

Audited Financial Statements

Feeding America West Michigan Food Bank

*Year Ended December 31, 2016
with Report of Independent Auditors
and Summarized Comparative
Financial Information for the
Year Ended December 31, 2015*



ANDREWS HOOPER PAVLIK PLC

Feeding America West Michigan Food Bank

Audited Financial Statements

Year Ended December 31, 2016

Contents

Report of Independent Auditors.....	1
Statements of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7

Report of Independent Auditors

Board of Directors
Feeding America West Michigan Food Bank
Comstock Park, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Feeding America West Michigan Food Bank, which comprise the statement of financial position as of December 31, 2016, 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 Food Bank as of December 31, 2016, 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 Food Bank's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 11, 2017 on our consideration of Feeding America West Michigan Food Bank'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Feeding America West Michigan Food Bank's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
April 11, 2017

Feeding America West Michigan Food Bank

Statements of Financial Position

	December 31	
	2016	2015
Assets		
Cash and cash equivalents	\$ 1,323,671	\$ 1,257,849
Investments	164,381	160,861
Accounts receivable, net of allowance of \$800 for 2016 and \$5,125 for 2015	310,872	456,344
Pledges receivable	206,870	81,620
Prepaid expenses	61,255	61,311
Inventory, at donated value	3,250,935	3,335,541
Inventory, at purchased cost	305,920	355,268
Beneficial interest in perpetual endowment	749,953	695,144
Property and equipment, net	3,108,490	3,245,966
Total assets	\$ 9,482,347	\$ 9,649,904
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 294,945	\$ 208,272
Accrued expenses	178,056	185,729
Capital lease obligation	27,716	-
Long-term debt	249,741	269,416
Total liabilities	750,458	663,417
Net assets:		
Unrestricted		
Undesignated	7,020,269	7,204,584
Board designated	25,917	4,304
Temporarily restricted	1,212,728	1,304,624
Permanently restricted	472,975	472,975
Total net assets	8,731,889	8,986,487
Total liabilities and net assets	\$ 9,482,347	\$ 9,649,904

Feeding America West Michigan Food Bank

Statement of Activities

Year Ended December 31, 2016
(with Comparative Totals for 2015)

	Unrestricted	Temporarily	Permanently	Totals	
		Restricted	Restricted	2016	2015
Revenue and Public Support					
Shared maintenance, including \$918,471 charged to grants in 2016 and \$952,404 in 2015	\$ 2,312,906	\$ -	\$ -	\$ 2,312,906	\$ 2,248,555
Shared maintenance purchased products, net of cost of \$1,653,687 in 2016 and \$1,932,794 in 2015	512,314			512,314	533,452
Federal emergency management agency		98,675		98,675	116,073
Contributions	1,548,157	974,502		2,522,659	3,202,678
Special events, net of expense of \$45,277 in 2016 and \$13,915 in 2015	551			551	51,869
United Way	13,351			13,351	15,120
Food Bank Council of Michigan	327,665			327,665	375,592
In-kind contributions of equipment and expenses	81,186			81,186	7,141
Interest and dividend income	4,750	2,934		7,684	24,386
Unrealized gain (loss) on perpetual endowment		51,875		51,875	(51,539)
Loss on sale of property and equipment	(18,485)			(18,485)	(37,950)
Miscellaneous income	42,716			42,716	45,802
	4,825,111	1,127,986	-	5,953,097	6,531,179
Reclassification of net assets:					
Net assets released from restriction	1,219,882	(1,219,882)		-	-
Total revenue and public support	6,044,993	(91,896)	-	5,953,097	6,531,179
Expenses					
Program services	5,101,380			5,101,380	5,209,258
Support services:					
Management and general	449,486			449,486	394,129
Fundraising	572,224			572,224	392,452
Total expenses	6,123,090	-	-	6,123,090	5,995,839
Products donated, culled, and distributed:					
In-kind product donations	41,633,390			41,633,390	40,696,489
Less: value of products culled and distributed	41,717,995			41,717,995	40,568,504
Excess (deficiency) of products donated over distributed	(84,605)	-	-	(84,605)	127,985
Change in net assets	(162,702)	(91,896)	-	(254,598)	663,325
Net assets - beginning of year	7,208,888	1,304,624	472,975	8,986,487	8,323,162
Net assets - end of year	\$ 7,046,186	\$ 1,212,728	\$ 472,975	\$ 8,731,889	\$ 8,986,487

See accompanying notes.

