

Audited Financial Statements

Feeding America West Michigan

*Year Ended December 31, 2022  
with Report of Independent Auditors  
and Summarized Comparative  
Financial Information for the  
Year Ended December 31, 2021*

Feeding America West Michigan

Audited Financial Statements

Year Ended December 31, 2022

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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, 2022, 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, 2022, 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 Auditor's 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.

### ***Auditor's 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 auditor's 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 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 8, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived, modified for the prior period adjustment discussed below.

### ***Prior Period Adjustment***

As discussed in Note 15 to the financial statements, there was an error in inventory as of and for the year ended December 31, 2021, that was discovered during the current year and was reclassified for consistent presentation. Accordingly, amounts reported for inventory, at donated value, in-kind product donations, value of products culled and distributed, and net assets without donor restrictions have been restated in the financial statements now presented to correct the error. Our opinion is not modified with respect to that matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2023 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 7, 2023

# Feeding America West Michigan

## Statement of Financial Position

December 31, 2022  
(with Comparative Totals for 2021)

	<b>December 31</b>	
	<b>2022</b>	<b>2021 (As Restated)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,663,620	\$ 4,893,939
Accounts receivable, net of allowance of \$2,000 for 2022 and 2021	449,406	530,878
Pledges receivable, current	784,273	209,949
Prepaid expenses	108,187	76,604
Inventory, at donated value	2,446,154	5,349,536
Inventory, at purchased cost	526,988	210,099
Total current assets	12,978,628	11,271,005
Beneficial interest in perpetual endowment	1,106,216	1,298,836
Pledges receivable, net of current portion and discount	434,451	77,193
Property and equipment, net	10,180,414	9,843,873
Right-of-use asset	514,024	-
Total assets	\$ 25,213,733	\$ 22,490,907
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 244,003	\$ 152,672
Accrued expenses	272,914	221,949
Deferred revenue	108,030	112,447
Security deposit payable	3,000	11,000
Lease liability, current	78,795	-
Total current liabilities	706,742	498,068
Lease liability, net of current portion	435,229	-
Net assets:		
Without donor restrictions:		
Undesignated	16,354,588	17,841,110
Board designated	340,000	340,000
With donor restrictions	7,377,174	3,811,729
Total net assets	24,071,762	21,992,839
Total liabilities and net assets	\$ 25,213,733	\$ 22,490,907

See accompanying notes.

# Feeding America West Michigan

## Statement of Activities

Year Ended December 31, 2022  
(with Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2022	2021 (As Restated)
<b>Revenue and public support</b>				
Administrative fees charged to agencies, including donations applied to agency accounts of \$1,391,077 in 2022 and \$1,328,794 in 2021	\$ 1,791,203	\$ -	\$ 1,791,203	\$ 2,366,817
Administrative fees charged to agencies on purchased products, net of cost of \$2,002,691 in 2022 and \$845,596 in 2021	400,340	-	400,340	188,501
Federal Emergency Management Agency Contributions	-	228,772	228,772	179,673
Food Bank Council of Michigan	5,164,820	5,845,120	11,009,940	6,877,455
Rental income	849,858	-	849,858	1,614,920
In-kind contributions	417,335	-	417,335	192,393
Investment return (loss), net of fees	25,542	-	25,542	1,114
Loss on sale of property and equipment	2,271	(198,870)	(196,599)	173,210
Miscellaneous income	(889)	-	(889)	(14,021)
	67,250	-	67,250	100,811
	8,717,730	5,875,022	14,592,752	11,680,873
Net assets released from restriction	2,309,577	(2,309,577)	-	-
Total revenue and public support	11,027,307	3,565,445	14,592,752	11,680,873
<b>Expenses</b>				
Program services	7,363,174	-	7,363,174	6,491,369
Support services:				
Management and general	897,185	-	897,185	748,538
Fundraising	1,075,481	-	1,075,481	912,402
Total expenses	9,335,840	-	9,335,840	8,152,309
Change in net assets prior to products donated, culled, and distributed	1,691,467	3,565,445	5,256,912	3,528,564
Products donated, culled, and distributed:				
In-kind product donations	36,215,819	-	36,215,819	38,121,792
Value of products culled and distributed	(39,393,808)	-	(39,393,808)	(43,167,276)
Deficiency of products donated over products distributed	(3,177,989)	-	(3,177,989)	(5,045,484)
Change in net assets	(1,486,522)	3,565,445	2,078,923	(1,516,920)
Net assets – beginning of year, as restated	18,181,110	3,811,729	21,992,839	23,509,759
Net assets – end of year	\$ 16,694,588	\$ 7,377,174	\$ 24,071,762	\$ 21,992,839

See accompanying notes.

