

Audited Financial Statements

Feeding America West Michigan

*Year Ended December 31, 2019
with Report of Independent Auditors
and Summarized Comparative
Financial Information for the
Year Ended December 31, 2018*

Feeding America West Michigan

Audited Financial Statements

Year Ended December 31, 2019

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Report of Independent Auditors

Board of Directors
Feeding America West Michigan
Comstock Park, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Feeding America West Michigan (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feeding America West Michigan as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Feeding America West Michigan's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 19, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2020 on our consideration of Feeding America West Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of Feeding America West Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Feeding America West Michigan's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Grand Rapids, Michigan
April 21, 2020

Feeding America West Michigan

Statements of Financial Position

	December 31	
	2019	2018
Assets		
Current assets:		
Cash	\$ 1,206,171	\$ 814,234
Accounts receivable, net of allowance of \$1,000 for 2019 and \$1,500 for 2018	435,899	444,192
Pledges receivable, current	169,292	229,721
Prepaid expenses	97,545	71,497
Inventory, at donated value	6,687,142	5,019,750
Inventory, at purchased cost	272,986	176,959
Total current assets	8,869,035	6,756,353
Beneficial interest in perpetual endowment	734,890	628,570
Pledges receivable, net of current portion and discount	60,039	60,689
Property and equipment, net	2,615,401	2,776,477
Total assets	\$ 12,279,365	\$ 10,222,089
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 231,609	\$ 255,702
Accrued expenses	138,191	138,935
Current portion of capital lease obligation	5,543	5,543
Current portion of long-term debt	21,478	20,596
Total current liabilities	396,821	420,776
Capital lease obligation, net of current portion	5,543	11,086
Long-term debt, net of current portion	169,084	190,436
Total liabilities	571,448	622,298
Net assets:		
Without donor restrictions	9,623,591	8,033,190
With donor restrictions	2,084,326	1,566,601
Total net assets	11,707,917	9,599,791
Total liabilities and net assets	\$ 12,279,365	\$ 10,222,089

See accompanying notes.

Feeding America West Michigan

Statement of Activities

Year Ended December 31, 2019
(with Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
Revenue and public support				
Administrative fees charged to agencies, including donations applied to agency accounts of \$848,879 in 2019 and \$874,817 in 2018	\$ 2,266,631	\$ -	\$ 2,266,631	\$ 2,009,496
Administrative fees charged to agencies on purchased products, net of cost of \$1,320,328 in 2019 and \$1,444,285 in 2018	408,942	-	408,942	458,517
Federal Emergency Management Agency Contributions	-	107,754	107,754	89,000
Food Bank Council of Michigan	1,772,532	1,407,591	3,180,123	2,891,586
In-kind contributions	781,881	-	781,881	459,748
Investment return, net of fees	21,226	-	21,226	27,207
Gain on sale of property and equipment	482	89,977	90,459	(40,619)
Miscellaneous income	5,070	-	5,070	1,000
	33,396	-	33,396	80,830
	5,290,160	1,605,322	6,895,482	5,976,765
Net assets released from restriction	1,087,597	(1,087,597)	-	-
Total revenue and public support	6,377,757	517,725	6,895,482	5,976,765
Expenses				
Program services	5,265,493	-	5,265,493	5,144,133
Support services:				
Management and general	490,213	-	490,213	471,462
Fundraising	699,041	-	699,041	681,308
Total expenses	6,454,747	-	6,454,747	6,296,903
Change in net assets prior to products donated, culled, and distributed	(76,990)	517,725	440,735	(320,138)
Products donated, culled, and distributed:				
In-kind product donations	40,531,745	-	40,531,745	41,141,296
Less: value of products culled and distributed	38,864,354	-	38,864,354	40,814,275
Excess of products donated over distributed	1,667,391	-	1,667,391	327,021
Change in net assets	1,590,401	517,725	2,108,126	6,883
Net assets - beginning of year	8,033,190	1,566,601	9,599,791	9,592,908
Net assets - end of year	\$ 9,623,591	\$ 2,084,326	\$ 11,707,917	\$ 9,599,791

See accompanying notes.

