

Audited Financial Statements

Feeding America West Michigan

*Year Ended December 31, 2021
with Report of Independent Auditors
and Summarized Comparative
Financial Information for the
Year Ended December 31, 2020*

Feeding America West Michigan

Audited Financial Statements

Year Ended December 31, 2021

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Report of Independent Auditors

Board of Directors
Feeding America West Michigan
Comstock Park, Michigan

Report on the Audit of the Financial Statements

Opinion

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Feeding America West Michigan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Feeding America West Michigan's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Feeding America West Michigan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Feeding America West Michigan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Feeding America West Michigan's 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 9, 2021. In our opinion, the summarized comparative information presented herein as of and for the

year ended December 31, 2020, 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 June 8, 2022 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 Pavlik PLC

Grand Rapids, Michigan
June 8, 2022

Feeding America West Michigan

Statement of Financial Position

December 31, 2021
(with Comparative Totals for 2020)

| | December 31 | |
|---|--------------------|---------------|
| | 2021 | 2020 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,893,939 | \$ 3,427,932 |
| Certificates of deposit | - | 4,000,000 |
| Accounts receivable, net of allowance of \$2,000 for 2021 and 2020 | 530,878 | 1,603,868 |
| Pledges receivable, current | 209,949 | 262,540 |
| Prepaid expenses | 76,604 | 78,365 |
| Inventory, at donated value | 5,395,933 | 10,176,885 |
| Inventory, at purchased cost | 210,099 | 60,501 |
| Total current assets | 11,317,402 | 19,610,091 |
| Beneficial interest in perpetual endowment | 1,298,836 | 1,125,396 |
| Pledges receivable, net of current portion and discount | 77,193 | - |
| Property and equipment, net | 9,843,873 | 3,306,108 |
| Total assets | \$ 22,537,304 | \$ 24,041,595 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 152,672 | \$ 115,329 |
| Accrued expenses | 221,949 | 179,539 |
| Deferred revenue | 112,447 | 191,867 |
| Security deposit payable | 11,000 | - |
| Total current liabilities | 498,068 | 486,735 |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 17,887,507 | 19,579,632 |
| Board designated | 340,000 | 400,000 |
| With donor restrictions | 3,811,729 | 3,575,228 |
| Total net assets | 22,039,236 | 23,554,860 |
| Total liabilities and net assets | \$ 22,537,304 | \$ 24,041,595 |

See accompanying notes.

Feeding America West Michigan

Statement of Activities

Year Ended December 31, 2021
(with Comparative Totals for 2020)