Feeding America West Michigan Food Bank

Statement of Functional Expenses

Year Ended December 31, 2016
(with Comparative Totals for 2015)

	Program Services	Support Services		Total	
		Management and General	Fund- raising	2016	2015
Compensation and related expenses:					
Salaries and wages	\$ 1,783,501	\$ 278,826	\$ 175,441	\$ 2,237,768	\$ 2,117,117
Payroll taxes	135,968	21,257	13,375	170,600	170,734
Health and life insurance	365,852	57,196	35,988	459,036	487,924
Pension	90,625	14,168	8,915	113,708	110,540
Total compensation and related expenses	<u>2,375,946</u>	<u>371,447</u>	<u>233,719</u>	<u>2,981,112</u>	<u>2,886,315</u>
Conferences and Food Bank travel	57,781	6,798	3,398	67,977	30,544
Contractual services	18,867	18,867	18,867	56,601	45,701
Depreciation	289,371	7,615	7,615	304,601	315,878
Direct marketing			282,287	282,287	234,567
Dues, fees, and subscriptions	92,449			92,449	77,374
Equipment and improvements	92,308			92,308	66,889
Food and storage costs	57,049			57,049	40,387
Freight in	105,096			105,096	155,611
Insurance - property and casualty	75,064	1,976	1,976	79,016	71,321
Insurance - workers compensation	48,976	6,411	2,116	57,503	64,439
Interest	10,328			10,328	8,735
Maintenance	101,231			101,231	105,308
Office and operating supplies	152,830	17,980	8,990	179,800	181,151
Rent	53,863			53,863	73,960
Rubbish removal	50,487			50,487	28,612
Shared maintenance charges to grants	918,471			918,471	952,404
Telephone	23,844	753	502	25,099	32,043
Travel and truck expense	464,143	14,657	9,772	488,572	491,939
Utilities	113,276	2,982	2,982	119,240	132,661
Total expenses	<u>\$ 5,101,380</u>	<u>\$ 449,486</u>	<u>\$ 572,224</u>	<u>\$ 6,123,090</u>	<u>\$ 5,995,839</u>

Feeding America West Michigan Food Bank

Statements of Cash Flows

	Year Ended December 31	
	2016	2015
Operating activities		
Change in net assets	\$ (254,598)	\$ 663,325
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	304,601	315,878
Loss on sale of property and equipment	18,485	37,950
Change in beneficial interest in perpetual endowment	(54,809)	(6,615)
Contributions restricted for long-term purposes	-	37,500
Change in operating assets and liabilities:		
Accounts receivable	145,472	(28,284)
Pledges receivable	(125,250)	(1,620)
Prepaid expenses	56	(38,514)
Inventory	133,954	(59,700)
Accounts payable	86,673	23,881
Accrued expenses	(7,673)	(42,052)
Net cash from operating activities	246,911	901,749
Investing activities		
Purchase of property and equipment	(161,144)	(349,901)
Purchase of investments	(3,520)	(3,213)
Proceeds from sale of property and equipment	3,250	19,000
Net cash from investing activities	(161,414)	(334,114)
Financing activities		
Payments on long-term debt	(19,675)	(19,095)
Contributions restricted for long-term purposes	-	(37,500)
Net cash from financing activities	(19,675)	(56,595)
Net change in cash and cash equivalents	65,822	511,040
Cash and cash equivalents at beginning of year	1,257,849	746,809
Cash and cash equivalents at end of year	\$ 1,323,671	\$ 1,257,849
Supplemental cash flow information:		
Interest paid	\$ 10,328	\$ 8,735
In-kind contributions reflected as revenues, capital assets, and expenses	81,186	7,141
Non-cash activities:		
Capital lease on new equipment	\$ 27,716	\$ -

See accompanying notes.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Method of Accounting

The records of the Food Bank are maintained on the accrual basis of accounting, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid.