Feeding America West Michigan

Statement of Functional Expenses

Year Ended December 31, 2019
(with Comparative Totals for 2018)

	Program Services	Support Services		Totals	
		Management and General	Fund- raising	2019	2018
Compensation and related expenses:					
Salaries and wages	\$ 1,794,909	\$ 307,024	\$ 259,789	\$ 2,361,722	\$ 2,245,834
Payroll taxes	134,083	22,935	19,407	176,425	175,153
Health and life insurance	377,578	64,586	54,650	496,814	492,355
Pension	98,073	16,775	14,195	129,043	116,458
Total compensation and related expenses	2,404,643	411,320	348,041	3,164,004	3,029,800
Conferences and travel	15,722	1,849	925	18,496	28,618
Contractual services	28,250	28,250	28,249	84,749	141,447
Depreciation	248,481	6,539	6,539	261,559	284,739
Direct marketing	-	-	256,431	256,431	242,126
Dues, fees, and subscriptions	96,653	-	-	96,653	94,222
Equipment and improvements	74,952	-	-	74,952	52,552
Food and storage costs	143,419	-	-	143,419	136,176
Freight in	147,494	-	-	147,494	108,295
Insurance – property and casualty	74,677	1,966	1,965	78,608	79,783
Insurance – workers' compensation	35,281	6,035	5,107	46,423	47,748
Interest	9,054	-	-	9,054	9,438
Maintenance	95,393	-	-	95,393	112,793
Office and operating supplies	93,912	11,049	5,524	110,485	116,423
Printing and promotion	5,336	5,336	42,684	53,356	90,720
Rent	39,773	-	-	39,773	47,182
Rubbish removal	76,223	-	-	76,223	57,633
Donations applied to agency accounts	848,879	-	-	848,879	874,817
Telephone	28,133	889	592	29,614	28,121
Travel and truck	685,876	13,997	-	699,873	594,727
Utilities	113,342	2,983	2,984	119,309	119,543
Total expenses	\$ 5,265,493	\$ 490,213	\$ 699,041	\$ 6,454,747	\$ 6,296,903

Feeding America West Michigan

Statements of Cash Flows

	Year Ended December 31	
	2019	2018
Operating activities		
Change in net assets	\$ 2,108,126	\$ 6,883
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	261,559	284,739
Gain on sale of property and equipment	(5,070)	(1,000)
Change in beneficial interest in perpetual endowment	(106,320)	214,866
Contribution revenue for endowment	(5,331)	(17,413)
Change in operating assets and liabilities:		
Accounts receivable	8,293	(21,229)
Pledges receivable	61,079	(132,274)
Prepaid expenses	(26,048)	(46,237)
Inventory	(1,763,419)	(181,079)
Accounts payable	(24,093)	30,222
Accrued expenses	(744)	(3,936)
Net cash from operating activities	508,032	133,542
Investing activities		
Purchases of property and equipment	(100,483)	(201,812)
Proceeds from sale of property and equipment	5,070	1,000
Net cash from investing activities	(95,413)	(200,812)
Financing activities		
Payments on long-term debt	(20,470)	(19,618)
Payments on capital lease obligation	(5,543)	(5,544)
Proceeds from contributions restricted for endowment	5,331	17,413
Net cash from financing activities	(20,682)	(7,749)
Net change in cash and cash equivalents	391,937	(75,019)
Cash - beginning of year	814,234	889,253
Cash - end of year	\$ 1,206,171	\$ 814,234
Supplemental cash flow information:		
Interest paid	\$ 9,054	\$ 9,438
In-kind contributions reflected as revenues, capital assets, and expenses	21,226	27,207

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Feeding America West Michigan (Feeding America), formerly known as Feeding America West Michigan Food Bank, is incorporated as a not-for-profit organization. Feeding America receives donations of food from farmers, wholesalers, food processors and stores, and distributes such food to social and religious agencies upon a normal administrative fee charged to agencies of up to 18 cents per pound depending on the type of product. In addition to the administrative fee charged, Feeding America receives donations and grants from individuals; social, business and community groups; and governmental agencies.