| | Without Donor Restrictions | With Donor Restrictions | Totals | |
|--|----------------------------------|-------------------------------|----------------------|----------------------|
| | | | 2021 | 2020 |
| Revenue and public support | | | | |
| Administrative fees charged to agencies, including donations applied to agency accounts of \$1,328,794 in 2021 and \$1,607,658 in 2020 | \$ 2,366,817 | \$ - | \$ 2,366,817 | \$ 3,014,193 |
| Administrative fees charged to agencies on purchased products, net of cost of \$845,596 in 2021 and \$1,189,633 in 2020 | 188,501 | - | 188,501 | 327,388 |
| Federal Emergency Management Agency | - | 179,673 | 179,673 | 143,920 |
| Contributions | 4,880,981 | 1,996,474 | 6,877,455 | 10,259,324 |
| Food Bank Council of Michigan | 1,614,920 | - | 1,614,920 | 3,946,537 |
| Government grant | - | - | - | 647,500 |
| Rental income | 192,393 | - | 192,393 | - |
| In-kind contributions | 1,114 | - | 1,114 | 66,083 |
| Investment return, net of fees | 1,614 | 171,596 | 173,210 | 94,731 |
| Gain (loss) on sale of property and equipment | (14,021) | - | (14,021) | 500 |
| Miscellaneous income | 100,811 | - | 100,811 | 45,148 |
| | <u>9,333,130</u> | <u>2,347,743</u> | <u>11,680,873</u> | <u>18,545,324</u> |
| Net assets released from restriction | 2,111,242 | (2,111,242) | - | - |
| Total revenue and public support | <u>11,444,372</u> | <u>236,501</u> | <u>11,680,873</u> | <u>18,545,324</u> |
| Expenses | | | | |
| Program services | 6,491,369 | - | 6,491,369 | 8,327,877 |
| Support services: | | | | |
| Management and general | 748,538 | - | 748,538 | 629,480 |
| Fundraising | 912,402 | - | 912,402 | 736,388 |
| Total expenses | <u>8,152,309</u> | <u>-</u> | <u>8,152,309</u> | <u>9,693,745</u> |
| Change in net assets prior to products donated, culled, and distributed | 3,292,063 | 236,501 | 3,528,564 | 8,851,579 |
| Products donated, culled, and distributed: | | | | |
| In-kind product donations | 39,042,542 | - | 39,042,542 | 51,189,444 |
| Value of products culled and distributed | (44,086,730) | - | (44,086,730) | (48,194,080) |
| Excess (deficiency) of products donated over products distributed | <u>(5,044,188)</u> | <u>-</u> | <u>(5,044,188)</u> | <u>2,995,364</u> |
| Change in net assets | (1,752,125) | 236,501 | (1,515,624) | 11,846,943 |
| Net assets – beginning of year | 19,979,632 | 3,575,228 | 23,554,860 | 11,707,917 |
| Net assets – end of year | <u>\$ 18,227,507</u> | <u>\$ 3,811,729</u> | <u>\$ 22,039,236</u> | <u>\$ 23,554,860</u> |

See accompanying notes.

Feeding America West Michigan

Statement of Functional Expenses

Year Ended December 31, 2021
(with Comparative Totals for 2020)

| | Program Services | Support Services | | Totals | |
|---|---------------------|---------------------------|------------------|--------------|--------------|
| | | Management and General | Fund- raising | 2021 | 2020 |
| Compensation and related expenses: | | | | | |
| Salaries and wages | \$ 1,927,683 | \$ 493,573 | \$ 353,186 | \$ 2,774,442 | \$ 2,640,657 |
| Payroll taxes | 143,744 | 36,805 | 26,336 | 206,885 | 196,595 |
| Health and life insurance | 376,604 | 96,427 | 69,001 | 542,032 | 490,795 |
| Pension | 104,683 | 26,803 | 19,180 | 150,666 | 127,336 |
| Total compensation and related expenses | 2,552,714 | 653,608 | 467,703 | 3,674,025 | 3,455,383 |
| Conferences and travel | 225 | 542 | 1,977 | 2,744 | 7,033 |
| Contractual services | 140,703 | 30,350 | 67,548 | 238,601 | 206,217 |
| Depreciation | 446,863 | 11,760 | 11,759 | 470,382 | 307,454 |
| Direct marketing | - | - | 288,746 | 288,746 | 270,235 |
| Dues, fees, and subscriptions | 90,996 | 11,846 | 1,715 | 104,557 | 83,815 |
| Equipment and improvements | 116,017 | - | - | 116,017 | 166,033 |
| Food and storage costs | 176,830 | - | - | 176,830 | 1,946,811 |
| Freight in | 105,181 | - | - | 105,181 | 178,957 |
| Insurance – property and casualty | 113,881 | 2,997 | 2,997 | 119,875 | 91,286 |
| Insurance – workers’ compensation | 28,747 | 7,360 | 5,267 | 41,374 | 49,992 |
| Interest | 316 | - | - | 316 | 4,795 |
| Maintenance and property taxes | 299,382 | - | - | 299,382 | 93,833 |
| Office and operating supplies | 178,691 | 2,772 | 3,364 | 184,827 | 245,639 |
| Printing and promotion | 2,624 | 15,171 | 48,455 | 66,250 | 45,567 |
| Rent | 75,965 | 6,703 | 6,703 | 89,371 | 36,000 |
| Rubbish removal | 42,099 | - | - | 42,099 | 105,598 |
| Donations applied to agency accounts | 1,328,794 | - | - | 1,328,794 | 1,607,658 |
| Telephone | 39,661 | 1,253 | 835 | 41,749 | 31,502 |
| Travel and truck | 606,894 | 365 | 1,522 | 608,781 | 647,445 |
| Utilities | 144,786 | 3,811 | 3,811 | 152,408 | 112,492 |
| Total expenses | \$ 6,491,369 | \$ 748,538 | \$ 912,402 | \$ 8,152,309 | \$ 9,693,745 |