Financial Statement Presentation and Net Asset Classification

The Food Bank reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets contain donor restrictions that permit the Food Bank to use or expend the assets as specified.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Food Bank to use or expend part or all of the income derived from the donated assets for specific purposes.

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. The Food Bank 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, the Food Bank 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.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

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

Fair Value Measurements (continued)

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 a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Cash and Cash Equivalents

The Food Bank considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Food Bank 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, the Food Bank may have cash in an account in excess of the federally insured limit. As of December 31, 2016, there was cash in excess of the federally insured limit of approximately \$843,800.

Investments

The Food Bank holds a deferred annuity investment with an insurance company, which is recorded at fair value.

Accounts Receivable

The Food Bank 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. The Food Bank provides for possible uncollectible amounts through a valuation

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

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

Accounts Receivable (continued)

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, 2016 or 2015.

Inventory

Inventory consists of both purchased and donated food items. Purchased inventory is stated at cost using the first in, first out method to determine cost. The majority of donated inventory is stated at a standard per pound value based on an independent survey performed by a national accounting firm. In addition, the Food Bank receives United States Department of Agriculture (USDA) commodities donations. The inventory items received from the USDA are valued at per pound prices suggested by the USDA.

Property and Equipment

Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives, ranging from five to forty years. The Food Bank capitalizes all expenditures for land, buildings, 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 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 property and equipment are reported as temporarily restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Food Bank reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

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

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Expenses

The costs to provide the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services by function. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Food Bank.

Donated Services

Donated services are recognized as contributions in accordance with generally accepted accounting principles (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 the Food Bank. Unaudited records indicate that 24,371 hours of donated non-specialized services were provided to the Food Bank in 2016 and 28,288 hours in 2015.

Income Taxes

The Food Bank is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

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

Income Taxes (continued)

Generally, tax years from 2013 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 the Food Bank.

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.

Reclassification

Certain amounts from 2015 have been reclassified to conform with the 2016 presentation.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through April 11, 2017, which is the date the financial statements were available to be issued.

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 the Food Bank's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

2. Pledges Receivable

Pledges receivable consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 196,870	\$ 51,620
Receivable in one to five years	10,000	30,000
	<u>\$ 206,870</u>	<u>\$ 81,620</u>

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

3. 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 a Single Audit. Accordingly, the Food Bank recorded the value of donated commodities received and distributed and culled. All USDA commodities distributed were valued at average per pound prices suggested by the USDA for each particular kind of product. All other donated commodities recorded in inventory and in-kind product donations were valued at an average per pound price of \$1.67 in 2016 and \$1.70 in 2015. The average price per pound was determined by the results of an independent survey performed by the national accounting firm, KPMG, LLP, solely to assist in determining the approximate average wholesale value of one pound of donated product at the national level for each year.

4. Beneficial Interest in Perpetual Endowment Fund

The Food Bank 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, the Food Bank 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 the Food Bank'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 temporarily restricted in the statement of activities. Distributions from the Foundation are recorded as contributions on the statement of activities. The fair market value was \$749,953 as of December 31, 2016 and \$695,144 as of December 31, 2015, including a spendable portion of \$182,916 as of December 31, 2016 and \$150,993 as of December 31, 2015 that is available upon request.