# Feeding America West Michigan

## Statement of Functional Expenses

Year Ended December 31, 2022  
(with Comparative Totals for 2021)

	Program Services	Support Services		Totals	
		Management and General	Fund- raising	2022	2021
Compensation and related expenses:					
Salaries and wages	\$ 2,391,549	\$ 589,193	\$ 428,938	\$ 3,409,680	\$ 2,774,442
Payroll taxes	170,375	41,974	30,558	242,907	206,885
Health and life insurance	461,875	113,789	82,840	658,504	542,032
Pension	136,297	33,579	24,446	194,322	150,666
Total compensation and related expenses	<b>3,160,096</b>	<b>778,535</b>	<b>566,782</b>	<b>4,505,413</b>	<b>3,674,025</b>
Conferences and travel	6,992	6,169	6,624	19,785	2,744
Contractual services	149,075	37,978	15,495	202,548	238,601
Depreciation	594,520	15,645	15,645	625,810	470,382
Direct marketing	-	-	354,550	354,550	288,746
Dues, fees, and subscriptions	98,706	11,002	3,137	112,845	104,557
Equipment and improvements	105,403	-	-	105,403	116,017
Food and storage costs	83,775	-	-	83,775	176,830
Freight in	97,279	-	-	97,279	105,181
Insurance – property and casualty	120,930	3,183	3,183	127,296	119,875
Insurance – workers’ compensation	33,730	8,636	6,180	48,546	41,374
Interest	-	-	-	-	316
Maintenance and property taxes	254,832	-	-	254,832	299,382
Office and operating supplies	231,920	5,421	2,543	239,884	184,827
Printing and promotion	2,585	17,422	88,611	108,618	66,250
Rent	62,716	5,534	5,534	73,784	89,371
Rubbish removal	42,637	-	-	42,637	42,099
Donations applied to agency accounts	1,391,077	-	-	1,391,077	1,328,794
Telephone	43,813	1,384	922	46,119	41,749
Travel and truck	703,705	1,555	1,555	706,815	608,781
Utilities	179,383	4,721	4,720	188,824	152,408
Total expenses	<b>\$ 7,363,174</b>	<b>\$ 897,185</b>	<b>\$ 1,075,481</b>	<b>\$ 9,335,840</b>	<b>\$ 8,152,309</b>

See accompanying notes.



# Feeding America West Michigan

## Statement of Cash Flows

Year Ended December 31, 2022  
(with Comparative Totals for 2021)

	<b>Year Ended December 31</b>	
	<b>2022</b>	<b>(As Restated)</b>
<b>Operating activities</b>		
Change in net assets	\$ 2,078,923	\$ (1,516,920)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	625,810	470,382
Loss on sale of property and equipment	889	14,021
Bad debt expense	473	-
Change in beneficial interest in perpetual endowment	198,870	(171,596)
Contribution revenue for endowment	(6,250)	(321)
Change in operating assets and liabilities:		
Accounts receivable	80,999	1,072,990
Pledges receivable	(931,582)	(24,602)
Prepaid expenses	(31,583)	1,761
Inventory	2,586,493	4,632,650
Accounts payable	91,331	37,343
Accrued expenses	50,965	42,410
Deferred revenue	(4,417)	(79,420)
Security deposit payable	(8,000)	11,000
Net cash from operating activities	4,732,921	4,489,698
<b>Investing activities</b>		
Maturity of certificates of deposit	-	4,000,000
Purchase of property and equipment	(968,490)	(7,037,018)
Proceeds from sale of property and equipment	5,250	14,850
Net cash from investing activities	(963,240)	(3,022,168)
<b>Financing activities</b>		
Transfer of cash to endowment	(6,250)	(1,844)
Contributions restricted for endowment	6,250	321
Net cash from financing activities	-	(1,523)
Net change in cash and cash equivalents	3,769,681	1,466,007
Cash and cash equivalents – beginning of year	4,893,939	3,427,932
Cash and cash equivalents – end of year	\$ 8,663,620	\$ 4,893,939
<b>Supplemental cash flow information:</b>		
Interest paid	\$ -	\$ 316
In-kind contributions	\$ 25,542	\$ 1,114
Lease liability arising from obtaining right-of-use assets	\$ 504,766	\$ -

See accompanying notes.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### **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.