See accompanying notes.

Feeding America West Michigan

Statement of Cash Flows

Year Ended December 31, 2021
(with Comparative Totals for 2020)

| | Year Ended December 31 | |
|--|-------------------------------|---------------|
| | 2021 | 2020 |
| Operating activities | | |
| Change in net assets | \$ (1,515,624) | \$ 11,846,943 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 470,382 | 307,454 |
| (Gain) loss on sale of property and equipment | 14,021 | (500) |
| Bad debt expense | - | 924 |
| Change in beneficial interest in perpetual endowment | (171,596) | (90,506) |
| Contribution revenue for endowment | (321) | (521) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 1,072,990 | (1,168,893) |
| Pledges receivable | (24,602) | (33,209) |
| Prepaid expenses | 1,761 | 19,180 |
| Inventory | 4,631,354 | (3,277,258) |
| Accounts payable | 37,343 | (37,908) |
| Accrued expenses | 42,410 | 41,348 |
| Deferred revenue | (79,420) | 113,495 |
| Security deposit payable | 11,000 | - |
| Net cash from operating activities | 4,489,698 | 7,720,549 |
| Investing activities | | |
| Maturity (purchase) of certificates of deposit | 4,000,000 | (4,000,000) |
| Purchase of property and equipment | (7,037,018) | (998,161) |
| Proceeds from sale of property and equipment | 14,850 | 500 |
| Net cash from investing activities | (3,022,168) | (4,997,661) |
| Financing activities | | |
| Payments on long-term debt | - | (190,562) |
| Payments on capital lease obligation | - | (11,086) |
| Transfer of cash to endowment | (1,844) | (300,000) |
| Contributions restricted for endowment | 321 | 521 |
| Net cash from financing activities | (1,523) | (501,127) |
| Net change in cash and cash equivalents | 1,466,007 | 2,221,761 |
| Cash and cash equivalents – beginning of year | 3,427,932 | 1,206,171 |
| Cash and cash equivalents – end of year | \$ 4,893,939 | \$ 3,427,932 |
| Supplemental cash flow information: | | |
| Interest paid | \$ 316 | \$ 4,795 |
| In-kind contributions | 1,114 | 66,083 |

See accompanying notes.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

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, and food processors. The food is distributed to social and religious agencies who are charged a normal administrative fee up to 18 cents per pound depending on the type of product received. In addition to the administrative fee charged, Feeding America receives donations and grants from individuals; social, business, and community groups; and governmental agencies.

The coronavirus pandemic, that began in March 2020, has had a significant impact on the United States and the international community, making Feeding America's services vital to communities throughout Michigan. As a result of the pandemic, the government, community organizations, and individuals provided additional funding for food distribution throughout the years ended December 31, 2021 and 2020.

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. During the years ended December 31, 2021 and 2020, board designated net assets included amounts designated for counties with higher food insecurity and expanding services to these areas. These board designated amounts are included in net assets without donor restrictions.

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.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

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

Financial Statement Presentation and Net Asset Classification (continued)

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.

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.

Concentration of Credit Risk

Feeding America maintains cash and cash equivalent 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 and cash equivalents in an account in excess of the federally insured limit. As of December 31, 2021, there were cash and cash equivalents in excess of the federally insured limit of approximately \$4,260,000. As of December 31, 2020, there were cash and cash equivalents and certificates of deposit in excess of the federally insured limit of approximately \$6,838,000.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

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

Certificates of Deposit

During the year ended December 31, 2020, Feeding America purchased \$4,000,000 of certificates of deposit (CDs) that matured in June 2021.