Method of Accounting

The records of Feeding America are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation and Net Asset Classification

The financial statements of Feeding America have been prepared in accordance with U.S. GAAP, which require Feeding America to report information regarding its financial position and activities according to the following net asset classifications:

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. These net assets may be used at the discretion of Feeding America’s management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Feeding America or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified in the statement of activities from net assets with donor restrictions to net assets without donor restrictions.

New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement (continued)

requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, Feeding America refers to the new Topic 606 and Subtopic 340-40 as the “new guidance.”

Feeding America adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. As a result of the new guidance, no adjustments were required to net assets as of January 1, 2019. Feeding America applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. There was no impact to Feeding America’s 2019 revenue based on adopting the new guidance.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Feeding America utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, Feeding America is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

Feeding America maintains cash balances in checking and savings accounts at several financial institutions. The checking and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. From time to time during the year, Feeding America may have cash in an account in excess of the federally insured limit. As of December 31, 2019, there was cash in excess of the federally insured limit of approximately \$805,000.

Accounts Receivable

Feeding America grants credit in the normal course of business to its agencies. Ongoing credit evaluations of customers' financial condition are conducted and, generally, no collateral is required. Accounts receivable are stated at the amount management expects to collect on outstanding balances. Feeding America provides for possible uncollectible amounts through a valuation allowance that is determined based on management's assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off.

Pledges Receivable

Unconditional pledges receivable are recognized as revenue in the period promised and as assets, decreases in liabilities, or expenses depending on the form of the benefits to be received. Unconditional pledges receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a valuation allowance based on management's assessment of the current status of individual accounts. When balances are deemed uncollectible they are written off. No allowance was deemed necessary for the years ended December 31, 2019 or 2018.

Inventory

Inventory consists of both purchased and donated food items. Purchased inventory is stated at cost using the first in, first out method. Donated inventory is stated at a standard per pound value based on an independent survey performed by a national accounting firm. In addition, Feeding America receives United States Department of Agriculture (USDA) commodities donations. The USDA items in inventory as of December 31, 2019 and 2018 were valued based on a food-only amount per pound that was determined by an independent survey.

Property and Equipment

Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from five to forty years. Feeding America capitalizes all expenditures for property and equipment in excess of \$5,000.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Donations of property and equipment are recorded at their estimated fair value. Such donations are reported as without donor restrictions 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 property and equipment are reported as with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, Feeding America reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Feeding America reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Revenue Recognition

Administrative Fees Charged to Agencies

Social and religious agencies place an order for food products with Feeding America and are assessed an administrative fee up to 18 cents per pound depending on the type of products purchased. The agency's order is charged to their account. Feeding America will review available funding, including federal or donated funds, to help offset the agency's cost.

The revenue from administrative fees is recognized at the point in time when Feeding America has fulfilled all performance obligations and the product is in the agency's possession. Products are shipped to customers "FOB Destination," and ownership of the goods in transit remains with Feeding America, who bears the associated risk. In some cases, an agency will pick up the order from Feeding America, at which point the ownership and associated risks pass to the agency. Feeding America provides an invoice to the agency when the agency takes possession of the product and payment is typically due within 30 days.

All of Feeding America's sales are final and returns or refunds are only allowed under unique circumstances. There are no warranties on the products purchased due to the nature of many of the products being donated, some of which may be at or near their printed expiration dates.

The following economic factors affect the nature, amount, timing, and uncertainty of Feeding America's revenue and cash flows as indicated:

- Overall health of the economy: Declines in the overall health of the economy will typically increase the need for food distribution.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Administrative Fees Charged to Agencies (continued)

- Food availability: The majority of the food distributed by Feeding America consists of donated products which may be received from grocers or farmers with an overabundance of product or from the federal government.

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and nature of any donor restrictions. All contributions with donor-imposed restrictions are recorded as with donor restrictions, even if the restriction is subsequently fulfilled in the same year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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.

Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Compensation and related expenses	Time and effort
Conferences and travel	Time and effort
Contractual services	Time and effort
Depreciation	Square footage
Insurance – property and casualty	Square footage
Insurance – workers’ compensation	Time and effort
Office and operating supplies	Time and effort
Utilities	Square footage

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP, if the services either create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by Feeding America. Unaudited records indicate that 23,975 hours of donated non-specialized services were provided to Feeding America in 2019 and 22,997 hours in 2018. These in-kind contributions are not reflected in the financial statements since these services do not meet the criteria for recognition.

Income Taxes

Feeding America is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Feeding America evaluates tax positions taken on its Federal Exempt Organization Business Income Tax Returns in accordance with U.S. GAAP. Management believes that Feeding America has no significant unrecognized tax benefits under those criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses.

Generally, tax years from 2016 through the current year remain open to examination. Management does not believe that the results from any examination of these open years would have a material adverse effect on Feeding America.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through April 21, 2020, which is the date the financial statements were available to be issued.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Feeding America's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

2. Liquidity and Availability

Feeding America has current assets available within one year of the statement of financial position date to meet cash needs for general expenditures. None of the current assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The receivables are subject to implied time restrictions but are expected to be collected within one year. Feeding America has a goal to maintain current assets to meet a minimum of 30 days of normal operating expenses, which requires maintaining cash and receivables on hand of at least \$500,000. Feeding America also has a policy to structure its current assets to be available as its general expenditures, liabilities, and other obligations come due. Feeding America has a \$250,000 line of credit available and as of December 31, 2019, there was no outstanding balance on the line.

3. Pledges Receivable

Pledges receivable consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Receivable in one year	\$ 169,292	\$ 229,721
Receivable in two – five years	62,000	64,000
Discounts to net present value	(1,961)	(3,311)
	<u>\$ 229,331</u>	<u>\$ 290,410</u>

Pledges receivable have been discounted using the three year U.S. Treasury rate of 1.62% as of December 31, 2019 and 2.46% as of December 31, 2018.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

4. Donated Food Product

The value of the USDA food commodities and grant money received from the Federal Emergency Management Agency surpasses the threshold of federal financial assistance which requires the performance of an audit in accordance with Uniform Grant Guidance. Accordingly, Feeding America recorded the value of donated commodities received and distributed and culled. All USDA commodities distributed were valued at an average food-only per pound price of \$1.52 in 2019 and \$1.57 in 2018. All other donated commodities recorded in inventory and in-kind product donations were valued at an average per pound price of \$1.62 in 2019 and \$1.68 in 2018. The average price per pound for all 2019 and 2018 products was determined by the results of an independent survey performed by a national accounting firm, solely to assist in determining the approximate average wholesale value of one pound of donated product at the national level for each year.

5. Beneficial Interest in Perpetual Endowment Fund

Feeding America is the beneficiary under an agency endowment agreement administered by the Grand Rapids Community Foundation (Foundation), named the John Arnold Endowment Fund. Under this agreement, Feeding America is entitled to the earnings from the assets in perpetuity, but has no right to the principal. The fair market value of the underlying investment is recorded in Feeding America's statements of financial position. On an annual basis, the asset is revalued based on the changes in market value. This revaluation is treated as net assets with donor restrictions in the statement of activities. Distributions from the Foundation are recorded as contributions in the statement of activities. The fair market value was \$734,890 as of December 31, 2019 and \$628,570 as of December 31, 2018, including a spendable portion of \$68,681 as of December 31, 2019 and \$35,886 as of December 31, 2018 that is available upon request. Feeding America received a distribution from the spendable portion of the agency endowment fund of \$215,000 during the year ended December 31, 2018 (none in 2019).