In addition to the Food Bank'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 \$158,135 as of December 31, 2016 and \$146,507 as of December 31, 2015, including a spendable portion of \$42,292 as of December 31, 2016 and \$35,553 as of December 31, 2015 that is available upon request. 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 the Food Bank's financial statements.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

5. Property and Equipment

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

	2016	2015
Land	\$ 500,000	\$ 500,000
Land improvements	31,870	31,870
Building	3,391,946	3,325,079
Furniture, equipment, and delivery vehicles	1,937,745	1,978,599
	5,861,561	5,835,548
Less: accumulated depreciation	2,753,071	2,589,582
Property and equipment, net	\$ 3,108,490	\$ 3,245,966

6. Fair Value Measurement

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

	Fair Value	Level 1 Based on Quoted Prices in Active Markets	Level 3 Significant Unobservable Inputs
2016			
Deferred annuities	\$ 164,381	\$ 164,381	\$ -
Beneficial interest in perpetual endowment	749,953	-	749,953
Total	\$ 914,334	\$ 164,381	\$ 749,953

	Fair Value	Level 1 Based on Quoted Prices in Active Markets	Level 3 Significant Unobservable Inputs
2015			
Deferred annuities	\$ 160,861	\$ 160,861	\$ -
Beneficial interest in perpetual endowment	695,144	-	695,144
Total	\$ 856,005	\$ 160,861	\$ 695,144

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

6. Fair Value Measurement (continued)

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

Balance as of January 1, 2015	\$ 688,529
Total gains or losses (realized/unrealized) included in net investment income	(24,356)
Purchases, issuance, and settlements	37,500
Net transfers in/out of Level 3	<u>(6,529)</u>
Balance as of December 31, 2015	695,144
Total gains or losses (realized/unrealized) included in net investment income	60,893
Purchases, issuance, and settlements	-
Net transfers in/out of Level 3	<u>(6,084)</u>
Balance as of December 31, 2016	<u>\$ 749,953</u>

7. Long-Term Debt

The Food Bank holds a mortgage note payable with a bank related to an operating facility in Cadillac. During 2016, the mortgage required monthly payments of \$2,319 including interest at 3.1%. Effective 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 \$249,741 as of December 31, 2016 and \$269,416 as of December 31, 2015.

Future maturities of long-term debt are as follows:

Year Ending December 31,	Amount
2017	\$ 19,230
2018	19,750
2019	20,596
2020	21,478
2021	22,398
Thereafter	<u>146,289</u>
	<u>\$ 249,741</u>

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

8. Restriction on Net Assets

Restrictions on net assets were as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Board designated net assets consisted of the following:		
Endowment designated cash	\$ 25,917	\$ 4,304
Temporarily restricted net assets consisted of the following:		
Donor restricted contributions for shared maintenance	\$ 670,350	\$ 420,492
Donor restricted funds for future use	265,400	661,963
Endowment earnings – future program	276,978	222,169
	<u>\$ 1,212,728</u>	<u>\$ 1,304,624</u>
Permanently restricted net assets consisted of the following:		
John Arnold Endowment Fund	<u>\$ 472,975</u>	<u>\$ 472,975</u>

9. Endowment Funds

The board 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 were classified as permanently restricted net assets. The Food Bank has a specific dollar goal for the John Arnold Endowment Fund of \$15,000,000 for the purpose of generating annual operating revenue for the Food Bank to prevent the Food Bank from shifting its focus from food distribution to fundraising.

To achieve that objective, the Food Bank 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 unrestricted, temporarily restricted or permanently restricted, upon receipt by the Foundation all assets so gifted are classified as permanently restricted net assets. 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.