#### **Adoption of New Accounting Standard**

On January 1, 2022, the Organization adopted ASU No. 2016-02 “Leases (Topic 842)” and subsequent amendments thereto, which requires the Organization to recognize most leases on the statements of financial position. The standard was adopted under a modified retrospective approach as of the date of adoption and the Organization elected to apply several of the available practical expedients, including:

- Carryover of historical lease determination and lease classification conclusions.
- Carryover of historical initial direct cost balances for existing leases.
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component.
- Use of hindsight for determining lease term.

Adoption of this standard resulted in the recognition of a net operating right-of-use asset and lease liability of \$504,766 as of January 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using the Organization’s incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense recognition in the Organization’s statement of activities. Disclosures about the Organization’s leasing activities are presented in Note 8.

#### **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).

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

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

#### 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, 2022 and 2021, 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.

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.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

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

#### **Fair Value Measurements (continued)**

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, 2022, there were cash and cash equivalents in excess of the federally insured limit of approximately \$8,022,000. As of December 31, 2021, there were cash and cash equivalents in excess of the federally insured limit of approximately \$4,260,000.

#### **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, 2022 and 2021.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

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

#### **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, 2022 and 2021 were valued based on a food-only amount per pound that was determined by the 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 3 to 40 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.

#### **Leases**

Leases are classified as operating leases at the lease commencement date. The Organization leases property and miscellaneous equipment discussed further in Note 8. The Organization records leases on the statement of financial position in the form of a lease liability for the present value of future minimum payments under the lease terms and right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based on incremental borrowing rates the Organization could obtain for similar loans as of the date of commencement or renewal. The Organization does not record leases on the statements of financial position that are classified as short-term (less than one year) or that are not significant.

At lease inception, the Organization determines the lease term by considering the minimum lease term and all optional renewal periods that the Organization is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

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

#### **Leases (continued)**

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis and any impairment of the right-of-use asset. Rent expense is reported in the statement of activities as rent, for the property leases, or equipment and improvements, for the equipment leases.

#### **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.
- 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.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

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

#### **Revenue and Public Support (continued)**

##### *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.

Conditional contributions are recognized when the conditions on which they depend are substantially met and the promises become unconditional. The Organization has received \$440,000 in conditional promises to give which have not been recognized as of December 31, 2022 (none as of December 31, 2021). These gifts are contingent on the Organization reaching a specified threshold for funds raised in the advancement campaign, which were not yet obtained as of the date these statements were issued.

##### *Rental Income*

During the years ended December 31, 2022 and 2021, Feeding America entered into contracts to lease space to three tenants. Two tenants operate on a month-to-month basis while the other has a short-term lease that expires in October 2023 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 56% of accounts receivable as of December 31, 2022 and 69% as of December 31, 2021 related to the Food Bank Council of Michigan. Additionally, approximately 48% of pledges receivable are due from three donors as of December 31, 2022. There was no such pledges receivable concentration as of December 31, 2021.

#### **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, 2022

### 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, Equipment, and Vehicles

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 17,724 hours of donated non-specialized services were provided to Feeding America in 2022 and 23,964 hours in 2021. These in-kind contributions are not reflected in the financial statements since these services do not meet the criteria for recognition.

It is the Organization’s policy to record all donated equipment at fair market value and depreciate it over the remaining useful life of the asset. In 2022, the Organization received a refrigerated trailer for food distribution and pallet jacks for the warehouse. In 2022 and 2021, the Organization received electrical services provided for the new building and electrical setup for the administrative offices.

Total contributed non-financial assets recognized in the accompanying financial statements consisted of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Donated goods capitalized:		
Equipment	\$ 10,000	\$ -
Vehicles	15,000	-
Donated services expensed:		
Electrical services	542	1,114
Total donated goods and services	<u>\$ 25,542</u>	<u>\$ 1,114</u>



# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

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

#### **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 2019 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.

#### **Reclassification**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

#### **Subsequent Events**

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through June 7, 2023, 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

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

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

#### Summarized Comparative Information (continued)

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, 2021, from which the summarized information was derived, modified for the prior period adjustment discussed further in Note 15.

### 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 \$767,000. 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, 2022 and 2021.