In addition to Feeding America's gifts to the Foundation's John Arnold Endowment Fund (Fund), individual donations have been made directly to the Fund. The Foundation confirms that the total market value of the donor portion of the Fund was \$138,410 as of December 31, 2019 and \$120,990 as of December 31, 2018, including a spendable portion of \$13,926 as of December 31, 2019 and \$7,318 as of December 31, 2018 that is available upon request. Feeding America received a distribution from the spendable portion of the Fund of \$49,000 during the year ended December 31, 2018 (none in 2019). The Foundation was given variance power, which gives the Foundation the ability to control the use of the transferred assets. Therefore, in accordance with accounting principles, the market value of these gifts is not reported as an asset on Feeding America's financial statements.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

6. Property and Equipment

Property and equipment consisted of the following as of December 31:

	2019	2018
Land	\$ 501,750	\$ 501,750
Land improvements	114,465	31,870
Building	3,417,952	3,490,048
Furniture, equipment, and delivery vehicles	2,044,032	2,027,017
	6,078,199	6,050,685
Accumulated depreciation	(3,462,798)	(3,274,208)
Property and equipment, net	\$ 2,615,401	\$ 2,776,477

7. Fair Value Measurement

Assets measured at fair value on a recurring basis were comprised of the following as of December 31:

	Fair Value	Level 3 Significant Unobservable Inputs
2019		
Beneficial interest in perpetual endowment	\$ 734,890	\$ 734,890
2018		
Beneficial interest in perpetual endowment	\$ 628,570	\$ 628,570

Changes in Level 3 assets measured at fair value on a recurring basis:

Balance as of January 1, 2018	\$ 843,436
Total gains (realized/unrealized) included in investment return, net of fees	134
Grants drawn from spendable portion of endowment	(215,000)
Balance as of December 31, 2018	628,570
Total gains (realized/unrealized) included in investment return, net of fees	106,320
Balance as of December 31, 2019	\$ 734,890

Feeding America West Michigan

Notes to Financial Statements

December 31, 2019

8. Debt

In September 2019, Feeding America opened a \$250,000 line of credit with a financial institution. Under the line of credit agreement, interest is charged at the financial institution's prime rate less 0.22%, effectively 4.53% as of December 31, 2019. The line matures on September 29, 2020 and is secured by substantially all of Feeding America's assets. As of December 31, 2019, there were no outstanding draws on the line of credit.

Feeding America also holds a mortgage note payable with a bank related to an operating facility in Cadillac. On March 6, 2017, the mortgage was refinanced and requires monthly payments of \$2,421 including interest at 4.2%. The note matures on September 6, 2027. The note is collateralized with the land and building in Cadillac. The balance was \$190,562 as of December 31, 2019 and \$211,032 as of December 31, 2018.

Future maturities of long-term debt are as follows:

Year Ending December 31	Amount
2020	\$ 21,478
2021	22,398
2022	23,357
2023	24,357
2024	25,400
Thereafter	73,572
	<u>\$ 190,562</u>

9. Net Assets with Donor Restrictions

Net assets with donor restrictions were as follows as of December 31:

	2019	2018
Donor restricted contributions to be applied to agencies	\$ 571,276	\$ 580,677
Donor restricted funds for future use	777,158	345,340
Endowment earnings for future program use	203,850	113,873
John Arnold Endowment Fund held at Community Foundation	531,040	514,697
Cash to be remitted to John Arnold Endowment Fund	1,002	12,014
	<u>\$ 2,084,326</u>	<u>\$ 1,566,601</u>

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Notes to Financial Statements

December 31, 2019

10. Endowment Funds

The board of directors established an endowment fund in the name of its former executive director, John M. Arnold. Gifts that were explicitly restricted by the donor for the endowment fund are classified as net assets with donor restrictions. Feeding America has a specific dollar goal for the John Arnold Endowment Fund of \$15,000,000 for the purpose of generating annual operating revenue for Feeding America to prevent Feeding America from shifting its focus from food distribution to fundraising.

To achieve that objective, Feeding America has adopted a policy of investing endowment fund assets with the Grand Rapids Community Foundation (Foundation). The assets delivered to the Foundation constitute irrevocable gifts, so that whether the donor intent of the assets is with or without donor restrictions, upon receipt by the Foundation all assets so gifted are classified as net assets with donor restrictions. The Foundation assets are invested in well-diversified and managed asset mixes that are intended to result in a consistent inflation-projected rate of return that has sufficient liquidity to make periodic distributions while growing the fund, if possible.