As of December 31, 2016 and 2015, the Board of Directors had designated \$25,917 and \$4,304 of unrestricted net assets as a general endowment fund to support the objective of the John Arnold Endowment Fund. Since that amount resulted from an internal designation and is not donor-restricted, it is classified as unrestricted net assets. Donor-restricted assets are deposited temporarily in a separate bank account and transferred periodically to the Foundation. The not-for-profit endowment fund established on the Foundation's books will be known as the John Arnold Endowment Fund for Feeding America West Michigan Food Bank.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

9. Endowment Funds (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2016				
John Arnold endowment fund	\$ -	\$ 276,978	\$ 472,975	\$ 749,953
Board-designated fund	25,917	-	-	25,917
Total endowment funds	\$ 25,917	\$ 276,978	\$ 472,975	\$ 775,870
2015				
John Arnold endowment fund	\$ -	\$ 222,169	\$ 472,975	\$ 695,144
Board-designated fund	4,304	-	-	4,304
Total endowment funds	\$ 4,304	\$ 222,169	\$ 472,975	\$ 699,448

Changes in endowment net assets for the years ended December 31, 2016 and 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	\$ 18,904	\$ 253,054	\$ 435,475	\$ 707,433
Contributions	22,900			22,900
Investment income		20,654		20,654
Unrealized/realized loss on investments		(45,010)		(45,010)
Investment expenses	6,529	(6,529)		-
Transfer to endowment	(37,500)		37,500	-
Reclassification of funds	(6,529)			(6,529)
Endowment net assets, December 31, 2015	4,304	222,169	472,975	699,448
Contributions	21,613			21,613
Investment income		2,934		2,934
Unrealized/realized gain on investments		57,959		57,959
Investment expenses	6,084	(6,084)		-
Reclassification of funds	(6,084)			(6,084)
Endowment net assets, December 31, 2016	\$ 25,917	\$ 276,978	\$ 472,975	\$ 775,870

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

10. Related Party Transactions

The Food Bank paid approximately \$398,000 for trucking services and leases during the year ended December 31, 2016 and \$451,000 during the year ended December 31, 2015 to a company whose president is a member of the Food Bank's Board of Directors. In addition, the Food Bank paid approximately \$44,000 during the year ended December 31, 2015 for advertising services to a company, who employed a member of the Food Bank's Board of Directors. The Food Bank also received logistic services from a company that is owned by a family member of the Executive Director of the Food Bank. The Food Bank paid approximately \$3,600 during the year ended December 31, 2016 and \$8,600 during the year ended December 31, 2015 to this logistics company.

11. Defined Contribution 403(b) Plan

The Food Bank 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 \$113,700 for the year ended December 31, 2016 and \$110,500 for the year ended December 31, 2015.

12. Operating Leases

The Food Bank leases business premises in Benton Harbor under a 7-year lease which began on March 1, 2010. Upon maturity, the lease 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 \$47,000 for the year ended December 31, 2016 and \$47,200 for the year ended December 31, 2015.

The Food Bank leased space in Sault St. Marie on a month to month basis. The lease required monthly payments of \$980 and was terminated in March 2016. Rent payments under this lease totaled approximately \$3,100 for the year ended December 31, 2016 and \$11,800 for the year ended December 31, 2015.

The Food Bank leased space in Ishpeming on a month to month basis. The lease required monthly payments of \$1,250 and was terminated in March 2016. Rent payments under this lease totaled approximately \$3,800 for the year ended December 31, 2016 and \$15,000 for the year ended December 31, 2015.

The Food Bank currently has non-cancelable operating leases for equipment that expire on various dates through February 2022. Total rental expenses for equipment were approximately \$50,600 for the years ended December 31, 2016 and 2015.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2016

12. Operating Leases (continued)

Future minimum lease payments are approximately as follows:

Year Ending December 31,	Amount
2017	\$ 52,300
2018	44,900
2019	42,600
2020	42,600
2021	42,600
Thereafter	7,100

13. 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 \$304 relating to this leased forklift. Depreciation expense reported in the statement of activities includes \$304 for the equipment under capital lease. The lease includes a \$1 purchase option at the end of the lease period. The capital lease obligation was \$27,716, including interest. Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2017	\$ 5,543
2018	5,543
2019	5,543
2020	5,543
2021	5,544
	<u>\$ 27,716</u>

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