Accounts Receivable and Deferred Revenue

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.

In some instances, a customer overpays on their account, due to grant funding or other sources of income covering the customer's balance. These overpayments are recorded as deferred revenue.

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, which is discounted to net present value. 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, 2021 and 2020.

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 an independent accounting firm. In addition, Feeding America receives United States Department of Agriculture (USDA) commodities donations. The USDA items in inventory as of December 31, 2021 and 2020 were valued based on a food-only amount per pound that was determined by the independent survey.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

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

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.

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 and Public Support

Administrative Fees Charged to Agencies Revenue Recognition

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, 2021

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

Revenue and Public Support (continued)

Administrative Fees Charged to Agencies Revenue Recognition (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.

Rental Income

During the year ended December 31, 2021, Feeding America entered into contracts to lease space to two tenants. One tenant operates on a month-to-month basis while the other has a short-term lease that expires in May 2022 with an option to continue on a month-to-month basis. Rental income is recognized when rent is due from the tenants. The lease agreements state that monthly rental income is due on the first of each month for the upcoming month.

Concentration

Approximately 14% of Feeding America's revenue and approximately 69% of accounts receivable for the year ended December 31, 2021 related to the Food Bank Council of Michigan. Approximately 21% of Feeding America's revenue and approximately 89% of accounts receivable for the year ended December 31, 2020 related to the Food Bank Council of Michigan.

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.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

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

Functional Expenses (continued)

The expenses that are allocated include the following:

| <u>Expense</u> | <u>Method of Allocation</u> |
|-----------------------------------|-----------------------------|
| Compensation and related expenses | Time and effort |
| Depreciation | Square footage |
| Insurance – property and casualty | Square footage |
| Insurance – workers’ compensation | Time and effort |
| Utilities | Square footage |

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 23,964 hours of donated non-specialized services were provided to Feeding America in 2021 and 20,039 hours in 2020. 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 2018 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.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

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

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through June 8, 2022, which is the date the financial statements were available to be issued.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by the net asset class. With respect to the statement of functional expenses, the prior year expenses are presented by the expense classification in total rather than the functional category. 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, 2020, 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. Donor or other contractual restrictions on current assets are expected to be fulfilled in the normal course of business 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 \$670,000. 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 had a \$250,000 line of credit available with no outstanding balance as of December 31, 2021 and 2020.

3. Pledges Receivable

Pledges receivable consisted of the following as of December 31:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 209,949 | \$ 262,540 |
| Receivable in one to two years | 78,015 | - |
| Discount to net present value | (822) | - |
| | <u>\$ 287,142</u> | <u>\$ 262,540</u> |

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

3. Pledges Receivable (continued)

Pledges receivable were discounted using the IRS discount rate for the month the pledge was made, which ranged from 1.00% to 1.40% for the year ended December 31, 2021 (none as of December 31, 2020).

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 \$1.70 in 2021 and \$1.49 in 2020. All other donated commodities recorded in inventory and in-kind product donations were valued at an average per pound price of \$1.79 in 2021 and \$1.74 in 2020. The average price per pound for all 2021 and 2020 products was determined by the results of an independent survey performed by an independent 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 (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 statement 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 \$1,298,836 as of December 31, 2021 and \$1,125,396 as of December 31, 2020, including a spendable portion of \$444,386 as of December 31, 2021 and \$400,456 as of December 31, 2020 that is available upon request. No distributions were received from this fund during the years ended December 31, 2021 or 2020.