### 3. Pledges Receivable

Pledges receivable consisted of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 784,273	\$ 209,949
Receivable in one to five years	456,562	78,015
Discount to net present value	(22,111)	(822)
	<u>\$ 1,218,724</u>	<u>\$ 287,142</u>

Pledges receivable were discounted using the IRS discount rate for the month the pledge was made, which ranged from 1.60% to 5.20% for the year ended December 31, 2022 and 1.00% to 1.40% for the year ended December 31, 2021.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### **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 \$1.53 in 2022 and \$1.70 in 2021. All other donated commodities recorded in inventory and in-kind product donations were valued at an average per pound price of \$1.92 in 2022 and \$1.79 in 2021. The average price per pound for all 2022 and 2021 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 Fund are recorded as reductions to the beneficial interest in perpetual endowment asset in the statement of financial position. The fair market value was \$1,106,216 as of December 31, 2022 and \$1,298,836 as of December 31, 2021, including a spendable portion of \$482,326 as of December 31, 2022 and \$444,386 as of December 31, 2021 that is available upon request. No distributions were received from this fund during the years ended December 31, 2022 or 2021.

In addition to Feeding America's gifts to the 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 \$145,614 as of December 31, 2022 and \$170,726 as of December 31, 2021, including a spendable portion of \$32,371 as of December 31, 2022 and \$26,366 as of December 31, 2021 that is available upon request. Distributions from this portion of the Fund are recorded as contributions with donor restriction in the statement of activities. Feeding America did not receive any distribution from this fund during the years ended December 31, 2022 or 2021. 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, 2022

#### 6. Property and Equipment

Net property and equipment consisted of the following as of December 31:

	<b>2022</b>	<b>2021</b>
Land	<b>\$ 1,501,750</b>	\$ 1,501,750
Land improvements	<b>179,880</b>	179,880
Building and improvements	<b>9,378,107</b>	9,307,482
Furniture, equipment, and delivery vehicles	<b>3,550,042</b>	2,820,295
Construction in progress	<b>126,337</b>	-
	<b>14,736,116</b>	13,809,407
Accumulated depreciation	<b>(4,555,702)</b>	(3,965,534)
Property and equipment, net	<b>\$ 10,180,414</b>	\$ 9,843,873

#### 7. Fair Value Measurement

The fair value of the beneficial interest in endowment fund at the Grand Rapids Community Foundation is measured at fair value on a recurring basis based on statements received from the Foundation that are measured and reported using significant unobservable inputs (Level 3 inputs).

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

	<b>Fair Value</b>	<b>Level 3 Significant Unobservable Inputs</b>
<b>2022</b>		
Beneficial interest in perpetual endowment	<b>\$ 1,106,216</b>	<b>\$ 1,106,216</b>
<b>2021</b>		
Beneficial interest in perpetual endowment	\$ 1,298,836	\$ 1,298,836

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### 7. Fair Value Measurement (continued)

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

Balance as of January 1, 2021	\$ 1,125,396
Transfer of funds to endowment	1,844
Total gains (realized/unrealized) included in investment return, net of fees	171,596
Balance as of December 31, 2021	1,298,836
Transfer of funds to endowment	6,250
Total losses (realized/unrealized) included in investment return, net of fees	(198,870)
Balance as of December 31, 2022	<u>\$ 1,106,216</u>

### 8. 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, which totals approximately \$474,000 of future cash payments related to options to extend lease terms that are reasonably certain to be exercised. 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, 2022 and 2021.

Feeding America entered into a 40-month office lease that began in March 2021. The lease included four months rent free, and monthly rental rates at approximately \$2,100, which started 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 \$25,300 for the year ended December 31, 2022 and \$12,500 for the year ended December 31, 2021.

#### *Equipment Leases*

During the year ended December 31, 2021, Feeding America had leases on equipment that had expiration dates through December 2026. Several of these leases were terminated during the year ended December 31, 2022. Feeding America currently has two noncancelable operating leases for office equipment, including a copier/printer and postage machine, that expire in December 2026 and August 2027. Rental expenses for these equipment leases totaled approximately \$12,800 for the year ended December 31, 2022 and \$10,800 for the year ended December 31, 2021.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### 8. Operating Leases (continued)

#### *Right-of-Use Assets*

The weighted-average discount rate for all leases is 3.28% and the weighted-average remaining lease term is approximately 143 months. Total right-of-use assets and lease liabilities of \$514,024 are recorded on the statement of financial position as of December 31, 2022.

The following is a schedule of the minimum lease payments that will be paid under the lease agreements for the future years ending December 31:

2023	\$ 78,795
2024	66,029
2025	53,071
2026	53,071
2027	44,488
2028-2032	180,000
2033-2037	150,000
Total lease payments	<u>625,454</u>
Imputed interest	<u>(111,430)</u>
Present value of lease liability	<u>\$ 514,024</u>

### 9. 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 6.78% as of December 31, 2022, and 3.03% as of December 31, 2021.

