not included in the right-of-use asset or liability balances.

Rent expense, included in occupancy, for the year ended December 31, 2024 was as follows:

Operating lease	\$ 53,445
Short-term lease	<u>7,877</u>
Total	<u>\$ 61,322</u>

Cash paid for measurement of operating lease liability included in operating cash flows totaled \$47,860.

Minimum rental payments due over the remaining term of the lease are as follows:

2025	\$ 44,891
Less interest	<u>(733)</u>
Present value of lease liability	<u>\$ 44,158</u>

As of the report date, The Salem Pantry is negotiating renewal of the leases beyond November 2025.

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

6. DONATED RIGHT-OF-USE-ASSET

The Salem Pantry, Inc. entered into a license agreement on April 1, 2023, with The Lighthouses Apartments LLC (the Lighthouses), allowing The Salem Pantry to occupy approximately 1,500 square feet of storefront space located at 47 Leavitt Street, Salem, Massachusetts, for the purpose of operating a food pantry. Under the terms of the agreement, The Salem Pantry is permitted to use the space rent-free through February 29, 2028, subject to the Lighthouses' agreement to renew or extend the total lease term to 14 years and 11 months (179 months) through February 29, 2038.

In accordance with U.S. GAAP, The Salem Pantry recognized the fair value of contributed facilities as a right-of-use asset and contribution revenue with donor restrictions. The fair market value of the donated space was determined to be \$45,000 per year at the commencement of the agreement.

The right-of-use asset and corresponding contribution revenue were measured at the present value of the annual fair market value of the donated space over the extended 14-year and 11-month term of the agreement. A discount rate of 3.50%, representing the U.S. Treasury rate for a 15-year term as of the agreement date (April 1, 2023), was used to calculate the present value.

Based on this valuation, The Salem Pantry recognized a right-of-use asset and contribution revenue of \$518,283 at the inception of the agreement. The contribution revenue was classified as with donor restrictions and is released from restriction and recognized as unrestricted revenue over the term of the agreement on a straight-line basis. The right-of-use asset is amortized on a straight-line basis over the same period.

The amortization expense and corresponding release of donor restrictions for the next five years are as follows:

2025		\$ 34,745
2026		34,745
2027		34,745
2028		34,745
2029		<u>34,745</u>
Total		<u>\$ 173,725</u>

The carrying amount of the right-of-use asset and net assets with donor restrictions as of December 31, 2024, is \$457,479.

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

7. RETIREMENT PLAN

The Salem Pantry's provides retirement benefits to its employees through a 401(k) defined contribution plan. Contributions to the plan during the year ended December 31, 2024 totaled \$16,245.

8. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

CREDIT RISK

The Salem Pantry maintains its cash accounts in financial institutions and a brokerage firm. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) for up to \$250,000 each. Uninsured cash balances at December 31, 2024 totaled \$8,504. The Salem Pantry's has not experienced any losses in its accounts. The Salem Pantry's believes it is not exposed to any significant credit risk on cash balances within its accounts.

SUPPORT AND REVENUE

For the year ended December 31, 2024, grants from two entities represented 58% of The Salem Pantry's total support and revenue. Two outstanding grants represented 61% of the grants and contributions receivable at December 31, 2024. It is always considered reasonably possible that grantors or contributors might be lost in the near term.

9. AVAILABILITY AND LIQUIDITY

The following represents The Salem Pantry's financial assets that are available to meet general expenses over the next 12 months:

Financial assets at year end:	
Cash and cash equivalents	\$ 518,735
Grants and contributions receivable	<u>82,789</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 601,524</u>

The Salem Pantry's liquidity management policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, The Salem Pantry can draw upon its \$350,000 line of credit, which was unused at December 31, 2024.

THE SALEM PANTRY, INC.
Notes to Financial Statements (Continued)
December 31, 2024

10. CONTINGENCY

The Salem Pantry receives a significant portion of its funding through direct and indirect grants and contracts from governmental agencies. This funding is subject to audit by the respective funding source and could result in the recapture of previously reported revenue. Management does not believe that any such disallowance, if found, would be material to the financial statements. Accordingly, no provision for any liability that may result has been made in the financial statements.

These funding sources are also subject to political processes and policy changes, which could potentially impact the level of financial support The Salem Pantry receives in the future. Future funding cuts, if they materialize, could have a material adverse effect on The Salem Pantry's future financial position and its ability to continue providing its current level of programs and services.

11. PRIOR PERIOD ADJUSTMENT

During April 2023, The Salem Pantry received a donation of a right-of-use asset valued at \$518,283. This donation was not recognized in the financial statements for the year ended December 31, 2023. In addition, leasehold improvements made to the right-of-use asset were not amortized over the appropriate period. These errors were identified and corrected as a prior period adjustment in the financial statements for the year ended December 31, 2024. This adjustment has no impact on the statement of activities for the year ended December 31, 2024, but it corrects the opening balance of net assets with donor restrictions as of January 1, 2024. Net assets with donor restrictions was adjusted by \$515,937 for these errors.

12. SUBSEQUENT EVENTS

The Salem Pantry has evaluated subsequent events through July 17, 2025, which is the date the financial statements were available to be issued.