Donor-restricted assets are deposited temporarily in a separate bank account and transferred periodically to the Foundation. As of December 31, 2019, there was \$1,002 held in cash and recorded as net assets with donor restrictions. As of December 31, 2018, there was \$12,014 held in cash and recorded as net assets with donor restrictions. This balance consisted entirely of donor-restricted contributions to the endowment.

Endowment net asset composition by type of fund was as follows as of December 31:

	Without Donor Restrictions	With Donor Restrictions	Total
2019			
John Arnold Endowment Fund	\$ -	\$ 735,892	\$ 735,892
2018			
John Arnold Endowment Fund	\$ -	\$ 640,584	\$ 640,584

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10. Endowment Funds (continued)

Changes in endowment net assets for the years ended December 31, 2019 and 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ -	\$ 879,759	\$ 879,759
Contributions	-	17,413	17,413
Investment return, net of fees	8,705	(41,588)	(32,883)
Endowment draw	215,000	(215,000)	-
Reclassification of funds	(223,705)	-	(223,705)
Endowment net assets, December 31, 2018	\$ -	\$ 640,584	\$ 640,584
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ -	\$ 640,584	\$ 640,584
Contributions	-	5,331	5,331
Investment return, net of fees	7,666	89,977	97,643
Reclassification of funds	(7,666)	-	(7,666)
Endowment net assets, December 31, 2019	\$ -	\$ 735,892	\$ 735,892

11. Related Party Transactions

Feeding America paid approximately \$346,200 for trucking services and leases during the year ended December 31, 2019 and \$330,100 during the year ended December 31, 2018 to a company whose president is a member of Feeding America's Board of Directors. Feeding America also had administrative fees charged to agencies revenue of approximately \$83,900 for the year ended December 31, 2019 (\$85,200 for 2018) from an agency where the Executive Director of Feeding America is a member of the agency's oversight board.

12. Defined Contribution 403(b) Plan

Feeding America has a defined contribution 403(b) plan for all employees who meet the eligibility requirements. All accrued retirement plan expenses are fully funded and paid to a third-party trustee on a quarterly basis. Retirement plan expense was approximately \$129,000 for the year ended December 31, 2019 and \$116,500 for the year ended December 31, 2018.

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13. Operating Leases

Feeding America leases business premises in Benton Harbor under a 7-year lease which began on March 1, 2010. The original lease term matured in February 2017 and automatically renews for up to 20 additional one-year terms. The lease requires monthly payments of \$3,000 per month plus expenses. The lease includes an annual increase based on the consumer price index on each March 1 beginning with the first renewal term. Rent payments under this lease totaled approximately \$39,800 for the year ended December 31, 2019 and \$47,200 for the year ended December 31, 2018.

Feeding America currently has non-cancelable operating leases for equipment that expire on various dates through September 2021. Total rental expenses for these equipment leases totaled approximately \$7,100 for the year ended December 31, 2019 and \$7,000 for 2018.

Future minimum lease payments are approximately as follows:

Year Ending December 31	Amount
2020	\$ 9,500
2021	2,200

14. Capital Leases

Equipment under capital leases consists of a forklift with a capitalized cost of \$25,542. Accumulated depreciation in the statement of financial position included \$11,251 relating to this leased forklift. Depreciation expense reported in the statement of activities included \$3,649 for the equipment under capital lease. The lease includes a \$1 purchase option at the end of the lease period. The capital lease obligation as of December 31, 2019 was \$11,086, including interest. Future minimum lease payments are as follows:

Year Ending December 31	Amount
2020	\$ 5,543
2021	5,543
	<u>\$ 11,086</u>

The imputed interest necessary to reduce the net minimum lease payments to present value is considered immaterial.

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15. Subsequent Event

The current Coronavirus pandemic has had an economic impact on the United States and the international community. While Feeding America has not experienced a material adverse impact as of the date of these financial statements, the future impact, if any, cannot be determined.