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, 2022 and 2021, there were no outstanding draws on the line of credit.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### 10. Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Donor restricted contributions to be applied to agencies	\$ 551,187	\$ 941,479
Donor restricted funds for future use	5,719,771	1,571,414
Endowment earnings for future program use	567,082	765,952
John Arnold Endowment Fund held at the Foundation	539,134	532,884
	<u>\$ 7,377,174</u>	<u>\$ 3,811,729</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, 2022 and 2021, all amounts received by Feeding America directly had been remitted to the Foundation.

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### 11. Endowment Funds (continued)

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2022</b>			
John Arnold Endowment Fund	\$ -	\$ 1,106,216	\$ 1,106,216
<b>2021</b>			
John Arnold Endowment Fund	\$ -	\$ 1,298,836	\$ 1,298,836

Changes in endowment net assets for the years ended December 31, 2022 and 2021 were as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, January 1, 2021	\$ -	\$ 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
Contributions	-	<b>6,250</b>	<b>6,250</b>
Investment loss, net of fees	-	<b>(198,870)</b>	<b>(198,870)</b>
Endowment net assets, December 31, 2022	\$ -	\$ 1,106,216	\$ 1,106,216

### 12. Related Party Transactions

Feeding America paid approximately \$450,600 for trucking services and leases during the year ended December 31, 2022 and \$299,000 during the year ended December 31, 2021 to a company whose president is a member of Feeding America's Board of Directors.

During the year ended December 31, 2022, Feeding America received contributions of approximately \$5,000 from board members, employees, and companies owned or managed by board members as part of the capital campaign that was launched in 2021, and approximately \$129,000 was received during the year ended December 31, 2021.



# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### 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 \$194,000 for the year ended December 31, 2022 and \$151,000 for the year ended December 31, 2021.

### 14. 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:

<b>Year Ending December 31</b>	<b>Amount</b>
2023	\$ 73,300
2024	18,200

### 15. Prior Period Adjustment

A prior period adjustment was made to correct an error in inventory. During the year ended December 31, 2022, it was discovered that inventory valued at \$45,101 was erroneously included in donated inventory values as of December 31, 2020. During the year ended December 31, 2022, the donated product value increased five cents, resulting in a \$1,296 increase in the value of the inventory to \$46,397 as of December 31, 2022. The adjustment removes the erroneous inventory from the years ended December 31, 2020 and 2021 along with the associated change in donated product value that was recorded in the year ended December 31, 2021.

Additionally, for the year ended December 31, 2021, there was a reclassification of \$919,454 for the change in value of donated products to more appropriately reflect the account impacted by the adjustment and for consistent presentation in the financial statements.

<b>Description</b>	<b>Reported Balance as of 1/1/21</b>	<b>Reclassification</b>	<b>Restatement</b>	<b>Restated Balance as of 1/1/21</b>
Net assets	\$ 23,554,860	\$ -	\$ (45,101)	\$ 23,509,759

# Feeding America West Michigan

## Notes to Financial Statements

December 31, 2022

### 15. Prior Period Adjustment (continued)

<b>Description</b>	<b>Reported Balance as of 12/31/21</b>	<b>Reclassification</b>	<b>Restatement</b>	<b>Restated Balance as of 12/31/21</b>
Inventory, at donated value	\$ 5,395,933	\$ -	\$ (46,397)	\$ 5,349,536
In-kind product donations	39,042,542	(919,454)	(1,296)	38,121,792
Value of products culled and distributed	(44,086,730)	919,454	-	(43,167,276)
Net assets – without donor restrictions	18,227,507	-	(46,397)	18,181,110

### 16. Risks and Uncertainties

The Organization is subject to various risks and uncertainties related to operations and financial performance. The Organization utilizes a number of suppliers and vendors to fulfill business needs, and this exposes the Organization to risks and uncertainties, including supply chain risks. These supply chain risks include availability of sources of food commodities for distribution and labor services, in addition to increases in prices. Due to the level of risk associated with the supply chain and other potential risks and uncertainties, it is at least reasonably possible these risks could have an impact in the near term and could materially affect the operations of the Organization and the amounts reported in the financial statements.

### 17. Subsequent Events

The Organization invested \$6,000,000 of excess cash, primarily from the capital campaign, in money markets, certificates of deposit, and treasury bills in February 2023.

During the year ended December 31, 2022, and subsequent to year end, Feeding America received contributions for the ongoing capital campaign, which includes two reimbursement grants, one for refrigeration equipment up to \$2,000,000 and another for roof renovations up to \$700,000. Revenue recognition requirements were not met prior to December 31, 2022; however, management anticipates being able to recognize these awards during the year ending December 31, 2023.