In addition to Feeding America's gifts to the Foundation's 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 \$170,726 as of December 31, 2021 and \$148,139 as of December 31, 2020, including a spendable portion of \$26,366 as of December 31, 2021 and \$20,296 as of December 31, 2020 that is available upon request. Feeding America did not receive any distribution from this fund during the years ended December 31, 2021 or 2020. The Foundation was given variance power, which gives the Foundation the ability to control the use of the transferred assets. Therefore, in accordance with U.S. GAAP, 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, 2021

6. Property and Equipment

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

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Land | \$ 1,501,750 | \$ 501,750 |
| Land improvements | 179,880 | 114,465 |
| Building and improvements | 9,307,482 | 3,695,882 |
| Furniture, equipment, and delivery vehicles | 2,820,295 | 2,760,993 |
| | <u>13,809,407</u> | <u>7,073,090</u> |
| Accumulated depreciation | <u>(3,965,534)</u> | <u>(3,766,982)</u> |
| Property and equipment, net | <u>\$ 9,843,873</u> | <u>\$ 3,306,108</u> |

7. Fair Value Measurement

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

| | <u>Fair Value</u> | <u>Level 3 Significant Unobservable Inputs</u> |
|--|-------------------|--|
| 2021 | | |
| Beneficial interest in perpetual endowment | \$ 1,298,836 | \$ 1,298,836 |
| 2020 | | |
| Beneficial interest in perpetual endowment | \$ 1,125,396 | \$ 1,125,396 |

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

| | |
|--|---------------------|
| Balance as of January 1, 2020 | \$ 734,890 |
| Transfer of funds to endowment | 300,000 |
| Total gains (realized/unrealized) included in investment return, net of fees | <u>90,506</u> |
| Balance as of December 31, 2020 | 1,125,396 |
| Transfer of funds to endowment | 1,844 |
| Total gains (realized/unrealized) included in investment return, net of fees | <u>171,596</u> |
| Balance as of December 31, 2021 | <u>\$ 1,298,836</u> |

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

8. Paycheck Protection Program Loan

Feeding America received Paycheck Protection Program (PPP) loan proceeds in the amount of \$647,500 in April 2020. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for an amount up to 2.5 times of their average monthly payroll expenses. The loans and accrued interest are forgivable by the Small Business Administration (SBA) after either an 8 or 24-week covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its payroll levels.

The unforgiven portion, if any, of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments until either the date the SBA remits the borrower's loan forgiveness amount to the lender or, if Feeding America does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period.

Feeding America used the proceeds for purposes consistent with the PPP and received full forgiveness of the loan on January 27, 2021. The PPP proceeds were recorded as government grant revenue in Feeding America's statement of activities for the year ended December 31, 2020.

9. Debt

Feeding America held a mortgage note payable with a bank related to an operating facility in Cadillac. On March 6, 2017, the mortgage was refinanced and required monthly payments of \$2,421 including interest at 4.2%. The note was scheduled to mature on September 6, 2027; however, Feeding America paid off the mortgage in full during the year ended December 31, 2020.

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 3.47% as of December 31, 2021, and 3.03% as of December 31, 2020. The line matured on September 29, 2021, and automatically renews in one-year increments until the lender terminates the note. The line is secured by substantially all of Feeding America's assets. As of December 31, 2021 and 2020, there were no outstanding draws on the line of credit.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

10. Net Assets with Donor Restrictions

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

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Donor restricted contributions to be applied to agencies | \$ 941,479 | \$ 1,112,675 |
| Donor restricted funds for future use | 1,571,414 | 1,335,634 |
| Endowment earnings for future program use | 765,952 | 594,356 |
| John Arnold Endowment Fund held at the Foundation | 532,884 | 531,040 |
| Cash to be remitted to John Arnold Endowment Fund | - | 1,523 |
| | <u>\$ 3,811,729</u> | <u>\$ 3,575,228</u> |

11. Endowment Funds

The board of directors established an endowment fund in the name of its former executive director, John M. Arnold, which was previously discussed in Note 5. 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 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 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, 2020, there was \$1,523 held in cash and recorded as net assets with donor restrictions (none as of December 31, 2021). This balance consisted entirely of donor-restricted contributions to the endowment.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

11. Endowment Funds (continued)

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------|---------------------------------------|------------------------------------|--------------|
| 2021 | | | |
| John Arnold Endowment Fund | \$ - | \$ 1,298,836 | \$ 1,298,836 |
| 2020 | | | |
| John Arnold Endowment Fund | \$ - | \$ 1,126,919 | \$ 1,126,919 |

Changes in endowment net assets for the years ended December 31, 2021 and 2020 were as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|---------------------|
| Endowment net assets, January 1, 2020 | \$ - | \$ 735,892 | \$ 735,892 |
| Contributions | - | 521 | 521 |
| Transfer of funds to endowment | - | 300,000 | 300,000 |
| Investment return, net of fees | - | 90,506 | 90,506 |
| Endowment net assets, December 31, 2020 | - | 1,126,919 | 1,126,919 |
| Contributions | - | 321 | 321 |
| Investment return, net of fees | - | 171,596 | 171,596 |
| Endowment net assets, December 31, 2021 | \$ - | \$ 1,298,836 | \$ 1,298,836 |

12. Related Party Transactions

Feeding America paid approximately \$299,000 for trucking services and leases during the year ended December 31, 2021 and \$496,000 during the year ended December 31, 2020 to a company whose president is a member of Feeding America's Board of Directors.

During the year ended December 31, 2021, Feeding America received contributions of approximately \$129,000 from board members, employees, and companies owned or managed by board members as part of the capital campaign that was launched during the year. There were no such related party contributions for the year ended December 31, 2020.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

12. Related Party Transactions (continued)

Feeding America also had administrative fees charged to agencies revenue of approximately \$28,000 for the year ended December 31, 2020 from an agency where the Executive Director of Feeding America was a member of the agency's oversight board through December 31, 2020. Although activity with this entity continued during 2021, it is no longer a related party under common leadership.

13. 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 \$151,000 for the year ended December 31, 2021 and \$127,000 for the year ended December 31, 2020.

14. Operating Leases

Property 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 1-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 \$36,000 for the years ended December 31, 2021 and 2020.

Feeding America also entered into a 40-month office lease beginning in March 2021. The lease includes four months rent free, and monthly rental rates starting at approximately \$2,100 in July 2021. The rental rates increase annually as outlined in the rental agreement until maturity in June 2024. Rent payments under this lease totaled approximately \$12,500 for the year ended December 31, 2021.

Equipment Leases

Feeding America currently has non-cancelable operating leases for equipment that expire on various dates through December 2026. Rental expenses for these equipment leases totaled approximately \$10,800 for the year ended December 31, 2021 and \$8,100 for the year ended December 31, 2020.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2021

14. Operating Leases (continued)

Future minimum lease payments are approximately as follows:

| Year Ending December 31 | Amount |
|------------------------------------|---------------|
| 2022 | \$ 74,500 |
| 2023 | 37,600 |
| 2024 | 16,000 |
| 2025 | 2,300 |
| 2026 | 2,300 |

15. Capital Leases

Feeding America held a capital lease for a forklift with a capitalized cost of \$25,542 and a remaining net book value of \$6,993 as of December 31, 2021 and \$10,642 as of December 31, 2020. During 2020, Feeding America paid off the remaining balance of the capital lease.

16. Long-term Commitments

Feeding America has entered into contracts for various professional services requiring payments in future years. Future commitments under these contracts are as follows:

| Year Ending December 31 | Amount |
|------------------------------------|---------------|
| 2022 | \$ 69,200 |
| 2023 | 31,500 |
| 2024 | 18,200 |

17. Subsequent Event

Subsequent to December 31, 2021, Feeding America entered into a contract with an architect for building renovations. The contract contains both fixed and variable commitments. The fixed commitment of \$117,500 is due in installments by August 2022 and covers the preliminary design phase of the project. The variable commitment will be 6.25% to 7.00% of the actual cost of the final project, which is anticipated to cost between \$3 million to \$9 million.